APPENDIX No. 8

PROCEEDINGS

OF

THE STANDING COMMITTEE

OF THE

HOUSE OF COMMONS

ON

BANKING AND COMMERCE

Bill No. 7, Industrial Development Bank
Bill No. 91, Bank Act
Bill No. 109, Alberta Provincial Bank
Bill No. 131, Quebec Savings Banks Act
Bill No. 134, Farm Improvement Loans Act, 1944

VOLUME I

FIFTH SESSION OF THE NINETEENTH
PARLIAMENT OF CANADA

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1945

LIST OF APPENDICES—SESSION 1944-5

No. 1—Special Committee on Dominion Elections Act. Taking vote of members of active service forces of Canada. *Not printed as an Appendix, but proceedings and evidence printed from day to day. See* Journals at page 301.

No. 2—Standing Committee on Agriculture and Colonization. Report of Canadian Wheat Board for Crop Year 1942-43. *Not printed as an Appendix, but proceedings and evidence printed from day to day. See* Journals at page 533.

No. 3—Special Committee on Radio Broadcasting. *Not printed as an Appendix, but proceedings and evidence printed from day to day. See* Journals at page 614.

No. 4—Special Committee on Social Security. (Draft bill respecting Health Insurance submitted to House. *See* Journals at page 713.) *Not printed as an Appendix, but proceedings and evidence printed from day to day. See* Journals at page 712.

No. 5—Joint Committee on Ottawa City-Dominion Government Relations. *Not printed as an Appendix, but proceedings and evidence printed from day to day. See* Journals at page 769.

No. 6—Special Committee on Defence of Canada Regulations. Naturalization. *Not printed as an Appendix, but proceedings and evidence printed from day to day. See* Journals at page 813.

No. 7—Special Committee on War Expenditures. Aircraft production in Canada. Canadian army boots. Nitric acid and ammonium nitrate. Synthetic rubber. Grain alcohol. *Not printed as an Appendix. Evidence transcribed and typewritten for use of members of committee. Proceedings printed. See* Journals at page 817.

No. 8—Standing Committee on Banking and Commerce. Bank Act. Industrial Development Bank. Quebec Savings Banks Act. Farm Improvement Loans Act, 1944. Alberta Provincial Bank. Printed as an Appendix and in Blue Book form. *See* Journals at page 882.

22047—1½

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ORDERS OF REFERENCE

HOUSE OF COMMONS

TUESDAY, 1st February, 1944.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce:—

Messieurs

Authier,
Black *(Cumberland),*
Blackmore,
Blair,
Breithaupt,
Claxton,
Cleaver,
Coldwell,
Donnelly,
Dubuc,
Edwards,
Eudes,
Fontaine,
Fraser *(Northumberland),*
Fraser *(Peterborough-West),*
Graham,
Gray,
Hanson *(York-Sunbury),*
Harris *(Danforth),*
Hazen,
Hill,
Jackman,
Jaques,
Jean,
Kinley,
Laflamme,
Lafontaine,
Leclerc,
Macdonald *(Halifax),*
Macdonald *(Brantford City),*
MacInnis,
Mackenzie *(Neepawa),*
Macmillan,
McCann ,
McGeer,
McGibbon,
McIlraith,
McNevin *(Victoria, Ont.),*
Marier,
Martin,
Maybank,
Mayhew,
Moore,
Perley,
Picard,
Ross *(St. Paul's),*
Ryan,
Slaght,
Tucker,
Ward.—50.

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and

TUESDAY, March 14, 1944.

Ordered,—That the Bill No. 7, An Act to incorporate the Industrial Development Bank, be referred to the said Committee.

TUESDAY, March 21, 1944.

Ordered,—That the said Committee be empowered to print, from day to day, 1,000 copies in English and 400 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be empowered to sit while the House is sitting.

Ordered,—That the report of the Bank of Canada for the year 1943 be referred to the said Committee.

FRIDAY, April 21, 1944.

Ordered,—That the name of Mr. Noseworthy be substituted for that of Mr. MacInnis on the said Committee.

MONDAY, April 24, 1944.

Ordered,—That the Bill No. 40 (Letter E of the Senate), intituled: "An Act respecting Gore District Mutual Fire Insurance Company", be referred to the said Committee.

THURSDAY, May 11, 1944.

Ordered,—That the following Bill be referred to the said Committee, viz:—

Bill No. 91, an Act respecting Banks and Banking.

MONDAY, May 15, 1944.

Ordered,—That the following Bills be referred to the said Committee, viz:—

Bill No. 90 (Letter H-3 of the Senate), intituled: "An Act to incorporate Workers Benevolent Association of Canada."

Bill No. 93 (Letter O-2 of the Senate), intituled: "An Act to change the name of the Discount and Loan Corporation of Canada to Personal Finance Company of Canada."

MONDAY, May 15, 1944.

Ordered,—That the subject-matter of Bill No. 109, An Act to incorporate the Alberta Provincial Bank, be referred to the said Committee for consideration and report.

FRIDAY, June 9, 1944.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 134, An Act to encourage the provision of Intermediate Term and Short Term Credit to Farmers for the Improvement and Development of Farms, and for the Improvement of Living Conditions thereon.

TUESDAY, June 13, 1944.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 131, An Act to amend the Quebec Savings Bank Act.

THURSDAY, August 3, 1944.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members, and that Standing Order 63 (1) (*d*) be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, March 21, 1944

The Standing Committee on Banking and Commerce begs leave to present the following as its

FIRST REPORT

Your Committee recommends that it be empowered:—

1. To print, from day to day, 1,000 copies in English and 400 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

2. To sit while the House is sitting.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

TUESDAY, March 21, 1944.

The Standing Committee on Banking and Commerce begs leave to present the following as its

SECOND REPORT

Your Committee recommends that the Report of the Bank of Canada for the year 1943 be referred to it.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

FRIDAY, July 28, 1944.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FOURTH REPORT

Your Committee has considered Bill No. 91, An Act respecting Banks and Banking, and has agreed to report it with amendments.

A reprint of the said Bill No. 91, as amended, has been ordered.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

SATURDAY, July 28, 1944.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FIFTH REPORT

Your Committee has considered Bill No. 131, An Act to amend the Quebec Savings Bank Act, and has agreed to report it with amendments.

A reprint of the said Bill No. 131, as amended, has been ordered.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

THURSDAY, August 3, 1944.

The Standing Committee on Banking and Commerce begs leave to present the following as a

SEVENTH REPORT

Your Committee has considered Bill No. 134, An Act to encourage the provision of Intermediate Term and Short Term Credit to Farmers for the Improvement and Development of Farms, and for the Improvement of Living Conditions thereon, and has agreed to report it with amendments.

A reprint of the said Bill No. 134, as amended, has been ordered.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

THURSDAY, August 3, 1944.

The Standing Committee on Banking and Commerce begs leave to present the following as an

EIGHTH REPORT

Your Committee recommends: That its quorum be reduced from 15 to 10 members, and that Standing Order 63 (1) (*d*) be suspended in relation thereto.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

THURSDAY, August 10, 1944.

The Standing Committee on Banking and Commerce begs leave to present the following as a

TENTH REPORT

Your Committee has considered Bill No. 7, An Act to incorporate the Industrial Development Bank, and has agreed to report it with amendments.

A reprint of the said Bill No. 7, as amended, has been ordered.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

MONDAY, August 14, 1944.

The Standing Committee on Banking and Commerce begs leave to present the following as a

ELEVENTH REPORT

A copy of the printed minutes of proceedings and evidence is appended.

It is recommended:

1. That the said proceedings and evidence be printed as an appendix to the Journals.
2. That, in addition, 1,000 copies in English and 400 copies in French be printed in blue book form.
3. That Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

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MINUTES OF PROCEEDINGS

TUESDAY, March 21, 1944.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Blair, Breithaupt, Cleaver, Coldwell, Donnelly, Fontaine, Fraser (*Peterborough West*), Graham, Harris (*Danforth*), Hill, Jackman, Jaques, Jean, Kinley, Leclerc, MacInnis, Macmillan, McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Maybank, Moore, Perley, Picard, Ryan, Slaght, Ward.

In attendance: Mr. D. C. Abbott, K.C., M.P., Parliamentary Assistant to the Minister of Finance.

On motion of Mr. McGeer:

Resolved,—That the Committee ask leave to print, from day to day, 1,000 copies in English and 400 copies in French of the minutes of its proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Donnelly:

Resolved,—That the Committee ask leave to sit while the House is sitting.

Mr. Cleaver moved that the quorum be reduced from 15 to 10 members. Motion negatived.

The clerk read a letter dated March 16th, 1944, addressed to the Chairman by the Hon. R. B. Hanson suggesting that certain witnesses be heard before taking up the bill to incorporate the Industrial Development Bank section by section.

The Chairman expressed approval of Mr. Hanson's suggestions and recommended that they be adopted. In the meantime, however, he suggested that the Committee proceed with non-contentious clauses of the bill.

Mr. Slaght, supported by Mr. Graham and other members, advocated first holding a general discussion on the bill, to be followed by the hearing of evidence, before dealing with any clause.

On motion of Mr. Kinley:

Resolved,—That, introductory to consideration of this bill, the Deputy Minister of Finance and the Governor of the Bank of Canada be called as witnesses.

Mr. McGeer moved that the Committee recommend to the House that the Report of the Bank of Canada for the year 1943 be referred to this Committee.

Mr. Cleaver moved in amendment that the Bank of Canada Report be considered after the Committee has completed its study of the present Bill.

The Chairman ruled the amendment out of order.

After discussion, the motion was passed in the affirmative on the following recorded division:

Yeas,—Messrs, Black (*Cumberland*), Blackmore, Blair, Coldwell, Fraser (*Peterborough West*), Harris (*Danforth*), Hill, Jackman, Jaques, Jean, Leclerc, MacInnis, McGeer, McIlraith, Maybank, Perley, Ryan, Slaght, Ward—19.

Nays,—Messrs. Breithaupt, Cleaver, Donnelly, Fontaine, Graham, Kinley, Macmillan, McGibbon, McNevin—9.

At 12.10 p.m. the Committee adjourned until 11 o'clock a.m. on Thursday, March 23.

THURSDAY, March 23, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Breithaupt, Cleaver, Coldwell, Donnelly, Eudes, Fontaine, Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hill, Jackman, Jaques, Kinley, Lafontaine, Leclerc, MacInnis, McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Marier, Maybank, Moore, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght, Tucker, Ward.

In attendance: Mr. D. C. Abbott, K.C., M.P., Parliamentary Assistant to the Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G F. Towers, C.M.G., Governor of the Bank of Canada.

Dr. Clark explained the purpose of Bill No. 7, an Act to incorporate the Industrial Development Bank, and was questioned.

Mr. Towers was called, heard and questioned.

On motion of Mr. Hanson:

Resolved,—That the Committee procure 50 copies of the evidence of the Standing Committee on Banking and Commerce, Sessions of 1923 and 1934, and 50 copies of the Bank Act, 1934, and that they be distributed to members of the Committee.

At 1 o'clock p.m. the Committee adjourned to meet at the call of the Chair.

OTTAWA, March 29, 1944.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Breithaupt, Cleaver, Donnelly, Eudes, Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Jaques, Jean, Kinley, Lafontaine, Leclerc, Macdonald (*Brantford City*), MacInnis, Macmillan, McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Marier, Maybank, Moore, Perley, Picard, Ryan, Ward.

In attendance: Mr. D. C. Abbott, K.C., M.P., Parliamentary Assistant to the Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada.

The Committee was supplied with copies of the Report of the Bank of Canada for 1943, of the Bank Act, and of the evidence taken by the House of Commons Banking and Commerce Committees of 1923 and 1934.

The Committee resumed consideration of Bill No. 7, an Act to incorporate the Industrial Development Bank.

Examination of Mr. Towers was continued.

At 1 o'clock p.m., the Committee adjourned to meet at the call of the Chair.

TUESDAY, May 16, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. W. H. Moore, presiding.

Members present: Messrs. Authier, Blackmore, Blair, Breithaupt, Claxton, Cleaver, Coldwell, Dubuc, Eudes, Fontaine, Fraser *(Peterborough West)*, Graham, Gray, Hanson *(York-Sunbury)*, Jackman, Jaques, Jean, Laflamme, Macdonald *(Brantford City)*, MacKenzie *(Neepawa)*, McGeer, McGibbon, McIlraith, McNevin *(Victoria, Ont.)*, Marier, Mayhew, Moore, Noseworthy, Perley, Picard, Ross *(St. Paul's)*, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

The Committee proceeded to consideration of Bill 40 (Letter E of the Senate) intituled "An Act respecting Gore District Mutual Fire Insurance Company".

A discussion followed as to the procedure to be adopted by the Committee and Mr. McGeer moved:—

> That, before proceeding to the consideration of Bill 7 and Bill 91, the Committee take such evidence as it may decide from time to time as appropriate to a proper understanding of the legislation before it, or which may be considered advisable.

After discussion, and with permission, Mr. McGeer withdrew his motion and substituted therefor the following:—

> That a sub-committee be set up to recommend to this Committee from time to time the witnesses that should be called.

Motion carried.

Moved by Mr. Hanson:—

That the following be adopted as the procedure of the Committee in connection with Bill 91:—

1. Non-contentious clauses to be disposed of first.
2. Any clause to which there is objection may stand on the request of a member of the Committee for future consideration.
3. Reconsideration shall be permissible on notice of motion.
4. Important amendments introduced in Committee may be received as Notices of Motion to be discussed and not voted upon until a subsequent meeting of the Committee. Members of the Committee to be furnished with copies of such amendments.

After discussion, it was decided to let this stand as a notice of motion.

It was agreed that the sub-committee be composed of the Chairman and Messrs. Blackmore, Fontaine, Graham, Hanson *(York-Sunbury)*, Kinley, Macdonald *(Brantford City)*, Noseworthy and Slaght.

At 1 o'clock p.m. the Committee adjourned until 11 o'clock a.m. on Wednesday, May 17.

WEDNESDAY, May 17, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Blackmore, Blair, Breithaupt, Dubuc, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Jackman, Jaques, Jean, Lafontaine, Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McGeer, McIlraith, McNevin (*Victoria, Ont.*), Marier, Martin, Moore, Noseworthy, Perley, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

The Chairman presented a report of the sub-committee, dated May 16, which is as follows:—

> Your sub-committee met at 4 o'clock p.m., the following members being present: Messrs. Blackmore, Fontaine, Graham, Hanson (*York-Sunbury*), Macdonald (*Brantford City*), Moore, Noseworthy and Slaght.
>
> Dr. Clark, Deputy Minister of Finance, and Mr. Tompkins, Inspector General of Banks, were in attendance.
>
> Mr. Tompkins was instructed to procure a breakdown of certain items contained in the statement tabled in the House by the Minister of Finance on May 2.
>
> The sub-committee recommends:—
>
> 1. That the Committee sit from 11 a.m. to 1 p.m. every Tuesday, Wednesday, Thursday and Friday, except that additional sittings may be held when it is desired to expedite examination of out-of-town witnesses;
> 2. That Bill 91 be given precedence over other bills referred to the Committee;
> 3. That the Governor of the Bank of Canada be called as a witness for Wednesday, May 17;
> 4. That any person wishing to make representations to the Committee be required to file a written brief before it is decided whether or not he shall be given an opportunity to appear before the Committee;
> 5. That the clerk be instructed to procure copies of the annual statements of all the Chartered Banks for the fiscal year ended in 1943 for distribution to the members of the Committee.

On motion of Mr. McGeer the report of the sub-committee was concurred in.

On motion of Mr. Macdonald, it was ordered that a letter, dated May 8, from the Canadian Retail Federation be printed in this day's minutes of evidence.

At the suggestion of the Chairman, it was ordered that a letter dated May 12, 1944, from the Toronto Board of Trade be similarly printed.

On motion of Mr. McGeer,—

Ordered,—That any communications which may be received in the future and are, in the opinion of the Chairman, of sufficient interest, be printed in the minutes of evidence.

Mr. Towers was called, heard and questioned.

Mr. Towers filed the following documents which are printed as Appendix A to this day's minutes of evidence.

Exhibit No. 1: Comparative Statement of Income, Operating Expenses and Distribution of Earnings of the Bank of Canada for the years 1939 to 1943 inclusive;

Exhibit No. 2: Statement showing staff employed by the Bank of Canada of Canada for the years 1939 to 1943 inclusive.

Mr. Tompkins filed the following documents which are printed as Appendix B to this day's minutes of evidence:

Exhibit No. 3: Return showing the fate of all banks incorporated since 1867;

Exhibit No. 4: Chartered Bank Amalgamations since 1867;

Exhibit No. 5: Return showing Chartered Banks that have gone into liquidation since 1867;

Exhibit No. 6: Paid-up capital and reserve fund of individual chartered banks as of 31st December, 1943;

Exhibit No. 7: Particulars of increases in capital stock of the chartered banks from July 1, 1923 to December 31, 1943;

Exhibit No. 8: Allocation of shareholders and shares of chartered banks by countries as at December 31, 1943;

Exhibit No. 9: Classification of shareholdings of the chartered banks as at December 31, 1943;

Exhibit No. 10: Changes in rates of dividend paid by the Canadian chartered banks during the fifteen years ended December 31, 1943;

Exhibit No. 11: Average interest and discount rates;

Exhibit No. 12: Changes in rate of interest allowed by chartered banks on savings accounts from January, 1924 to December 31, 1943;

Exhibit No. 13: Loans, according to class, made by chartered banks in Canada, and outstanding at Oct. 31, 1934-43;

Exhibit No. 14: Deposits, according to size, in chartered banks in Canada, as at October 31, 1934-43;

Exhibit No. 15: List of shareholders' auditors of the chartered banks—1944;

Exhibit No. 16: Statements of (*a*) total net profits, principal taxes, dividends, etc., of the chartered banks for the fiscal years ended in 1940-43 inclusive; (*b*) Net profits, Dominion taxes, dividends, etc., of each of the chartered banks of Canada for fiscal years ended in 1943; and (*c*) explanatory memorandum.

At 1.05 p.m. the Committee adjourned until Thursday, May 18 at 11 a.m.

THURSDAY, May 18, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Breithaupt, Coldwell, Fontaine, Fraser *(Northumberland)*, Fraser *(Peterborough West)*, Graham, Gray, Hazen, Jackman, Jaques, Lafontaine, Macdonald

(*Brantford City*), MacKenzie (*Neepawa*), McIlraith, McNevin (*Victoria, Ont.*), Mayhew, Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clarke, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Mr. Towers was continued.

On motion of Mr. McIlraith:

Ordered,—That the *Statement of Current Operating Earnings and Expenses and Other Information for the Ten Chartered Banks,* tabled by the Minister of Finance in the House on May 2 and published in the Official Report of Debates at p. 2620, be reprinted in this day's minutes of evidence.

At 1 o'clock p.m. the Committee adjourned until Friday, May 19, at 11 o'clock a.m.

FRIDAY, May 19, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Coldwell, Fontaine, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hazen, Jackman, Jaques, Jean, Lafontaine, Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McCann, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Marier, Mayhew, Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Mr. Towers was continued.

At 1 o'clock p.m. the Committee adjourned until Tuesday, May 23, at 11 o'clock a.m.

TUESDAY, May 23, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. W. H. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Breithaupt, Claxton, Cleaver, Coldwell, Eudes, Fontaine, Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Jean, Lafontaine, Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Martin, Mayhew, Moore, Noseworthy, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght.

It attendance: Hon. J. L. Ilsley, K.C., Minister of Finance, Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Mr. Towers was continued.

At 1.00 p.m. the Committee adjourned until Wednesday, May 24, at 11 o'clock a.m.

WEDNESDAY, May 24, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Breithaupt, Claxton, Cleaver, Fontaine, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hazen, Hill, Jaques, Kinley, Lafontaine, Macdonald (*Brantford City*), McGeer, McIlraith, McNevin (*Victoria, Ont.*), Martin, Maybank, Mayhew, Moore, Noseworthy, Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. M. Wedd, President, Canadian Bankers' Association; Mr. A. K. Harvie, Secretary, Canadian Bank of Commerce.

The Chairman presented a report of the sub-committee, which is as follows:—

The sub-committee met on Tuesday, May 23, at 4 o'clock p.m., the following members being present: Messrs. Moore, Graham, Hanson, Macdonald (*Brantford City*), Slaght.

Your sub-committee recommends:—

1. That the name of Mr. McGeer be substituted for that of Mr. Slaght on the sub-committee;
2. That Mr. S. M. Wedd, President of the Canadian Bankers' Association, be called as a witness for Wednesday, May 24.

All of which is respectfully submitted.

On motion of Mr. Slaght, the report of the sub-committee was concurred in.

Mr. Wedd was called and examined.

Exhibit No. 17: Mr. Blackmore filed a letter addressed to himself from the Superintendent of the Royal Canadian Mint, dated 18th May, 1944, which is printed as Appendix A to this day's minutes of evidence.

At 1 p.m. the Committee adjourned until Thursday, May 25, at 4 o'clock p.m.

THURSDAY, May 25, 1944.

The Standing Committee on Banking and Commerce met at 4 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black *(Cumberland)*, Blackmore, Blair, Breithaupt, Cleaver, Fontaine, Fraser *(Northumberland)*, Fraser *(Peterborough West)*, Graham, Hanson *(York-Sunbury)*, Hazen, Hill, Jackman, Jaques, Kinley, Lafontaine, Macdonald *(Brantford City)*, MacKenzie *(Neepawa)*, McCann, McGeer, McIlraith, McNevin *(Victoria, Ont.)*, Maybank, Mayhew, Moore, Noseworthy, Perley, Ross *(St. Paul's)*, Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. M. Wedd, President, Canadian Bankers' Association; Mr. A. K. Harvie, Secretary, Canadian Bank of Commerce.

Examination of Mr. Wedd was continued.

On motion of Mr. Hanson, it was decided to address certain questions regarding reserves of the Chartered Banks to the Inspector General of Banks, Mr. Tompkins.

Mr. Tompkins made a statement regarding inner reserves and was questioned thereon.

At 6 o'clock p.m., the Committee adjourned until Friday, May 26, at 11 o'clock a.m.

FRIDAY, May 26, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Edwards, Fontaine, Fraser (*Northumberland*), Fraser, (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Kinley, Lafontaine, Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McCann, McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Maybank, Mayhew, Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. M. Wedd, President, Canadian Bankers' Association; Mr. A. K. Harvie, Secretary, Canadian Bank of Commerce.

The Chairman stated that the League for Economic Democracy had submitted a written brief with the request that they be permitted to appear before the Committee.

Mr. Blackmore moved that this brief be printed as Appendix A to this day's minutes of evidence.

Mr. Hanson moved in amendment that it be referred to the sub-committee.

The question being put on the amendement, it was negatived; and the question being put on the motion, it was passed in the affirmative.

Examination of Mr. Wedd was resumed.

Exhibit No. 18: Mr. Tompkins filed a memorandum showing the changes in the Bank Act effective as a result of the commencement of business by the Bank of Canada on March 11, 1935, (Printed as Appendix B to this day's minutes of evidence).

Exhibit No. 19: Mr. Slaght filed the annual report of the *Canadian Bank of Commerce* for the year ended October 30, 1943.

Exhibit No. 20: Mr. Fraser (*Northumberland*) filed the annual report of *Canadian Canners Limited* for the year ended February 29, 1944.

Exhibit No. 21: Mr. Wedd filed a copy of *Agreement re Operating Charges on Accounts* in use by the Canadian Bank of Commerce. (Printed as Appendix C to this day's minutes of evidence.)

At 1 o'clock p.m. the Committee adjourned until Tuesday, May 30, at 11 o'clock a.m.

TUESDAY, May 30, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Cleaver, Edwards, Fontaine, Graham, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Kinley, Lafontaine, Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McCann, McGeer, McIlraith, McNevin (*Victoria, Ont*), Marier, Martin, Noseworthy, Perley, Picard, Ross (*St. Paul's*), Ryan, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. M. Wedd, President, Canadian Bankers' Association; Mr. A. K. Harvie, Secretary, Canadian Bank of Commerce.

The Chairman presented a report of the sub-committee, which is as follows:—

The sub-committee met at 4 o'clock p.m. on Friday, May 26, the following members being present: Messrs. Moore, Blackmore, Fontaine, Graham, Hanson, Kinley, McGeer and Noseworthy.

A great deal of consideration was given to the matter of procedure, particularly in conducting meetings of the Committee, and it is recommended:

1. That all two-hour sittings of the Committee be divided into two periods of one hour each: the first to give the general membership of the Committee an opportunity to examine the witness for a period of not more than fifteen minutes; and the second for lengthier examinations.
2. Members who wish to examine the witness for more than fifteen minutes, to take advantage of the second hour to do so and to notify the Chairman before the meeting of their intention, and the Chairman will arrange their order of precedence at his discretion.

All of which is respectfully submitted.

On motion of Mr. Kinley, the report of the sub-committee was concurred in.

The Chairman read a letter, dated May 27, from the United Farmers of Canada, Saskatchewan Section, asking that their representative be given an opportunity to appear before the Committee, and enclosing a written brief.

On motion of Mr. Graham, it was ordered that an invitation be extended to the United Farmers of Canada, Saskatchewan Section, to appear before the Committee, and that their brief be printed as Appendix A to this day's minutes of evidence.

The Chairman also read a letter from the Canadian Retail Federation asking that their representative, Mr. Gilbert Jackson, be heard, and enclosing a written brief.

On motion of Mr. Macdonald (*Brantford City*), it was ordered that Mr. Jackson be invited to address the Committee, and that the Federation's brief be printed as Appendix B to this day's minutes of evidence.

Examination of Mr. Wedd was continued.

It was agreed that Mr. James Stewart, Assistant General Manager, Canadian Bank of Commerce, be called and examined regarding small loans at the next meeting.

At 1 o'clock, p.m., the Committee adjourned until Wednesday, May 31, at 11 o'clock a.m.

WEDNESDAY, May 31, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Cleaver, Fontaine, Fraser (*Northumberland, Ont.*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jaques, Jean, Kinley, Lafontaine, Macdonald (*Halifax*), Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Marier, Martin, Mayhew, Moore, Noseworthy, Perley, Picard, Ryan, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. James Stewart, Assistant General Manager, Canadian Bank of Commerce; Mr. A. K. Harvie, Secretary, Canadian Bank of Commerce.

The Chairman stated that he had received a brief from Mr. G. C. Papineau-Couture, K.C., Counsel for the Attorney-General of Quebec, with the request that he be permitted to appear before the Committee when Clause 92 of Bill 91 is under consideration.

It was agreed that Mr. Papineau-Couture's brief be printed as Appendix A to this day's minutes of evidence.

The Chairman also stated that he had received a letter, dated May 25, from Mr. G. G. McGeer, M.P., with which was enclosed a copy of a resolution passed by the Nepean Water Area Residents Association.

It was agreed that the Association's resolution be printed as Appendix B to this day's minutes of evidence.

Mr. Lafontaine gave notice that on Friday next he intends to move that the Committee proceed to consideration of Bill 91, clause by clause.

Mr. Stewart was called and examined.

Exhibit No. 22: Mr. McGeer filed the *Statement of Current Operating Earnings and Expenses and Other Information for the Ten Chartered Banks*, tabled by the Minister of Finance in the House on May 2 and published in the Official Report of Debates at p. 2620. (Printed at p. 136 of the minutes of evidence of May 18.)

At 1 o'clock p.m. the Committee adjourned until Thursday, June 1, at 11 o'clock.

THURSDAY, June 1, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. W. H. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Claxton, Cleaver, Edwards, Fontaine, Fraser (*Northumberland, Ont.*), Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Jean, Kinley, Lafontaine, Macdonald (*Halifax*), MacKenzie (*Neepawa*), McGeer, McIlraith, McNevin (*Victoria, Ont.*), Moore, Noseworthy, Perley, Ryan, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of

Banks; Mr. James Stewart, Assistant General Manager, Canadian Bank of Commerce; Mr. A. K. Harvie, Secretary, Canadian Bank of Commerce.

Examination of Mr. Stewart was concluded.

Mr. Towers was recalled and examined.

At 1 o'clock p.m. the Committee adjourned until Friday, June 2, at 11 o'clock a.m.

FRIDAY, June 2, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Fontaine, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hazen, Hill, Jackman, Jaques, Jean, Kinley, Lafontaine, Macdonald (*Halifax*), Macdonald (*Brantford City*), MacKenzie (*Neepawa*), Macmillan, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Marier, Martin, Maybank, Mayhew, Moore, Noseworthy, Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

The Chairman read a letter, dated May 31, 1944, from the Alberta Farmers' Union.

On motion of Mr. Blackmore, it was ordered that the brief accompanying the Union's letter be printed as Appendix A to this day's minutes of evidence.

Mr. Lafontaine moved that on Tuesday next, June 6, the Committee proceed to consideration of Bill 91, clause by clause.

Mr. McGeer moved, in amendment, that Bill 91 be not considered section by section until the Report of the Bank of Canada covering its operation for the year 1943 and referred to this committee shall have been examined and a report made thereon.

Discussion followed.

At 1.05 o'clock p.m. the Committee adjourned until Tuesday, June 6, at 11 o'clock a.m.

TUESDAY, June 6, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present:—Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Breithaupt, Cleaver, Edwards, Eudes, Fontaine, Fraser (*Peterborough West*), Hanson, (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Kinley, Lafontaine, Leclerc, Macdonald (*Halifax*), MacKenzie (*Neepawa*), McCann, McGeer, McGibbon, McIlraith, Martin, Maybank, Moore, Noseworthy, Picard, Ryan, Slaght, Ward.

In attendance:—Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. A. K. Harvie, Secretary, Canadian Bank of Commerce.

Mr. Ilsley read a statement regarding inner reserves of chartered banks.

By leave of the Committee, Mr. Lafontaine withdrew his motion that on Tuesday next, June 6, the Committee proceed to consideration of Bill 91, clause by clause.

Mr. McGeer moved that Bill 91 be not considered section by section until the report of the Bank of Canada covering its operations for the year 1943 and referred to this Committee shall have been examined and a report made thereon.

Mr. Cleaver moved, in amendment, that the first hour of each sitting of the Committee be devoted to the individual clauses of Bill 91, and that the concluding hour be devoted to general discussion.

After discussion, and the question having been put, the amendment was resolved in the affirmative.

Mr. Slaght moved that the chartered banks, each of which has applied to Parliament for a ten-year renewal of their respective charters, should be directed, and are hereby directed and required to disclose to Parliament through this Committee, forthwith, the total aggregate amount of hidden inner reserves, and:—

1. the source of the money;
2. the method of furnishing same to their inner hidden reserves; and
3. the details and amounts thereof for the past 15 years down to the present time.

After discussion, it was agreed to allow Mr. Slaght's motion to stand until a subsequent meeting of the Committee.

Mr. Harvie filed the following documents, which are printed as Appendix A to this day's minutes of evidence:—

Exhibit No. 23: Cost to Borrower of Personal Loans, Canadian Bank of Commerce.

Exhibit No. 24: Earnings, All Personal Loan Departments, Canadian Bank of Commerce, by Years, since Inception.

Exhibit No. 25: Personal Loans made by Canadian Bank of Commerce from Inception of Department, June, 1936, to April 30, 1944, by Divisions.

Exhibit No. 26: Personal Loans made by Canadian Bank of Commerce from Inception of Department, June, 1936, to April 30, 1944, for the Purpose of Assisting Borrowers in meeting Medical, Dental and Hospital Expenses.

Exhibit No. 27: Personal Loans made since Inception of Scheme, June, 1936, to October 31, 1943, by Classification of Occupation and Purpose from Monthly Statement Figures.

Mr. Tompkins filed:

Exhibit No. 28: A list of firms, companies and corporations of which bank directors are directors or partners.

At 1 o'clock p.m. the Committee adjourned until Wednesday, June 7, at 11 o'clock a.m.

WEDNESDAY, June 7, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Breithaupt, Cleaver, Fontaine, Fraser *(Northumberland, Ont.)*, Hazen, Hill, Jackman, Jaques, Kinley, Lafontaine, Leclerc, MacKenzie (*Neepawa*), Macmillan, McCann, McGeer, McIlraith, Martin, Maybank, Moore, Noseworthy, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

The Committee proceeded to consideration of Bill 91, *An Act respecting Banks and Banking,* and adopted the following clauses thereof: 3, 8, 9, 12, 13, 14, 16, 17, 19, 22, 23, 24, 25, 27, 29, 30, 31, 32, 34, 35, 36, 37, 38, 39, 40, 41, 43, 44, 48, 51, 52, 58, 63, 67, 69, 70, 72, 73, 74, 76, 77, 78, 79, 80, 81, 83, 84, 95, 96, 98, 99, 100, 101, 102, 103, 104, 105, 106, 109, 110, 111, 113, 118, 120, 121, 122, 123, 124, 125, 126, 127, 130, 131, 132, 133, 134, 135, 136, 137, 141, 142, 143, 144, 145, 151, 152, 153, 154, 155, 156, 158, 159, 160, 161, 162, 163, 164.

Consideration was resumed of Mr. Slaght's motion of June 6 regarding publication of the aggregate amount of the inner reserves of the ten chartered banks.

Mr. Tompkins filed the following documents, which are printed as Appendix A to this day's minutes of evidence:—

Exhibit No. 29: Break-down of Interest, Dividends and Trading Profits on Securities (Item 2) in Statement of Current Operating Earnings and Expenses and Other Information for the Ten Chartered Banks for the Financial Year 1943 (Page 2620 of Unrevised *Hansard,* May 2, 1944).

Exhibit No. 30: Break-down of All Other Current Operating Expenses (Item 10) in Statement of Current Operating Earnings and Expenses and Other Information for the Ten Chartered Banks for the Financial Year 1943 (Page 2620 of Unrevised *Hansard,* May 2, 1944).

At 1.00 o'clock, p.m., the Committee adjourned until 4.00 p.m. this afternoon.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black *(Cumberland)*, Blackmore, Blair, Cleaver, Fraser *(Northumberland, Ont.)*, Fraser *(Peterborough West)*, Hazen, Hill, Jackman, Jaques, Jean, Kinley, Laflamme, Lafontaine, Macdonald *(Halifax)*, MacKenzie *(Neepawa)*, Macmillan, McGeer, McIlraith, Martin, Moore, Noseworthy, Picard, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Slaght's motion regarding inner reserves of the chartered banks was continued.

Mr. Cleaver moved, in amendment, that the reasons expressed by the Minister of Finance as to why, in the public interest, inner reserves of the Banks should not be publicly disclosed are adequate; and that, in furtherance of the amendment suggested by the Minister of Finance in his formal statement to the

Committee on June 6 regarding inner reserves, complete information regarding these reserves be furnished yearly to the Minister of National Revenue and the Deputy Minister for Taxation only in addition to those who now by law receive it.

Discussion followed.

At 6 o'clock p.m., the Committee adjourned until Friday, June 9, at 11 o'clock a.m.

FRIDAY, June 9, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cleaver, Edwards, Eude, Fontaine, Fraser (*Northumberland*), Fraser (*Peterborough West*), Hazen, Hill, Jackman, Jaques, Kinley, Leclerc, Macdonald (*Halifax*), MacKenzie, (*Neepawa*), McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Marier, Maybank, Moore, Noseworthy, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

By leave of the Committee, Mr. Cleaver withdrew his amendment of June 7 to Mr. Slaght's motion of June 6 regarding inner reserves of the chartered banks.

Consideration of Mr. Slaght's motion was resumed.

Exhibit No. 31: Mr. Tompkins filed a statement of high and low prices of Canadian Chartered Bank stocks in each of the years 1929, 1933, 1939 and 1943, which is printed as Appendix A to this day's minutes of evidence.

At 1 o'clock p.m. the Committee adjourned until Tuesday, June 13, at 11 o'clock a.m.

TUESDAY, June 13, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Claxton, Cleaver, Eudes, Fontaine, Fraser (*Peterborough West*), Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Lafontaine, Leclerc, Macdonald (*Halifax*), Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McCann, McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Marier, Maybank, Moore, Noseworthy, Picard, Ross (*St. Paul's*), Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

The Chairman read a letter, dated June 9, from the Alberta Farmers' Union, with which was enclosed a resolution of the Board of Directors of that organization dated June 8.

It was agreed that the resolution be printed as Appendix A to this day's minutes of evidence.

Consideration of Mr. Slaght's motion of June 6 regarding inner reserves of the chartered banks was continued.

At 1 o'clock p.m. the Committee adjourned until Wednesday, June 14, at 11 o'clock a.m.

WEDNESDAY, June 14, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black *(Cumberland)*, Blackmore, Blair, Cleaver, Eudes, Fontaine, Fraser *(Northumberland, Ont.)*, Fraser *(Peterborough West)*, Hanson *(York-Sunbury)*, Hazen, Hill, Jackman, Jaques, Jean, Kinley, Lafontaine, Leclerc, Macdonald *(Halifax)*, Macdonald *(Brantford City)*, MacKenzie *(Neepawa)*, Macmillan, McGeer, McGibbon, McIlraith, McNevin *(Victoria, Ont.)*, Marier, Martin, Maybank, Moore, Noseworthy, Picard, Ross *(St. Paul's)*, Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Slaght's motion regarding inner reserves of chartered banks was continued.

At 1 o'clock p.m. the Committee adjourned until Thursday, June 15, at 11 o'clock a.m.

THURSDAY, June 15, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Claxton, Cleaver, Eudes, Fontaine, Fraser (*Northumberland*), Fraser (*Peterborough West*), Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Kinley, Lafontaine, Leclerc, Macdonald (*Halifax*), Macdonald (*Brantford City*), MacKenzie (*Neepawa*), Macmillan, McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Marier, Martin, Maybank, Moore, Noseworthy, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Slaght's motion regarding inner reserves of chartered banks was continued.

By leave of the Committee, Mr. Slaght amended his motion, by deletion of all words following the words, *inner reserves of the ten chartered banks*, to read:—

> That the chartered banks, each of which has applied to Parliament for a ten-year renewal of their respective charters, should be directed, and are hereby directed and required to disclose to Parliament through this Committee, forthwith, the total aggregate amount of hidden inner reserves of the ten banks.

Mr. Hanson filed the following documents, which are printed as Appendix A to this day's minutes of evidence:

Exhibit No. 32: Return of the Chartered Banks of the Dominion of Canada, November 30, 1933, made to the Minister of Finance in conformity with Section 112 of the Bank Act, Ch. 12, R.S. 1927.

Exhibit No. 33: Return of the Chartered Banks of the Dominion of Canada, November 30, 1943, made to the Minister of Finance in conformity with Section 112 of the Bank Act, Ch. 24, 1934.

Mr. Tompkins filed the following document, which is printed as Appendix B to this day's minutes of evidence:—

Exhibit No. 34: Statement of deposits by the public and by Dominion and provincial governments in the chartered banks as of December 31st, in the years 1928-43 inclusive.

At 1 o'clock p.m. the Committee adjourned until Friday, June 16, at 11 o'clock a.m.

FRIDAY, June 16, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Claxton, Fraser (*Northumberland, Ont.*), Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Kinley, Macdonald (*Halifax*), Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McCann, McGeer, McIlraith, Marier, Martin, Maybank, Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Slaght's motion regarding inner reserves of chartered banks was continued, and, the question having been put, it was resolved in the negative on the following division: *Yeas,*—Messrs. Blackmore, McGeer, Perley, Slaght,—4; *Nays,*—Messrs. Black (*Cumberland*), Claxton, Fraser (*Northumberland, Ont.*), Hanson, (*York-Sunbury*), Hazen, Hill, Jackman, Kinley, Macdonald (*Halifax*), Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McCann, McIlraith, Marier, Martin, Maybank, Ross (*St. Paul's*), Ryan,—18.

The Committee resumed consideration of Bill 91, and adopted the following clauses thereof: 4, 6, 7, 15, 18, 26, 28, 33, 45, 46, 47, 49, 50, 57, 68, 71, 82, 86, 87, 108, 138, 139, 147.

Mr. Perley moved that section 5 subsection 1 be amended by striking out the words *fifty-four* in line thirty-one and substituting therefor the words *forty-six.*

Discussion followed.

At 1 o'clock p.m. the Committee adjourned until Tuesday, June 20, at 11 o'clock, a.m.

TUESDAY, June 20, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Blackmore, Breithaupt, Cleaver, Coldwell, Eudes, Fontaine, Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Lafontaine, MacKenzie (*Neepawa*), McCann, McGeer, McGibbon, McIlraith, Marier, Martin, Maybank, Moore, Noseworthy, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. M. Wedd, President, Canadian Bankers' Association.

Consideration of Mr. Perley's motion to amend clause 5 by changing the expiry date of the banks' charters from July 1, 1954, to July 1, 1946, was continued.

Mr. Wedd was recalled and questioned.

At 1 o'clock p.m. the Committee adjourned until Wednesday, June 21, at 11 o'clock a.m.

WEDNESDAY, June 21, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blackmore, Blair, Breithaupt, Cleaver, Eudes, Fontaine, Fraser (*Northumberland, Ont.*), Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hazen, Jackman, Jaques, Lafontaine, Macdonald (*Halifax*), MacKenzie (*Neepawa*), McGeer, McGibbon, McNevin (*Victoria, Ont.*), Marier, Maybank, Mayhew, Moore, Perley, Picard, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

The Chairman read a letter, dated June 20, from Messrs. Gowling, MacTavish and Watt, Barristers and Solicitors, with which was enclosed a brief submitted on behalf of the Government of Alberta respecting clause 92 of Bill 91.

It was agreed that the brief of the Alberta Government be printed as Appendix A to this day's minutes of evidence.

Mr. Towers was recalled and questioned.

Mr. Towers filed the following documents, which are printed as Appendix B to this day's minutes of evidence:

Exhibit No. 35: Names of directors of the Bank of Canada and firms of which they are partners or directors.

Exhibit No. 36: Statement showing advances made by the Bank of Canada to chartered banks and banks incorporated under the Quebec Savings Bank Act.

At 1 o'clock p.m. the Committee adjourned until Thursday, June 22, at 11 o'clock a.m.

THURSDAY, June 22, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Blackmore, Breithaupt, Cleaver, Coldwell, Eudes, Fontaine, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hazen, Jackman, Jaques, Lafontaine, MacKenzie (*Neepawa*), McGeer, McIlraith, McNevin (*Victoria, Ont.*), Marier, Moore, Noseworthy, Perley, Picard, Ryan, Slaght, Tucker, Ward.

In attendance: Mr. D. C. Abbott, K.C., M.P., Parliamentary Assistant to the Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Mr. Towers was continued.

At 1 o'clock p.m. the Committee adjourned until Friday, June 23, at 11 o'clock a.m.

FRIDAY, June 23, 1944.

The Standing Committee on Banking and Commerce met at 11.30 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blackmore, Cleaver, Edwards, Fraser (*Northumberland*), Graham, Hazen, Jackman, Jaques, Jean, Lafontaine, McCann, McGeer, McIlraith, Martin, Mayhew, Moore, Noseworthy, Perley, Ryan, Slaght, Ward.

In attendance: Mr. D. C. Abbott, K.C., M.P., Parliamentary Assistant to the Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Mr. Towers was continued.

On motion of Mr. Jaques, it was ordered that a letter from the Alberta Farmers' Union, dated June 21, 1944, to Mr. Jaques be printed as Appendix A to this day's minutes of evidence.

At 1 o'clock p.m. the Committee adjourned until Tuesday, June 27, at 11 o'clock a.m.

TUESDAY, June 27, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black *(Cumberland)*, Blackmore, Cleaver, Coldwell, Eudes, Fontaine, Fraser *(Peterborough West)*, Graham, Gray, Hanson *(York-Sunbury)*, Hazen, Jackman, Jaques, Jean, Macdonald *(Brantford City)*, MacKenzie *(Neepawa)*, McCann, McGeer, McIlraith, McNevin *(Victoria, Ont.)*, Marier, Martin, Moore, Noseworthy, Perley, Ross *(St. Paul's)*, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Mr. Towers was continued.

At 1 o'clock p.m. the Committee adjourned until Wednesday, June 28, at 11 o'clock a.m.

WEDNESDAY, June 28, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Coldwell, Eudes, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hill, Jackman, Jaques, Kinley, Lafontaine, Macdonald (*Brantford City*), McGeer, McNevin (*Victoria Ont.*), Marier, Maybank, Moore, Noseworthy, Perley, Picard, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K. C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. M. Wedd, President, Canadian Bankers' Association; Mr. Robert Rae, General Manager, The Dominion Bank.

The Committee resumed consideration of Bill 91 and adopted the following clauses: 11, 21, 42, 60, 62, 65, 66, 85, 107, 114, 115, 116, 119, 128, 148, 157.

On motion of Mr. McGeer, it was ordered that Exhibit No. 28, *List of firms, companies and corporations of which bank directors are directors or partners,* be printed as Appendix A to this day's minutes of evidence.

The Chairman stated that he had received a letter from the General Accountants Association making certain representations in respect to clause 55, and it was ordered that it be printed as Appendix B to this day's minutes of evidence.

Mr. Jackman moved that clause 10 be amended by striking out the words *One Hundred Dollars each* and substituting therefor the words *Ten Dollars each.*

After discussion, and the question having been put, the motion was resolved in the affirmative.

Clause 10, as amended, was adopted.

The Committee adjourned until Friday, June 29, at 11 o'clock a.m.

FRIDAY, June, 30, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock, a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Breithaupt, Graham, Hanson (*York-Sunbury*), Hill, Jackman, Jaques, Jean, Kinley, Lafontaine, Macdonald (*Brantford City*), McCann, McGeer, McNevin (*Victoria, Ont.*), Martin, Maybank, Mayhew, Moore, Noseworthy, Perley, Ryan, Tucker.

In attendance: Hon. J. L. Isley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Mr. Towers was resumed.

Dr. Clark was recalled and examined.

At 1 o'clock, p.m., the Committee adjourned until Tuesday, July 4, at 11 o'clock, a.m.

TUESDAY, July 4, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Cleaver, Coldwell, Eudes, Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Jean, Kinley, Lafontaine, Macdonald (*Halifax*), Macdonald (*Brantford City*), McGeer, McGibbon, McNevin (*Victoria, Ont.*), Mayhew, Moore, Perley, Picard, Ross (*St. Paul's*), Ryan, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Examination of Dr. Clark was continued.

At 1 o'clock p.m. the Committee adjourned until Wednesday, July 5, at 11 o'clock a.m.

JULY, 5, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Breithaupt, Cleaver, Coldwell, Eudes, Fraser (*Northumberland*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jaques, Jean, Kinley, Lafontaine, McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Marier, Moore, Perley, Ross (*St. Paul's*), Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. F. T. Appleby, President, and Mr. G. R. Bickerton, Director, United Farmers of Canada, Saskatchewan Section.

Mr. Appleby was called and made a brief statement.

Mr. Bickerton was called, heard and questioned.

At 1 o'clock p.m. the Committee adjourned until this afternoon at 4 o'clock.

AFTERNOON SITTING

The Standing Committee on Banking and Commerce resumed at 4 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Graham, Gray, Hazen, Hill, Jaques, Kinley, Lafontaine, Leclerc, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Martin, Moore, Noseworthy, Perley, Ryan, Slaght, Tucker.

In attendance: Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. F. T. Appleby, President, and Mr. G. R. Bickerton, Director, United Farmers of Canada, Saskatchewan Section.

Examination of Mr. Bickerton was continued.

At 6.15 o'clock p.m. the Committee adjourned until Thursday, July 6 at 11 o'clock a.m.

THURSDAY, July 6, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hazen, Hill, Jackman, Jean, Kinley, Lafontaine, Leclerc, Macdonald (*Brantford City*), McGeer, McIlraith, McNevin (*Victoria, Ont.*), Mayhew, Moore, Noseworthy, Perley, Ryan, Slaght, Tucker.

In attendance: Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Insector General of Banks; Mr. F. T. Appleby, President, and Mr. G. R. Bickerton, Director, United Farmers of Canada, Saskatchewan Section.

Examination of Mr. Bickerton was concluded.

At 1 o'clock p.m. the Committee adjourned until Friday, July 7, at 11 o'clock a.m.

FRIDAY, July 7, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hazen, Jackman, Kinley, Lafontaine, McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. G. T. Clarkson, C.A.

The Committee proceeded to consideration of clause 55 of Bill No. 91.

Mr. Clarkson was called and examined.

At 1 o'clock p.m. the Committee adjourned until Tuesday, July 11, at 11 o'clock a.m.

TUESDAY, July 11, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. *Black* (*Cumberland*), Blair, Breithaupt, Cleaver, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hazen, Jackman, Jaques, Lafontaine, Leclerc, Macdonald (*Brantford City*), McCann, McGeer, McIlraith, Marier, Mayhew, Moore, Noseworthy, Perley, Picard, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

The Committee resumed consideration of Bill No. 91 and adopted Clause 55 thereof.

Mr. Graham moved that Clause 56 be amended by inserting a new subsection immediately after Subsection (8) as follows:—

> Where in the opinion of the Minister an amount set aside or reserved by any bank out of income, either by way of write-down of the value of assets or appropriation to any contingency reserve or contingent account for the purpose of meeting losses on loans, bad or doubtful debts, depreciation in the value of assets other than bank premises or other contingencies, is in excess of the reasonable requirements of the bank having regard to all the circumstances, the Minister shall notify the Minister of National Revenue and the Deputy Minister of National Revenue (Taxation) of the amount so set aside and of the amount of such excess, but nothing in this subsection shall be construed to give the Minister any jurisdiction over the discretion of the directors of the bank with regard to amounts set aside, reserved or transferred to any reserve or other fund from income upon which taxes have been assessed under the Income War Tax Act or the Excess Profits Tax Act, 1940.

Mr. Slaght moved, in amendment, that the new subsection to be inserted immediately after Subsection (8) provide that the bank may continue as heretofore to treat as operating expenses, and deduct from gross earnings, the actual losses incurred by the bank during its fiscal year, but hereafter shall, with respect to any sum or sums set aside or reserved out of income for future possible losses which may or may not ever be incurred—whether the same are set aside or reserved, either by way of write-down of the value of assets, or by appropriation to any contingency or inner reserve or contingent or inner account for the purpose of meeting future losses on loans or doubtful debts, or depreciation in the value of assets, other than bank premises, or for any other future contingencies which may or may not occur—be required to pay taxes thereon in the fiscal year in which the earnings from which such sum or sums accrue.

Discussion followed.

At 11.40 a.m. the Committee adjourned until Wednesday, July 12, at 11 o'clock a.m.

WEDNESDAY, July 12, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blair, Breithaupt, Cleaver, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Jackman, Jaques, Jean, Lafontaine, Leclerc, Macdonald (*Brantford City*), Macmillan, McCann, McGeer, McGibbon, McIlraith, Mayhew, Moore, Noseworthy, Perley, Picard, Ryan, Slaght, Ward.

In attendance: Mr. D. C. Abbott, K.C., Parliamentary Assistant to the Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

The Committee resumed consideration of Bill No. 91, clause by clause.

Mr. Graham moved that Subsection 7 of Clause 61 be amended by deleting the words *five days* at line twenty-five and substituting therefor the words *thirty days*.

After discussion, and the question having been put, the motion was resolved in the affirmative.

Clause 61, as amended, and Clause 64 were adopted.

Mr. Jackman moved that Subsection (1) of Clause 97 be amended by deleting the words *five hundred dollars* at line fourteen and substituting therefor the words *one thousand dollars*.

The question having been put, the motion was resolved in the affirmative.

Clause 97, as amended, was adopted.

At 1 o'clock p.m. the Committee adjourned until Thursday, July 13, at 11 o'clock a.m.

THURSDAY, July 13, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black *(Cumberland)*, Blair, Cleaver, Fraser *(Northumberland, Ont.)*, Fraser *(Peterborough West)*, Graham, Gray, Hanson *(York-Sunbury)*, Hazen, Jackman, Jaques, Jean, Laflamme, Lafontaine, Macdonald *(Brantford City)*, McGeer, McNevin *(Victoria, Ont.)*, Marier, Moore, Noseworthy, Perley, Picard, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Mr. D. C. Abbott, K.C., Parliamentary Assistant to the Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

The Committee resumed consideration of Bill No. 91.

Dr. Clark was further examined.

The Chairman having ruled that some remarks of Mr. McGeer were irrelevant and out of order, Mr. McGeer appealed the said ruling. The Chairman's ruling was sustained on the following division: Yeas,—Messrs. Cleaver, Fraser *(Northumberland, Ont.)*, Graham, Gray, Hanson *(York-Sunbury)*, Hazen, Jackman, Lafontaine, Macdonald *(Brantford City)*, McNevin *(Victoria, Ont.)*, Marier, Noseworthy, Perley, Ryan, Slaght, Ward—16; Nays,—Messrs. Jaques, McGeer—2.

Clauses 54, 129 and 140 were adopted.

At 1 o'clock p.m. the Committee adjourned until this afternoon at 4 o'clock.

AFTERNOON SITTING

The Committee resumed at 4 o'clock, the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blair, Breithaupt, Cleaver, Edwards, Eudes, Fraser *(Northumberland, Ont.)*, Graham, Gray, Hanson *(York-Sunbury)*, Hazen, Jaques, Jean, Laflamme, Lafontaine, Macdonald *(Brantford City)*, Macmillan, McGeer, McIlraith, McNevin *(Victoria, Ont.)*, Moore, Noseworthy, Perley, Ryan, Slaght, Ward.

In attendance: Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. P. K. Heywood, President, Canadian Retail Federation; Mr. Gilbert E. Jackson.

The Committee resumed consideration of Bill No. 91.

After discussion, and the question having been put, Mr. Slaght's amendment of July 11 to Mr. Graham's amendment of the same date to clause 56 was negatived.

Discussion following on Mr. Graham's amendment to clause 56, it was agreed that it stand until the Minister of Finance could be present.

Mr. Heywood was called, heard and questioned.

Mr. Jackson was called and questioned.

Exhibit No. 37: Mr. Jackson filed *Sidelights on the Great Depression,* which is printed as Appendix A to this day's minutes of evidence.

At 5.45 o'clock p.m. the Committee adjourned until Friday, July 14, at 11 o'clock a.m.

FRIDAY, July 14, 1944.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Eudes, Fraser (*Northumberland*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Jaques, Laflamme, Lafontaine, Macdonald (*Brantford City*), McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Martin, Moore, Noseworthy, Perley, Picard, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. P. K. Heywood, President, Canadian Retail Federation; Mr. Gilbert E. Jackson.

Examination of Mr. Jackson was continued.

At 1 o'clock p.m. the Committee adjourned until Monday, July 17, at 11.30 o'clock a.m.

MONDAY, July 17, 1944.

The Standing Committee on Banking and Commerce met at 11.45 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blair, Cleaver, Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Jackman, Jaques, Macdonald (*Halifax*), McGeer, McIlraith, Moore, Noseworthy, Perley, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. Gilbert E. Jackson.

Exhibit No. 38: Mr. Slaght filed a statement of moneys loaned by the Chartered Banks, being all loans in Canada (inclusive of loans to provincial governments and municipalities) and abroad for certain years from 1926 to

1943, which is printed as Appendix A to this day's minutes of proceedings and evidence.

The Chairman stated that he had received a brief from the Workers' Educational Association of Canada regarding Clause 91 of Bill 91. It was ordered that this brief be printed as Appendix B to this day's minutes of evidence.

Examination of Mr. Jackson was continued.

At 1.00 o'clock, p.m., the Committee adjourned until this afternoon at 4.00 o'clock.

AFTERNOON SITTING

The Committee resumed at 4.00 o'clock, p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blair, Cleaver, Edwards, Fraser (*Peterborough West*), Gray, Graham, Hanson (*York-Sunbury*), Hazen, Jackman, Jaques, Kinley, Macdonald (*Halifax*), McCann, McGeer, McIlraith, Mayhew, Moore, Noseworthy, Perley, Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks, Mr. Gilbert E. Jackson.

Examination of Mr. Jackson was concluded.

At 6.35 o'clock, p.m., the Committee adjourned until Tuesday, July 18, at 11.30 o'clock, a.m.

TUESDAY, July 18, 1944.

The Standing Committee on Banking and Commerce met at 11.40 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blair, Cleaver, Edwards, Eudes, Fraser (*Northumberland*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Jackman, Jaques, Jean, Kinley, Laflamme, Lafontaine, Macdonald (*Brantford City*), Macmillan, McCann, McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*); Marier, Mayhew, Moore, Noseworthy, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

The Committee resumed consideration of Mr. Graham's motion of July 11th that Clause 56 of Bill 91 be amended by inserting a new subsection immediately after subsection (8) as follows:—

> Where in the opinion of the Minister an amount set aside or reserved by any bank out of income, either by way of write down of the value of assets or appropriation to any contingency reserve or contingent account for the purpose of meeting losses on loans, bad or doubtful debts, depreciation in the value of assets other than bank premises or other

contingencies, is in excess of the reasonable requirements of the bank having regard to all the circumstances, the Minister shall notify the Minister of National Revenue and the Deputy Minister of National Revenue (Taxation) of the amount so set aside and of the amount of such excess, but nothing in this subsection shall be construed to give the Minister any jurisdiction over the discretion of the directors of the bank with regard to amounts set aside reserved or transferred to any reserve or other fund from income upon which taxes have been assessed under the Income War Tax Act or the Excess Profits Tax Act, 1940.

After discussion, and the question having been put, the motion was resolved in the affirmative.

Clause 56, as amended, was adopted.

Mr. Slaght moved that Clause 59 be amended by striking out in the second line thereof the word *five* and substituting therefor the words *one hundred,* and by inserting before the word *deposit,* in the third line thereof, the word *demand;* and

That a new subsection be added to Clause 59 to read as follows:—

The bank shall not make loans to the Government of the Dominion of Canada or any Department thereof.

At 1 o'clock p.m. the Committee adjourned until this afternoon at 4 o'clock.

AFTERNOON SITTING

The Committee resumed at 4.10 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blair, Cleaver, Eudes, Fraser (*Northumberland*), Graham, Gray, Hanson (*York-Sunbury*), Jackman, Jaques, Jean, Kinley, Laflamme, Lafontaine, Macdonald (*Brantford City*), McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Marier, Moore, Noseworthy, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Slaght's motion was continued.

At 6.00 o'clock p.m., the Committee adjourned until Wednesday, July 19, at 11.30 a.m.

WEDNESDAY, JULY 19, 1944.

The Standing Committee on Banking and Commerce met at 11.40 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Cleaver, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hazen, Jaques, Jean, Kinley, Laflamme, Lafontaine, Macdonald (*Brantford City*), Macmillan, McCann, McGeer, Marier, Mayhew, Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Slaght, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Slaght's motion to amend Clause 59 of Bill 91 was continued.

At 1.00 o'clock p.m., the Committee adjourned until this afternoon at 4.00 o'clock.

AFTERNOON SITTING

The Committee resumed at 4.10 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blair, Cleaver, Edwards, Fraser (*Northumberland*), Graham, Gray, Hazen, Jackman, Jaques, Laflamme, Lafontaine, Macdonald (*Brantford City*), McCann, McGeer, McIlraith, Noseworthy, Moore, Perley, Ross (*St. Paul's*), Ryan, Slaght, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Slaght's motion was continued.

At 6.00 o'clock p.m., the Committee adjourned until Thursday, July 20 at 11.30 a.m.

THURSDAY, July 20, 1944.

The Standing Committee on Banking and Commerce met at 11.53 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blair, Cleaver, Edwards, Eudes, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Jackman, Jaques, Kinley, Laflamme, Lafontaine, Macdonald (*Brantford City*), McCann, McGeer, McNevin (*Victoria, Ont.*), Marier, Martin, Mayhew, Moore, Noseworthy, Perley, Ryan, Slaght, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector-General of Banks.

Exhibit No. 39: Mr. Tompkins filed a breakdown of Item 7 of Exhibit 22, which is printed as Appendix A to this day's minutes of evidence.

Consideration of Mr. Slaght's motion to amend Clause 59 of Bill 91 was continued.

At 1 o'clock p.m. the Committee adjourned until 4 o'clock this afternoon.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blair, Cleaver, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Hazen, Jackman, Jaques, Jean, Kinley, Laflamme, Lafontaine, Macdonald (*Halifax*), Macdonald (*Brantford City*), McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Mayhew, Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Slaght, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector-General of Banks; Mr. B. C. Gardner, General Manager, Bank of Montreal.

The Chairman stated that he had received a brief from Mr. Paul A. Fisher of Burlington, Ontario, President of the Halton County Branch of the Ontario Federation of Agriculture.

On motion of Mr. Cleaver, it was ordered that Mr. Fisher's brief be printed as Appendix B to this day's minutes of evidence.

Exhibit No. 40: Mr. McGeer filed a copy of his pamphlet *The Conquest of Poverty.*

Mr. Gardner was called, heard and questioned.

At 6 o'clock p.m. the Committee adjourned until this evening at 8.30 o'clock.

EVENING SITTING

The Committee resumed at 8.35 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blair, Cleaver, Fraser (*Northumberland*), Graham, Hazen, Jackman, Jaques, Kinley, Laflamme, Lafontaine, McCann, McGeer, McNevin (*Victoria, Ont.*), Martin, Mayhew, Moore, Noseworthy, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght, Ward.

In attendance: Mr. D. C. Abbott, K.C., Parliamentary Assistant to the Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. B. C. Gardner, General Manager, Bank of Montreal.

Examination of Mr. Gardner was concluded.

Consideration of the clauses of Bill 91 was resumed.

The question having been put, Mr. Slaght's motion of July 18 to amend clause 59 was resolved in the negative.

Clause 59 was adopted.

Mr. McGeer moved that clause 75 be amended by adding thereto a new subsection providing that it shall be unlawful for any chartered bank to create and issue bank deposit credit in the place of, or as a substitute for, the lawful currency and coinage of the Dominion of Canada unless the amount so created and issued has been authorized by a Board consisting of The Governor of the Bank of Canada, The Minister of Finance and The Prime Minister.

The question having been put, the motion was resolved in the negative.

Clauses 75, 93, 94, 112 and 117 were adopted.

On motion of Mr. Graham, it was resolved that clause 146 be amended by deleting the word *of* at the beginning of line three on page seventy-eight and by substituting therefor the *words not exceeding.*

Clause 146, as amended, was adopted.

On motion of Mr. Graham, it was resolved that clause 150 be amended by inserting the word *receipt* after the word *warehouse* at line two of page seventy-nine.

Clause 150, as amended, was adopted.

At 10.20 o'clock p.m., the Committee adjourned until Friday, July 21, at 11.30 o'clock a.m.

FRIDAY, July 21, 1944.

The Standing Committee on Banking and Commerce met at 11.45 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blair, Claxton, Cleaver, Fraser (*Northumberland*), Graham, Hazen, Jackman, Jaques, Jean, Kinley, Lafontaine, Macdonald (*Brantford City*), McCann, McGeer, McIlraith, Nevin (*Victoria, Ont.*), Mayhew, Moore, Noseworthy, Perley, Ross (*St. Paul's*), Ryan, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. David W. Mundell, Counsel, Department of Justice; Mr. G. C. Papineau-Couture, K.C., representing the Attorney General of Quebec.

Consideration of Bill 91 was continued.

Mr. Papineau-Couture was called, heard and examined regarding Clause 92.

Mr. Mundell was called and examined.

At 1 o'clock p.m., the Committee adjourned until this afternoon at 4 o'clock.

AFTERNOON SITTING

The Committee resumed at 4.20 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blair, Cleaver, Graham, Hazen, Jackman, Jaques, Kinley, Macdonald (*Brantford City*), McGeer, McIlraith, McNevin (*Victoria, Ont.*), Martin, Mayhew, Moore, Perley, Ross (*St. Paul's*), Tucker.

In attendance: Hon. J. L. Ilsley, K.C.; Dr. W. C. Clark, C.M.G.; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. G. Dobson, General Manager, The Royal Bank of Canada; Mr. H. T. Jaffray, General Manager, Imperial Bank of Canada.

On motion of Mr. Graham, it was resolved that paragraph (*e*) of clause 2 be amended by deleting the words *goods, wares or merchandise* appearing at lines one and two thereof and substituting the words *goods, wares and merchandise.*

On motion of Mr. Graham, it was resolved that paragraph (*b*) of clause 2 be amended by adding the words *washing machines* after the word *churns* in line nineteen, and by adding the words *and cooking* after the word *heating* in line twenty, and by adding the words *or use in the farm home* after the words *farming operations* in line twenty-one.

On motion of Mr. Graham, it was resolved that paragraph (*z*) of clause 2 be amended by deleting the words *goods, wares or merchandise* in subparagraph

(i) at lines thirty-three and thirty-four, and in subparagraph (ii) at line forty, and substituting therefor the words *goods, wares and merchandise.*

Clause 2, as amended, was adopted.

Mr. Dobson was called and examined regarding clause 20.

On motion of Mr. Graham, it was resolved that subsection (1) of clause 20 be amended by adding thereto the following:—

> provided that in the case of not more than one-quarter of the number of directors the minimum requirements of subscriptions to stock in paragraphs (*a*), (*b*) and (*c*) above shall be reduced to $1,500, $2,000 and $2,500 respectively.

Clause 20, as amended, was adopted.

By leave of the Committee, Mr. Graham moved and it was resolved that subsection (2) of clause 11 be amended by adding thereto the following:—

> provided that in the case of not more than one-quarter of the number of provisional directors the minimum requirements of subscriptions to stock in paragraphs (*a*), (*b*) and (*c*) above shall be reduced to $1,500, $2,000 and $2,500 respectively.

Clause 11, as amended, was adopted.

On motion of Mr. Graham, it was resolved that clause 53 be amended by adding two new subsections after subsection (8) as follows:—

> The bank shall within such period after the end of each financial year of the bank as may be prescribed by the Minister from time to time, transmit or deliver to the Minister for the purposes of the statement referred to in the next succeeding subsection a return of current operating earnings, expenses and other information in the form set forth in Schedule Q to this Act.
>
> As soon as may be practicable after the receipt by the Minister in each year of the returns required by the next preceding subsection he shall cause to be prepared a statement showing under each heading contained in the form set out in Schedule Q to this Act the total arrived at by adding together the amounts shown under such heading in the said returns made by the banks and such statement shall thereupon be published in the *Canada Gazette* and shall be laid before Parliament within fifteen days, or if Parliament is not then sitting, within fifteen days after the beginning of the next session.

Clause 53, as amended, and clause 88 were adopted.

On motion of Mr. Graham it was resolved that subsection (1) of clause 89 be amended by deleting the words *the two next following subsections* in line forty-nine on page fifty and substituting therefor the words *subsections (2) and (3) of this section;* and that the said subsection be further amended by adding the words *eighty-eight* after the words *the said section* in line eight on page fifty-one of the said Bill.

Mr. Jaffray was called and examined regarding subsection (4) of clause 89.

On motion of Mr. Cleaver, it was resolved that subsection (4) (*a*) (ii) of clause 89 be amended by inserting the words *at least two days prior to such sale* after the word *sale* in line twenty-six of page fifty-two.

On motion of Mr. Graham, it was resolved that subsection (7) of clause 89 be amended by deleting "(*f*), (*g*) or (*h*)" in line thirty-one on page fifty-three and substituting therefor "(*f*), (*g*), (*h*) or (*i*)."

Clause 89, as amended, and Clause 90 were adopted.

By leave of the Committee, Mr. Graham moved, and it was resolved that subsection (1) of clause 118 be amended by inserting the words *subsection (9) of section fifty-three and* after the words *pursuant to* in line thirty-six.

Clause 118, as amended, was adopted.

At 6 o'clock p.m. the Committee adjourned until Monday, July 24, at 11.30 o'clock a.m.

MONDAY, July 24, 1944.

The Standing Committee on Banking and Commerce was convened at 11.30 o'clock a.m. At 11.55 o'clock a.m., the number of members assembled being insufficient to form a quorum, the Chairman adjourned the meeting until Tuesday, July 25, at 11.30 o'clock a.m.

TUESDAY, July 25, 1944.

The Standing Committee on Banking and Commerce met at 11.40 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blair, Breithaupt, Claxton, Cleaver, Edwards, Eudes, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jean, Lafontaine, Macdonald (*Brantford City*), McCann, McGeer, McIlraith, Marier, Mayhew, Moore, Perley, Picard, Ryan, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. C. Papineau-Couture, K.C., representing the Province of Quebec; Mr. David W. Mundell, Counsel, Department of Justice.

Consideration of the clauses of Bill 91 was continued.

By leave of the Committee, Mr. Graham moved, and it was resolved that clause 144 be amended by deleting the word "of" in line twenty-six and substituting the word "to".

Clause 144, as amended, and clause 149 were adopted.

By leave of the Committee, Mr. Graham moved, and it was resolved that Clause 152 be amended by deleting the words "bill, note" in lines twenty-three and twenty-nine.

Clause 152, as amended, was adopted.

By leave of the Committee, Mr. Graham moved, and it was resolved that clause 153 be amended by inserting the words "as shown by the records of the bank" between the words "holder" and "at least" in line forty-two.

Clause 153, as amended, was adopted.

By leave of the Committee, Mr. Graham moved, and it was resolved that clause 15 (1) be amended by inserting the following paragraph immediately after paragraph (*a*):

(*b*) subsection nine of section fifty-six.

Clause 157, as amended, was adopted.

Schedules A, B, C, D, E, F, G, H, I, J and K were adopted.

On motion of Mr. Graham it was resolved that Schedule L be amended by deleting the words "and provincial" in Item 12 and in Item 13 of assets; and by inserting the following items immediately after Item 13 of Assets:—

Provincial government direct and guaranteed securities maturing within two years, not exceeding market value ....

Other provincial government direct and guaranteed securities, not exceeding market value ....

Schedule L, as amended, and Schedules M and N were adopted.

On motion of Mr. Graham, it was resolved that Schedule O be amended by deleting the words "in the United Kingdom and foreign countries" and substituting therefor "elsewhere than in Canada" in Item 12 of Liabilities; by deleting the words "and provincial" in Item 9 and Item 10 of Assets; and by inserting the following items immediately after Item 10 of Assets:

Provincial government direct and guaranteed securities maturing within two years, not exceeding market value ....

Other provincial government direct and guaranteed securities, not exceeding market value ....

Schedule O, as amended, and Schedule P were adopted.

On motion of Mr. Graham, it was resolved that the following be added as Schedule Q:—

SCHEDULE Q

(Section 53(9))

Return of current operating earnings and expenses and other information of the .... Bank for the financial year ended .... 19.... made in accordance with the provisions of subsection one of section one hundred and eighteen of the Bank Act.

Amount

Current Operating Earnings:

(1) Interest and discount on loans.......................$

(2) Interest, dividends and trading profits on securities ....

(3) Exchange, commission, service charges and other current operating earnings ....

(4) Total current operating earnings ....

Current Operating Expenses:

(5) Interest on deposits ....

(6) Remuneration to employees ....

(7) Provision for taxes ....

(8) Contributions to pension fund ....

(9) Provision for depreciation of bank premises ....

(10 All other current operating expenses (exclusive of losses or specific provision for losses or for general contingencies)

(11) Total current operating expenses (exclusive of losses or specific provision for losses or for general contingencies)

Supplementary Information:

(12) Dividends to shareholders .... $

(13) Net amount of current operating earnings available for losses, or specific provision for losses, and for general contingencies .... $

(14) Net amount of capital profits, including non-recurring profits .... $

(15) Average annual amount required for losses or specific provision for losses on loans, investments and other assets, *less* recoveries during the fifteen financial years ending with the year to which this return relates ...... $

Mr. Papineau and Mr. Mundell were recalled and examined regarding clause 92.

At 1.15 o'clock p.m., the Committee adjourned until this afternoon at 4.30 o'clock.

AFTERNOON SITTING

The Committee resumed at 4.45 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blair, Breithaupt, Cleaver, Edwards, Eudes, Fraser (*Northumberland*), Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jean, Lafontaine, Macdonald (*Halifax*), Macdonald (*Brantford City*), McCann, McIlraith, Marier, Maybank, Mayhew, Moore, Perley, Picard, Ryan, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. C. Papineau-Couture, K.C., representing the Province of Quebec; Mr. David W. Mundell, Counsel, Department of Justice.

Consideration of the clauses of Bill 91 was continued.

Mr. Graham moved that subsection (4) of clause 92 be deleted and the following substituted therefor:—

(4) Upon payment in respect of any debt being made to the Bank of Canada under this section, the Bank of Canada shall, if payment is demanded by the person who but for the operation of subsection three of this section would have been entitled as creditor of the bank by which such payment was made, be liable to pay at its branch in the province in which such debt was owing and payable, an amount equal to the amount so paid to it with interest, if interest was payable on such debt, for a period not exceeding twenty years at such rate and computed in such manner as may be determined from time to time by the Governor in Council and such liability may be enforced by action against the Bank of Canada in the superior, county or district court having jurisdiction in respect thereof.

Mr. Jean moved in amendment that the words "with interest, if interest was payable on such debt, for a period not exceeding twenty years" be deleted and the following substituted therefor: "together with interest thereon for a period not exceeding twenty years, if interest was payable on such debt"; and that the words "in the superior, county or district court having jurisdiction in respect thereof" be deleted and the following substituted therefor: "issued in a court of competent jurisdiction in the province in which the deposit was originally made."

Mr. Papineau-Couture was questioned thereon.

Discussion followed and, the question having been put, the amendment was resolved in the affirmative.

Mr. Graham's motion, as amended, was adopted, viz: That subsection (4) of clause 92 be deleted and the following substituted therefor:

(4) Upon payment in respect of any debt being made to the Bank of Canada under this section, the Bank of Canada shall, if payment is demanded by the person who but for the operation of subsection three of this section would have been entitled as creditor of the bank by which such payment was made, be liable to pay at its branch in the province in which such debt was owing and payable, an amount equal to the amount so paid to it together with interest thereon for a period not exceeding twenty years, if interest was payable on such debt, at such rate and computed in such manner as may be determined from time to time by the Governor in Council and such liability may be enforced by action against the Bank of Canada issued in a court of competent jurisdiction in the province in which the deposit was originally made.

On motion of Mr. Graham, it was resolved that subsection 6 of clause 92 be deleted and the following substituted therefor:

(6) The bank may from time to time destroy its books and records containing entries made more than thirty years prior to such destruction and in any action, suit or proceeding in respect of any debt owing or alleged to be owing by the bank its liability shall be determined by reference only to evidence of matters or things which have arisen or occurred, including entries made in books or records, during the period of thirty years immediately preceding the commencement of such action, suit or proceeding: Provided that nothing contained in this subsection shall affect the operation of any statute of prescription or limitation or any right of the bank to destroy any of its books and records as it may see fit or relieve the bank from any liability to the Bank of Canada in respect of any debt which is subject to the provisions of subsection three of this section.

Mr. Graham moved that clause 92 be amended by inserting a new subsection after subsection 7 as follows:

Nothing contained in this section shall affect any right in respect of any debt owing by a bank mentioned in subsection three hereof which His Majesty in right of any province may have exercised or been entitled to exercise at the time of the coming into force of this Act.

Mr. Jean moved, in amendment, that the following be substituted for the new subsection proposed by Mr. Graham:

Nothing contained in this section shall affect any rights appertaining to His Majesty in right of any province.

Discussion followed, and, the question having been put, the amendment was negatived.

Mr. Graham's motion was adopted.

Clause 92, as amended, was adopted.

At 6.20 o'clock p.m., the Committee adjourned until Wednesday, July 26, at 11.30 o'clock a.m.

WEDNESDAY, July 26, 1944.

The Standing Committee on Banking and Commerce met at 11.45 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blair, Breithaupt, Cleaver, Coldwell, Edwards, Eudes, Fraser (*Northumberland, Ont.*), Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jean, Lafontaine, Macdonald (*Brantford City*), Macmillan, McCann, McGeer, McGibbon, Marier, Maybank, Moore, Perley, Picard, Ross (*St. Paul's*), Ryan, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. S. G. Dobson, General Manager, The Royal Bank of Canada; Mr. B. C. Gardner, General Manager, Bank of Montreal.

Exhibit No. 41: Mr. Macdonald (*Brantford City*) filed two diagrams furnished by Mr. Gilbert E. Jackson as a supplement to Exhibit No. 37: *Sidelights on the Great Depression.* (*Printed as Appendix A to this day's minutes of evidence.*)

Mr. Dobson was recalled and examined on clause 91.

On motion of Mr. Hanson, it was resolved that clause 91 be amended by the deletion of subsection (2).

Mr. Perley moved that subsection (1) of clause 91 be amended by deleting the word *six* in line 30 and substituting therefor the word *five*.

Mr. Gardner was recalled and examined thereon.

After discussion, and the question having been put, the motion was negatived on the following division: *Yeas*—Messrs. Coldwell, Perley, Picard, Tucker, Ward—5; *Nays*—Messrs. Eudes, Fraser (*Northumberland, Ont.*), Gray, Hanson (*York-Sunbury*), Hazen, Jackman, Jean, Lafontaine, Macdonald (*Brantford City*), McCann, McGibbon, Marier, Maybank, Ryan—14.

Clause 91, as amended, was adopted.

At 1.05 o'clock p.m. the Committee adjourned until four o'clock this afternoon.

AFTERNOON SITTING

The Committee resumed at 4.25 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blair, Breithaupt, Cleaver, Fraser (*Northumberland, Ont.*), Fraser (*Peterborough West*), Graham, Hanson

(*York-Sunbury*), Hill, Jackman, Kinley, Lafontaine, Macdonald (*Brantford City*), MacKenzie (*Neepawa*), McGeer, McGibbon, Martin, Mayhew, Moore, Perley, Ross (*St. Paul's*), Ryan, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration was resumed of Mr. Perley's motion of June 16 that clause 5 (1) be amended by striking out the word *fifty-four* in line thirty-one and substituting therefor the word *forty-six.*

At 6 o'clock p.m. the Committee adjourned until Thursday, July 27, at 11.30 o'clock a.m.

THURSDAY, July 27, 1944.

The Standing Committee on Banking and Commerce met at 11.40 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Coldwell, Eudes, Fraser (*Northumberland, Ont.*), Fraser (*Peterborough West*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jean, Kinley, Lafontaine, Macdonald (*Halifax*), Macdonald (*Brantford City*), Macmillan, McCann, McGeer, McNevin (*Victoria, Ont.*), Marier, Maybank, Mayhew, Moore, Perley, Ross (*St. Paul's*), Ryan, Tucker, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Perley's motion to amend subsection (1) of clause 5 of Bill 91 was continued.

At 1 o'clock p.m. the Committee adjourned until this afternoon at 4, o'clock.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Breithaupt, Cleaver, Coldwell, Eudes, Fraser (*Northumberland, Ont.*), Fraser (*Peterborogh West*), Graham, Gray, Hanson (*York-Snbury*), Hazen, Jackman, Jean, Kinley, Lafontaine, Macdonald (*Brantford City*), McCann, McGeer, McGibbon, McNevin (*Victoria, Ont*), Mayhew, Moore, Perley, Ross (*St. Paul's*), Ryan, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. Perley's motion was continued and, the question having been put, the said motion was negatived on the following division: *Yeas,*— Messrs. Blackmore, Coldwell, Perley, Tucker—5; Nays,—Messrs. Authier, Black (*Cumberland*), Breithaupt,, Cleaver, Eudes, Fraser (*Northumberland, Ont.*), Fraser (*Peterborough West*), Graham, Hanson (*York-Sunbury*), Jackman, Jean, Lafontaine, Macdonald (*Brantford City*), McCann, McNevin (*Victoria, Ont.*), Ross (*St. Paul's*), Ryan—17.

On motion of Mr. Graham, it was resolved that subsection (2) of clause 5 be amended by deleting the words *one hundred* in line 37 and substituting therefor the word *ten*.

Mr. Blackmore moved that the Committee adjourn until Friday, July 28, at 11.30 o'clock a.m., and the question having been put, the motion was negatived.

On motion of Mr. Graham, it was resolved that clause 165 be amended by deleting the word *July* in the last line and substituting therefor the word *September*.

Clause 165, as amended, and clause 1 were adopted.

It was ordered that Bill No. 91 be reported with amendments.

On motion of Mr. Macdonald, it was ordered that Bill No. 91 be reprinted as amended.

At 6.05 o'clock p.m. the Committee adjourned until Friday, July 28, at 11.30 o'clock a.m.

FRIDAY, July 28, 1944.

The Standing Committee on Banking and Commerce met at 11.50 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present:—Messrs. Black (*Cumberland*), Blackmore, Cleaver, Fraser (*Northumberland, Ont.*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jean, Kinley, Lafontaine, Macdonald (*Halifax*), Macdonald (*Brantford City*), McCann, McGeer, McNevin (*Victoria Ont.*), Martin, Maybank, Mayhew, Moore, Perley, Picard, Ross (*St. Paul's*), Ryan, Tucker, Ward.

In attendance:—Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. T. Taggart Smyth, General Manager, Montreal City and District Savings Bank; Mr. J. A. Towner, General Manager, La Caisse d'Economie de Notre Dame de Quebec.

Dr. Clark tabled a memorandum containing answers, prepared by the Governor of the Bank of Canada, to certain questions asked by Mr. Hanson respecting Bill No. 7. (*Printed as Appendix A to this day's minutes of evidence.*)

The Committee proceeded to consideration of Bill No. 131, An Act to amend the Quebec Savings Bank Act.

On motion of Mr. Lafontaine, it was resolved that clause two be amended by deleting subsections three and five of section three of the Quebec Savings Bank Act and substituting the following therefor:—

(3) Upon payment in respect of any debt being made to the Bank of Canada under this section, the Bank of Canada shall, if payment is demanded by the person who but for the operation of subsection two of this section would have been entitled as creditor of the bank by which such payment was made, be liable to pay at its branch in the province in which such debt was owing and payable an amount equal to the amount so paid to it together with interest thereon for a period not exceeding twenty years, if interest was payable on such debt, at such rate and computed in such manner as may be determined from time to time by the Governor in Council and such liability may be enforced by action against the Bank of Canada issued in a court of competent jurisdiction in the province in which the deposit was originally made.

(5) The bank from time to time destroy its books and records containing entries made more than thirty years prior to such destruction and in any action, suit or proceeding in respect of any debt owing or alleged to be owing by the bank its liabilities shall be determined by reference only to evidence of matters or things which have arisen or occurred, including entries made in books or records, during the period of thirty years immediately preceding the commencement of such action, suit or proceeding: Provided that nothing contained in this subsection shall affect the operation of any statute of prescription or limitation or any right of the bank to destroy any of its books and records as it may see fit or relieve the bank from any liability to the Bank of Canada in respect of any debt which is subject to the provisions of subsection two of this section.

and that clause two be further amended by adding a new subsection to section three of the Quebec Savings Bank Act after section six as follows:—

Nothing contained in this section shall affect any right in respect of any debt owing by a bank mentioned in subsection two hereof which His Majesty in right of any province may have exercised or been entitled to exercise at the time of enactment of this subsection.

Clause two, as amended, was adopted.

Mr. Smyth was called and examined.

On motion of Mr. Picard, it was resolved that clause 3 be amended by deleting the words *La Caisse d'Economie de Notre Dame de Quebec* in lines 27 and 38 and substituting therefor the words *La Banque d'Economie de Quebec, The Quebec Savings Bank.*

Clause 3, as amended, and clause 4 were adopted.

On motion of Mr. Picard, it was resolved that two new clauses be inserted immediately after clause 4 as follows:—

Section thirteen of the said Act is repealed and the following substituted therefor:

13. The capital stock of the bank shall be divided into shares of ten dollars each.

Subsection two of section twenty-four of the said Act is repealed and the following substituted therefor:

(2) Every such declaration shall be, by the person making and signing the same, acknowledged before a judge or justice of a court of record or chief magistrate of a city, town, borough or other place, or before a notary public, a commissioner of the Superior Court or a justice of the peace authorized to take affidavits, and left with the manager, agent or other officer of the bank who shall, if corroborative evidence of any facts alleged in such declaration is not required as hereinafter authorized, thereupon enter the name of the person, so shown to be entitled to such deposit or share under such transmission as proprietor thereof, in the books of the bank.

Clauses 5, 6, 7, 8 and 9 were adopted.

Mr. Picard moved that clause 10 be amended by deleting the words *one hundred and twenty per centum of* in lines 5 and 6.

After discussion, and by leave of the Committee, Mr. Picard withdrew his motion and substituted therefor the following:—

That clause 10 be amended by adding the following proviso to section thirty-seven of the Quebec Savings Bank Act:

Provided, however, that if collateral security consists of securities of the type described in paragraphs (*b*), (*c*) and (*d*) of subsection two of section thirty-four and paragraph (*d*) of section thirty-five of this Act, the market value of such securities may be not less than one hundred per centum of the amount of the loan secured thereby.

The question having been put, the motion was resolved in the affirmative.

Clause 10, as amended, was adopted.

On motion of Mr. Picard, it was resolved that clause 11 be amended by deleting the word *subsection* in line 43, and by deleting subsections (2) and (3) of section 38 of the Quebec Savings Bank Act.

Clause 11, as amended, and clauses 12, 13 and 14 were adopted.

On motion of Mr. Picard, it was resolved that clause 15 be amended by deleting the word *ten* in line 21 and substituting therefor the word *fifteen.*

Clause 15, as amended, and clauses 16 and 17 were adopted.

On motion of Mr. Picard, clause 18 was amended by inserting a new item after item 3 of Liabilities as follows: "Advances from and balances due to chartered banks . . . ."

Clause 18, as amended, was adopted.

On motion of Mr. Picard, clause 19 was amended by deleting the word *July* in the last line thereof and substituting therefor the word *September*.

Clause 19, as amended, clause 1 and the title were adopted.

It was ordered that Bill No. 131 be reported with amendments.

On motion of Mr. Picard, it was ordered that Bill No. 131 be reprinted as amended.

At 1 o'clock p.m. the Committee adjourned until Tuesday, August 1, at 11.30 o'clock, a.m.

TUESDAY, August 1, 1944.

The Standing Committee on Banking and Commerce met at 11.40 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Blackmore, Blair, Eudes, Fraser (*Northumberland*), Graham, Gray, Hanson (*York-Sunbury*), Hazen, Hill, Jackman, Jean, Kinley, Laflamme, MacKenzie (*Neepawa*), McGeer, McNevin (*Victoria, Ont.*), Marier, Maybank, Moore, Perley, Picard, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks; Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance; Mr. G. F. Henderson, Parliamentary Agent.

(*The Committee proceeded to consideration of Bill No.* 93 (*Letter* 0-2 of *the Senate*) *intituled "An Act to change the name of The Discount & Loan Corporation of Canada to Personal Finance Company of Canada"*.)

The Committee commenced consideration of Bill No. 134, An Act to encourage the provision of Intermediate Term and Short Term Credit to Farmers for the Improvement and Development of Farms and for the Improvement of Living Conditions thereon.

Dr. Clark was recalled and questioned.

On motion of Mr. Slaght, it was resolved that paragraph (*b*) of clause 2 be amended by inserting the words *or in connection with a* immediately after the words *for use on* in line 13.

On motion of Mr. McNevin, it was resolved that paragraph (*b*) of clause 2 be further amended by inserting the words *washing machines* after the word *churns* in line 19; by inserting the words *and cooking* after the word *heating* in line 21; and by inserting the words *or use in the farm home* after the word *operations* in line 22.

On motion of Mr. Slaght, it was resolved that paragraph (*f*) of clause 2 be amended by inserting the words *in Canada* after the word *land* in line 5.

At 1 o'clock p.m. the Committee adjourned until this afternoon at 4 o'clock.

AFTERNOON SITTING

The Committee resumed at 4.20 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Blair, Cleaver, Edwards, Eudes, Graham, Gray, Hill, Jackman, Jean, Kinley, Laflamme, Macdonald (*Halifax*), McNevin (*Victoria, Ont.*), Maybank, Mayhew, Moore, Perley, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Bill No. 134 was resumed.

On motion of Mr. McNevin, it was resolved that paragraph (*b*) of clause 2 be further amended by deleting the word *and* after the word *apparatus* and after the word *incubators* in line 20.

Clause 2, as amended, was adopted.

On motion of Mr. Tucker, it was resolved that paragraph (*f*) of subclause (1) of clause 3 be amended by deleting the words *as long as the borrower was not in default* in line 23.

Clause 3, as amended, and clauses 4 and 5 were adopted.

On motion of Mr. Tucker, it was resolved that paragraph (*h*) of subclause 1 of clause 6 be amended by inserting the word *and* after the word *outstanding* in line 21, and by deleting the words *and the rate of interest to be charged on payments overdue* in lines 23 and 24.

Clause 6, as amended, and clauses 7 and 8 were adopted.

On motion of Mr. McNevin, it was resolved that subclause 1 of clause 9 be amended by deleting the word *of* after the word *foregoing* in line 2, and by inserting the word *thereupon* after the word *shall* in line 5.

Clause 9, as amended, and clauses 10, 11, 12, 13, 14 and 1, and the title were adopted.

It was ordered that Bill No. 134 be reported with amendments.

On motion of Mr. McNevin, it was ordered that Bill No. 134 be reprinted as amended.

At 5.42 o'clock p.m. the Committee adjourned until Wednesday, August 2, at 11.30 o'clock a.m.

WEDNESDAY, August 2, 1944.

The Standing Committeee on Banking and Commerce met at 11.50 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Blackmore, Blair, Cleaver, Coldwell, Edwards, Eudes, Fraser (*Northumberland*), Graham, Gray, Hazen, Hill, Jackman, Jean, Kinley, Laflamme, McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Moore, Perley, Picard, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Bill No. 7, An Act to incorporate the Industrial Development Bank, was resumed.

On motion of Mr. McNevin, it was resolved that paragraph (*d*) of clause 2 be amended by inserting a comma and the words *alteration or repair* after the word *building* in line 22.

Clause 2, as amended, and clauses 3 and 4 were adopted.

On motion of Mr. Slaght, it was resolved that subclause (2) of clause 5 be amended by inserting the words *or his wife, child, brother, sister, or parent* after the word *he* in line 28; and by adding the words *or of which he is a shareholder* after the word *director* in line 28.

Clause 5, as amended, and clauses 6, 7, 8, 9, 10, 11, 12, 13 and 14 were adopted.

Mr. McNevin moved that clause 15 be amended by inserting the words *in the opinion of the Board* after the word *not* in line 37.

Discussion followed.

On motion of Mr. Slaght, it was resolved that the Committee recommend that the quorum be reduced from 15 to 10 members, and that Standing Order (63) (1) (*d*) be suspended in relation thereto.

At 1 o'clock p.m. the Committee adjourned until this afternoon at 4 o'clock.

AFTERNOON SITTING

The Committee resumed at 4.20 p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blackmore, Cleaver, Coldwell, Edwards, Fraser (*Northumberland*), Graham, Gray, Jackman, Jean, Kinley, McCann, McGeer, McGibbon, McIlraith, McNevin (*Victoria, Ont.*), Maybank, Moore, Perley, Ryan, Slaght, Tucker.

Consideration of Mr. McNevin's motion to amend clause 15 of Bill No. 7 was continued.

At 6 o'clock p.m. the Committee adjourned until Thursday, August 3, at 11.30 o'clock a.m.

THURSDAY, August 3, 1944.

The Standing Committee on Banking and Commerce met at 11:45 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Authier, Black (*Cumberland*), Blackmore, Blair, Cleaver, Edwards, Fraser (*Northumberland*), Graham, Gray, Hazen, Jackman, Jean, Kinley, McCann, McGeer, McNevin (*Victoria, Ont.*), Maybank, Mayhew, Moore, Perley, Picard, Ryan, Slaght, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. Graham F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. McNevin's motion to amend clause 15 of Bill No. 7 was continued.

At 1:10 o'clock p.m., the Committee adjourned until Friday, August 4, at 11:30 o'clock a.m.

FRIDAY, August 4, 1944.

The Standing Committee on Banking and Commerce met at 11.40 o'clock, a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Fraser (*Northumberland*), Graham, Jackman, Jean, Kinley, McCann, McGeer, McNevin (*Victoria, Ont.*), Maybank, Mayhew, Moore, Noseworthy, Perley, Ryan, Tucker.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. Graham F. Towers, C.M.G., Governor of the Bank of Canada; Mr. C. S. Tompkins, Inspector General of Banks.

Consideration of Mr. McNevin's motion to amend clause 15 of Bill No. 7 was continued.

At 1.00 o'clock, p.m., the Committee adjourned until Monday, August 7, at 11.30 o'clock, a.m.

MONDAY, August 7, 1944.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m., the Chairman, Mrs. Moore, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Blair, Breithaupt, Edwards, Fraser (*Northumberland*), Graham, Gray, Hazen, Jackman, Kinley, McGeer, McIlraith, Moore, Perley, Ryan, Slaght.

In attendance: Hon. J. I. Ilsley, K.C., Minister of Finance, Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. Graham F. Towers, C.M.G., Governor of the Bank of Canada.

Consideration of Mr. McNevin's motion to amend clause 15 of Bill No. 7 was continued.

At 1 o'clock p.m., the Committee adjourned until Tuesday, August 8, at 11.30 o'clock a.m.

TUESDAY, August 8, 1944.

The Standing Committee on Banking and Commerce met at 11.45 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present:—Messrs. Blackmore, Cleaver, Edwards, Fraser (*Northumberland*), Hill, Jackman, Kinley, Macdonald (*Halifax*), Macdonald

(*Brantford City*), McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Maybank, Moore, Perley, Picard, Ryan, Slaght, Ward.

In attendance:—Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance.

On motion of Mr. McNevin, it was ordered that the Report to the Council of the League of Nations on the work of the sixty-eighth session of the Financial Committee on medium term credit to industry be printed as Appendix A to this day's minutes of evidence.

Consideration of Mr. McNevin's motion to amend clause 15 of Bill No. 7 was continued.

On motion of Mr. Maybank, it was resolved that Bill No. 90, Letter H-3 of the Senate, be proceeded with as the first order of business at the next sitting of the Committee.

At 1.07 o'clock, p.m., the Committee adjourned until Wednesday, August 9, at 11.30 o'clock, a.m.

WEDNESDAY, August 9, 1944

The Standing Committee on Banking and Commerce met at 11.40 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blackmore, Cleaver, Gray, Hazen, Jean, Macdonald (*Halifax*), MacKenzie (*Neepawa*), McCann, McIlraith, McNevin (*Victoria, Ont.*), Marier, Martin, Maybank, Moore, Perley, Picard, Ross (*St. Paul's*), Ryan, Slaght.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance;

(*The Committee proceeded to consideration of Bill No. 90* (*Letter H-3 of the Senate*) *intituled "An Act to incorporate Workers Benevolent Association of Canada".*)

Consideration of Mr. McNevin's motion to amend clause 15 of Bill No. 7 was resumed.

At 12.25 p.m., the Committee adjourned until Thursday, August 10, at 11.30 a.m.

THURSDAY, August 10, 1944.

The Standing Committee on Banking and Commerce met at 11.50 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blackmore, Blair, Claxton, Coldwell, Donnelly, Fraser (*Northumberland*), Gray, Jean, Laflamme, Macdonald (*Halifax*), McCann, McGeer, McIlraith, McNevin (*Victoria, Ont.*), Marier, Martin, Maybank, Moore, Ross (*St. Paul's*), Ryan, Ward.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Dr. W. C. Clark, C.M.G., Deputy Minister of Finance; Mr. G. F. Towers, C.M.G., Governor of the Bank of Canada.

Consideration of Bill No. 7 was continued.

By leave of the Committee, Mr. McNevin withdrew his motion to amend clause 15.

On motion of Mr. Maybank, it was resolved that clause 15 be deleted and the following substituted therefor:—

15. (1) Subject to section fourteen of this Act, if in the opinion of the Board, credit or other financial resources would not otherwise be available on reasonable terms and conditions to a person engaged in or about to engage in an industrial enterprise in Canada and if in the opinion of the Board the amount of capital invested or to be invested by the said person in the industrial enterprise, or where the said person is a corporation, the amount of capital invested or to be invested in the said corporation by the purchase by persons other than the Bank of capital stock therein, is such as to afford the Bank reasonable protection, the Bank may

(*a*) lend or guarantee loans of money to the said person;

(*b*) where the said person is a corporation, enter into underwriting agreements in respect of the whole or any part of any issue of stock, bonds or debentures of the corporation;

(*c*) where the said person is a corporation, purchase or otherwise acquire with a view to resale thereof the whole or any part of any issue of stock, bonds or debentures of the corporation from the corporation or from any person with whom the Bank has entered into an underwriting agreement in respect of the said issue and may subsequently sell or otherwise dispose of the said stock, bonds or debentures.

(2) Notwithstanding anything contained in subsection one of this section, the aggregate of the amounts of the loans or liabilities of the Bank, and of the expenditures by the Bank for securities held by it, specified in the next succeeding subsection, shall not at any time exceed fifteen million dollars.

(3) The aggregate referred to in the last preceding subsection shall include the following amounts:—

(*a*) the amount of every loan made by the Bank on which an amount in excess of two hundred thousand dollars is owing, and

(*b*) the amount of the liability of the Bank in respect of every loan guaranteed by it under which guarantee the liability of the Bank is in excess of two hundred thousand dollars, and

(*c*) the amount of the liability of the Bank under every underwriting agreement under which agreement the amount of the liability of the Bank is in excess of two hundred thousand dollars, and

(*d*) the amount of every expenditure by the Bank for stock, bonds or debentures held by it issued by any one corporation if the amount of the expenditure for the purchase of the said stock, bonds or debentures so held exceeds two hundred thousand dollars, and

(*e*) the total amount of loans owing by any person to the Bank and of loans to the said person guaranteed by the Bank to the extent that they are so guaranteed and, where the said person is a corporation, of liabilities of the Bank under any underwriting agreements with respect to the issue of stock, bonds or debentures by the corporation and of expenditures by the Bank for stock, bonds or debentures held by it issued by the corporation, if the said total amount exceeds two hundred thousand dollars; Provided that there shall be deducted from the said total amount before including it in the said aggregate the amount of any loan, liability or expenditure included in the said aggregate under paragraph (*a*), (*b*), (*c*) or (*d*) of this subsection.

Clause 15, as amended, and clauses 16, 17 and 18 were adopted.

On motion of Mr. McNevin, it was resolved that clause 19 be deleted and the following substituted therefor:

19. (1) Security upon goods, wares, and merchandise may be given to the Bank under this Act in the same form and mode by which security upon goods, wares and merchandise may be given under section eighty-eight of *The Bank Act* to a bank incorporated by *The Bank Act*.

(2) Delivery of a document giving security upon goods, wares and merchandise to the Bank under the authority of this section, vests and shall vest in the Bank in respect of goods, wares and merchandise therein described.

(*a*) of which the person giving the security is the owner at the time of the delivery of such document, or

(*b*) of which such person becomes the owner at any time thereafter before the release of the security by the Bank, whether or not such goods, wares and merchandise are in existence at the time of such delivery

the same rights and powers as if the Bank had acquired a warehouse receipt or bill of lading in which such goods, wares and merchandise were described; and all such goods, wares and merchandise in respect of which such rights and powers are vested in the Bank under this section, are for the purposes of this Act, goods, wares and merchandise covered by the security.

(3) The provisions of subsection four of section eighty-eight of *The Bank Act* shall be applicable in respect of any security given to and taken by the Bank under the authority of this section.

(4) Notwithstanding anything contained in subsection two of this section and notwithstanding that a notice of intention has been registered pursuant to the last preceding subsection by a person giving security upon goods, wares and merchandise under this section, where under the *Bankruptcy Act*, a receiving order is made against, or an assignment is made by such person, wages, salaries, or other remuneration owing in respect of the period of three months next preceding the making of such order or assignment, to empoyees of such person employed in connection with the business in respect of which the goods, wares and merchandise covered by the security were held or acquired by such person, shall be a charge upon the goods, wares and merchandise covered by the security in priority to the rights of the Bank therein and if the Bank takes possession or in any way disposes of such goods, wares and merchandise, such wages, salaries or remuneration owing for the period aforesaid shall be paid by the Bank and the Bank shall be subrogated in and to all the rights of such employees to the extent of the amounts so paid.

Clause 19, as amended, was adopted.

On motion of Mr. McIlraith, it was resolved that subclause (2) of clause 20 be deleted and the following substituted therefor:

(2) All the rights and powers of the Bank in respect of goods, wares and merchandise mentioned in or covered by a warehouse receipt or bill of lading acquired and held by the Bank or by a security given to the Bank under the last preceding section, shall, subject to the provisions of subsection three of the last preceding section, have priority over all

rights subsequently acquired in, on or in respect of such goods, wares and merchandise, and also over the claim of any unpaid vendor, but such priority shall not be given over the claim of any such unpaid vendor who had a lien on the goods, wares and merchandise at the date of the acquisition by the Bank of such warehouse receipt, bill of lading or security unless the same was acquired without the knowledge on the part of the Bank of such lien.

Clause 20, as amended, was adopted.

On motion of Mr. McNevin, it was resolved that clause 21 be deleted and the following substituted therefor:

21. In the event of non-payment at maturity of any loan made or guaranteed by the Bank as security for the payment of which the bank has acquired and holds a warehouse receipt or bill of lading, or has taken any security under section nineteen of this Act, the bank may sell the goods, wares and merchandise mentioned therein or covered thereby or so much thereof as will suffice to pay such loan, with interest and expenses returning the surplus, if any, to the person by whom such security was given; but such sale shall, unless such person has agreed to sale thereof otherwise than as herein provided, be made by public auction after

(i) notice of the time and place of the sale has been given by registered letter mailed in the post office, postpaid to the last known address of the person by whom such security was given at least ten days prior to the sale, and

(ii) publication of an advertisement of the sale, at least two days prior to such sale, in at least two newspapers published in or nearest to the place where the sale is to be made, stating the time and place thereof; and if the sale is in the Province of Quebec at least one of such newspapers shall be a newspaper published in the English language and one other newspaper shall be a newspaper published in the French language.

Clause 21, as amended, clauses 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34 and 1, the schedule, the preamble and the title were adopted.

It was ordered that Bill No. 7 be reported with amendments.

On motion of Mr. Maybank, it was ordered that Bill No. 7 be reprinted as amended.

At 1 o'clock p.m. the Committee adjourned until Friday, August 11, at 11.30 o'clock a.m.

FRIDAY, August 11, 1944.

The Committee met at 11.40 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Blackmore, Donnelly, Lafontaine, MacKenzie (*Neepawa*), McCann, McIlraith, Marier, Maybank, Moore, Ryan.

In attendance: Hon. J. L. Ilsley, K.C., Minister of Finance; Mr. G. F. Henderson, representing the Province of Alberta.

The Committee proceeded to consideration of Bill No. 109, An Act to incorporate the Alberta Provincial Bank.

Mr. Henderson explained the bill, and was questioned thereon.

On motion of Mr. Maybank, it was resolved that a recommendation be made to the House that the printed minutes of proceedings and evidence of the Committee be reprinted as an Appendix to the Journals of the House; that, in addition, 1,000 copies in English and 400 in French be reprinted in blue book form; and that Standing Order 64 be suspended in relation thereto.

At 1 o'clock p.m. the Committee adjourned until Monday, August 14, at 11.30 o'clock a.m.

MONDAY, August 14, 1944.

The Committee was called to meet at 11.30 o'clock a.m.

Members present: Messrs. Blackmore, Gray, Marier, Maybank, Moore.

At 12 o'clock noon, it having been impossible to secure a quorum, the Committee adjourned to meet at the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

Mr. Henderson explained the bill, and was questioned thereon.

On motion of Mr. Maybank, it was resolved that a recommendation be made to the House that the printed minutes of proceedings and evidence of the Committee be reprinted as an Appendix to the Journals of the House; that, in addition, 1,000 copies in English and 250 in French be reprinted in blue book form; and that Standing Order 64 be suspended in relation thereto.

At 1 o'clock p.m. the Committee adjourned until Monday, August 14, at 11.30 o'clock a.m.

MONDAY, August 14, 1944.

The Committee was called to meet at 11.30 o'clock a.m.

Members present: Messrs. Blackmore, Gray, Marier, Maybank, Moore.

At 12 o'clock noon, it having been impossible to secure a quorum, the Committee adjourned to meet at the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

March 21, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Will you repeat what you were saying, Mr. Abbott, so that it may appear on the record?

Mr. ABBOTT: The house has adopted the principle that there is need for some institution of this kind. As I said in my remarks on the bill in the house, the government believes that, whatever credit facilities may be desirable, an institution of this kind should be set up. As Mr. Kinley has suggested, I think it would probably be desirable and helpful to the committee if, at the very outset of its proceedings in considering this bill, it could have the advice of the Deputy Minister of Finance, Dr. Clark and the Governor of the Bank of Canada, Mr. Towers, who are the principal technical advisors of the government in matters of this kind. Therefore I believe that the detailed consideration of the various clauses of the bill would be facilitated if Dr. Clark and Mr. Towers were here before the committee at the outset, to elaborate on the reasons which have prompted the government in introducing this particular piece of legislation.

The CHAIRMAN: Mr. Kinley, will you repeat your motion?

Mr. KINLEY: I move, Mr. Chairman, that, introductory to the consideration of this bill, we ask that the Deputy Minister of Finance and the Governor of the Bank of Canada be called as witnesses in connection with the provisions of this bill.

The CHAIRMAN: And that is seconded by Mr. McNevin?

Mr. MCNEVIN: Yes.

The CHAIRMAN: Mr. McGeer, you desired to say something?

Mr. MCGEER: I am agreeable to that.

The CHAIRMAN: I thought you desired to say something further?

Mr. MCGEER: I will speak when you have finished with the motion.

The CHAIRMAN: What is your pleasure, gentlemen?

The motion was agreed to.

Mr. MCGEER: The matter to which I was referring, Mr. Chairman, was the Bank of Canada Report. If I may, for the purpose of the record, I should like to repeat very briefly what I said before. In the report, after pointing out that the federal debt has increased from $4,693,000,000 to $11,302,000,000 and that the interest charges have risen from $169,000,000 to $304,000,000—that is, from 1939 to 1943—Mr. Towers makes this observation: "I do not wish to suggest that public debt could be increased at the present rate for an indefinite period without placing intolerable strain on our economy. I do feel, however, that the war debt, and the increases which will inevitably take place for a time after the war ends, can be handled without serious embarrassment." I may say that I have been quoting from page 11 of the report.

As I pointed out to the committee, no one can tell just what the extent of those increases is going to be, because no one knows when this war is going to end. Certainly no one knows when the period of disturbance which always continues after a war will end, or can tell how long it is going to last. This war is not going to end with an armistice and peace treaty. It is going to end with armies of occupation not only in Europe but in Asia. How anybody can say that we can carry a debt load without embarrassment, without knowing even approximately what it is going to be, is of course one of the mysteries of high finance, I suppose. But Mr. Towers does give us this warning: "The key to this problem, as to many others, lies chiefly in the maintenance of a high level of employment and income." That I think is probably the great problem that is going to be before this committee in the preparation of its report to parliament.

I should like to draw this observation which Mr. Towers makes, when he comes to deal with that problem, to the attention of the members of the committee. I am going to read it into the record. I am again quoting from page 11 of the 1943 report of the Bank of Canada. The observation is as follows:—

> The magnitude of the adjustments which Canada will face in maintaining high employment after the war can be indicated in simple terms. In 1939 about 4,000,000 Canadians were gainfully occupied and at least 300,000 who were available for work were not employed. By the end of 1943 the gainfully occupied population had risen to approximately 5,100,000 but about 1,900,000 of these were engaged in the armed forces, in supplying the weapons of war, or in producing the food required for special wartime exports. The number available to meet civilian needs had therefore fallen to about 3,200,000, but at the same time the average standard of living had risen materially and was probably higher than it had ever been. This increased output of consumption goods by a smaller working force can be accounted for in part by longer hours of work, favourable crop conditions and the abnormally small number now employed in private capital development and maintenance work. Another important factor, however, has been the improvement in production techniques worked out under the stress of war.
>
> After the war, some of those who are now employed will voluntarily withdraw from the working force, and the armed services may be maintained at a level considerably above their pre-war strength. It seems likely, however, that at least 4,700,000 workers will be available for employment in civilian jobs, or at least 1,500,000 more than the number employed in that sector of the economy at the present time. A working force of this size, at present rates of efficiency, will be able to produce a vastly greater volume of civilian goods and services than Canada has ever known before. By the same token, a vastly increased volume of consumption and capital development will be necessary if this output is going to be fully absorbed and high employment maintained. The adjustments required will clearly be of unprecedented magnitude, and bold planning on the part of labour, farm and business organizations, as well as governments, is urgently needed.

With that statement alone, and with its clear relation to the Industrial Development Bank, I am going to move, Mr. Chairman, that we request that the report of the Bank of Canada covering the year 1943 and issued on February 10, 1944, by the Governor, Mr. G. F. Towers, be referred to this committee. I move that we request parliament to make that reference to us.

Mr. Kinley: Do you agree with that statement, Mr. McGeer? It seems to me to be a pretty good statement.

Mr. McGeer: I think it is probably the most important statement we have had from an authority of that kind.

Mr. KINLEY: It is very enlightening.

Mr. MCGEER: The statement is easy enough. That is a very excellent definition. But I do not find the solution in the report.

Mr. ABBOTT: Mr. Chairman, if I may I should like to say a word on Mr. McGeer's motion. As I understand it, it is not necessary for this committee to have a motion passed by the house referring the Bank of Canada report to the committee for consideration. It is perfectly open to the committee to consider the report, discuss it and ask Mr. Towers or anyone else to come before the committee and deal with the various matters raised in the report, and I take it that is what members wish. I have heard from a number of members that they would like to have that procedure followed. I think it would be very desirable to do that. Whether that should be undertaken before consideration is given to the particular bill which is before the committee is, of course, for the committee to say. The only point I wish to make is that it is not necessary for us to go to the house and ask for a motion referring the report to the committee. It is perfectly open to the committee to consider it, discuss it, and call witnesses or do whatever they wish to do.

Mr. SLAGHT: Mr. Chairman, with great respect I would disagree with the learned assistant to the Minister of Finance. You read the terms of our authority and power, and they do not include the consideration of this annual report. I therefore suggest that if, when Mr. Towers is here, any investigating mind wanted to probe into the matters contained in his report which were not also contained in the Industrial Development Bank Bill, it would be your duty as chairman to rule that he was out of order. Why have anything like that occur? I understand that the Prime Minister stated that the way to get this report before this committee was to ask the house to send it there. I have not any doubt that they will send it upon our request. I therefore have pleasure in seconding the motion.

Mr. CLEAVER: Are we not a standing committee?

Mr. ABBOTT: That is just the point which I think we overlook. This is a particular reference, a bill, which would not have been dealt with by the Standing Committee on Banking and Commerce unless it had been referred to it by the house. But the Banking and Commerce Committee is a standing committee, and I am advised—and it was the Prime Minister who so advised me yesterday—that the committee is perfectly free to consider the report of the Bank of Canada without a reference from the house. That is my advice. I may be wrong on it, but that is what I am told.

Mr. MCGEER: There is only one thing I wish to say about that. When we had the Banking and Commerce Committee sitting in 1939, we did not have the Bank of Canada report before us. It came before us by reason of the fact that a request was made to the then Minister of Finance, Honourable Charles Dunning, to refer the report of the Bank of Canada to the Banking and Commerce Committee. That was the procedure that was followed then. When I spoke on it the other day in the house I asked that it be referred to the committee, and the Prime Minister then said that the minister was not in his place but that he would take it up and he thought that if the committee wanted this report referred to it, the committee could ask for that reference, and that it would be dealt with. The procedure has always been to limit the standing committees to what is referred to them by parliament or what is specifically left to them. For instance, the Public Accounts Committee can touch only past accounts of the government, unless some matter is referred to it. Of course, we have had several matters referred to the committee. But I think that the procedure has always been, Mr. Chairman, for parliament to decide what the committee is going to deal with. I think that procedure can be followed without any danger. We should at least be sure of being in order if we followed the course that has always been adopted.

Mr. DONNELLY: Mr. Chairman, from listening to the discussion that has taken place, it seems to me that this report of the Bank of Canada very properly comes up under the revision of the Bank Act; and it all comes back to the question of whether or not we should take up the revision of the Bank Act, and then the Industrial Development Bank. The revision of the Bank Act and the report of the Bank of Canada are tied up together and should be considered as one matter, almost, and might be taken up first with this bill following. Whether we should do that or not, I do not know; but I am only suggesting that there is the possibility that that should be the method of procedure.

The CHAIRMAN: I am told that the revision of the Bank Act will not be ready until after the recess.

Mr. MAYBANK: With reference to the question of whether we should or should not consider this report, there seems to be no disagreement. The only possible disagreement is really on a technical point, as to how it may be accomplished.

Mr. ABBOTT: That is right.

Mr. MAYBANK: Mr. McGeer and Mr. Slaght and maybe one or two others—I am not sure how many—think it ought to come to us from the house. Others have said that hardly seems necessary. We surely do not need to have any great discussion about it here. If there is any doubt about it, make the motion in the house and have it disposed of. Here we are in the position where we should like to discuss the report. There seems to be little dubiety in the way of one thinking it is unwarranted and another thinking it is warranted. But there is dubiety as to how we are going to get that discussion. I suggest that we could make sure of it by having the resolution passed by the house because, as Mr. Slaght says, I do not think there is any doubt in the world that the house can refer the report to us.

Mr. GRAHAM: Mr. Chairman, I happen to be in disagreement with Mr. Maybank. So that Mr. Maybank will not misunderstand my position, I should like to explain it. While I think there is a time when the matter raised by Mr. McGeer will be of great interest and a proper one for examination by this committee, I am definitely of the opinion that we should be very unwise to open up the task we now have before us to include an exploration of the whole financial structure of Canada. I think we shall lose ourselves in that task, if we follow that course, and overlook the immediate task of considering what has been referred to us, namely the Industrial Development Bank bill. I therefore intend to vote against the motion. While I am on my feet, may I ask Mr. Abbott if he would be kind enough to advise Dr. Clark and Mr. Towers that I, for one, should like information on and the opportunity to discuss with them (1) the advisability of the agency being called a bank; (2) the advisability of attaching it to the Bank of Canada; and (3) the advisability of asking the public to supply any portion of the money required by such agency.

Mr. ABBOTT: I will bring the matters you mention to their attention. I am sure they are quite prepared to discuss all three of those points, which are very relevant to the measure.

Mr. MAYBANK: May I make this addition to what I have already said. It does not make any difference whether the report in question is referred in the manner I have suggested or in the manner which the motion indicates. That does not mean that this committee need necessarily lose itself, as Mr. Graham suggests, because after the matter has been referred to the committee, this committee will still have power to decide what it will discuss. There is no need for us, merely because we have six matters referred to us, to get lost in the maze of the six when we want to discuss the first.

Mr. HILL: Before this bill is dealt with, I think we should have an assurance from some responsible authority as to what the government proposes to do to assist the farmers and fishermen, because otherwise it will come up continuously with reference to this bill. We have been told that the government was going to do something, but I think we should have some definite authority give us some definite assurance that something will be done to assist both the farmers and the fishermen.

Mr. ABBOTT: In the house several times I have reiterated the assurance that the government intends to propose at the present session of parliament measures to provide similar credit facilities for agriculture and housing.

Mr. HILL: You did not mention fishermen.

Mr. ABBOTT: I am not advised at the moment as to what provisions are contemplated with respect to fishermen. Whether that comes under agriculture or not, I do not know.

Mr. SLAGHT: And the same with regard to the miners of the country.

Mr. ABBOTT: And the lawyers. We may as well have assistance all the way along the line.

Mr. SLAGHT: I am serious in this.

Mr. MACINNIS: On a point of order, Mr. Chairman, may I say that this matter is out of order. We are dealing with a motion made by Mr. McGeer that the Bank of Canada report be referred to the committee. We are not referring to other matters such as the agricultural bank, the fishermen's bank, or the lawyers' bank, as Mr. Abbott suggests. They have always had access to all the banks. Let us deal with Mr. McGeer's motion which is perfectly in order. It does not compel us to do anything; neither does it retard us from doing anything.

Mr. KINLEY: Mr. Chairman, I do not see any reason why the Bank of Canada report should not be referred to this committee, but it seems to me that the motion is premature and is going to confuse the situation with regard to the consideration of a definite thing, a bill for a definite purpose. I quite agree that we will, as the bill is considered, try to make it serve our constituencies, and I intend to advocate a ceiling on the bill so that no big industry can get most of the funds. I think we could very well consider the Bank Act after we have considered this bill, and for that reason I would be inclined to vote against the motion.

The CHAIRMAN: Are you ready to vote on the motion?

Mr. CLEAVER: Is it your intention to call any witnesses today?

The CHAIRMAN: No, not today.

Mr. CLEAVER: Have we any reporter to-day?

The CHAIRMAN: Yes, we have now.

Mr. CLEAVER: If we are calling no witnesses today, I would move that we adjourn, because I do not think that we are getting anywhere.

SOME HON. MEMBERS: Oh, no.

Mr. McGEER: May I, Mr. Chairman, just say what I had in mind when I quoted this reference by Mr. Towers of the Bank of Canada to the unemployment problem. I heartily agree with the expression of opinion by Dr. Donnelly, but Mr. Towers is not dealing with the Bank of Canada in this report. He has gone away beyond anything that has to do with the administration of the Bank of Canada Act. He is giving to this committee, through parliament, and through this general report a very, very clear warning of the problem that we have to deal with. I assumed that, when he referred to "adjustments of unprecedented magnitude" this Industrial Development Bank is one of the things he had in mind. It is because Mr. Towers has apparently made a profound study of the situation that he sees developing, and has referred to it, that it seems to me that this report comes right into the picture of the principles on which the Industrial Development Bank is founded. That is why I think he should be with us on this report.

Mr. CLEAVER: Why should he not be called in to give evidence rather than considering the report?

Mr. MCGEER: I quite agree with Mr. Maybank that, even if it were merely for the purpose of being on sound ground, we should take the procedure that has been followed in the past, and that we simply request parliament to refer this report to us. Then we have it before us and we can deal with it without any question of being out of order.

Mr. MCILRAITH: As I understand the last part of Mr. McGeer's remarks, if the principle of the Industrial Development Bank bill comes squarely within the report or part of the report of Mr. Towers from which he has just read, then we are going to examine Mr. Towers fully as a witness here and we accomplish the same end by merely calling him as a witness; and that has already been provided for. There has already been a motion to that effect.

Mr. MCGEER: The problem, as I see it, Mr. McIlraith, is that we might find ourselves out of order on that very thing.

The CHAIRMAN: Are you ready for the question?

Mr. JAQUES: I am not sure as to how wide the discussion may be that will be allowed on this bill when we discuss the general purpose of it. Some members seem to think, or at least I gather that they think that discussion should be limited strictly to technical discussion of the bill itself. I do not see how we can discuss a bill of this nature unless we do have an almost unlimited sphere of reference. If we are just going to discuss the technical points of the bill, I do not think it is possible to have any intelligent discussion of it. I just wondered if you could tell us what the situation is, Mr. Chairman.

The CHAIRMAN: I think the committee will just have to use its own good sense.

Mr. BLAIR: Yes.

The CHAIRMAN: Are you ready for the question?

Mr. BLACKMORE: Before we vote on this motion, there is an observation that I should like to make. Probably we have come to the time when a new order must be introduced; and if a new order is to be introduced, if it must be introduced, it becomes the responsibility of this committee to take the lead, to assume the responsibility, to show the courage which is necessary. I believe that a discussion of the question as to whether or not a new order must be introduced and of the question of what must be the nature of a new order if we propose to introduce it, would properly be carried on in a discussion of the Bank of Canada report. I therefore would support Mr. McGeer's motion most heartily. I would say to the other members of the committee that such a procedure can certainly do no harm, and it might do a great deal of good. Before taking my seat, may I refer to the statement to the effect that we will become lost. I can conceive of no better way in which we can become lost than through proceeding to discuss the merits of a bank designed to fit into a system, the nature of which we do not know. The first thing for us to determine is what is the nature of the system; then we can judge the merits or demerits of a particular bank in relation to the general principles which we have laid down.

Mr. MCNEVIN: I am not averse to this committee giving consideration to the annual report of the Bank of Canada. But here we have a bill with a capitalization of $25,000,000. I think we should do things one at a time, and that we should get along and do something. If we get into all this, we are not going to be able to deal with this bill at all.

Mr. BLACK: I am going to support the motion. I cannot conceive of objection to the motion of Mr. McGeer and Mr. Slaght. The bill that we have before us for consideration has as its foundation the Bank of Canada, to start with; and the Bank of Canada is the foundation of the banking system in Canada. Therefore we, as a parliamentary committee, should have, not only for the purpose of discussion of this bill, but of every matter that is referred to or dealt with by this committee, the benefit of having this report placed before us. Therefore I am going to support the motion.

The CHAIRMAN: I will ask the clerk to read the motion.

Clerk reads motion: Moved by Mr. McGeer that the Committee recommend to the House that the report of the Bank of Canada for the year 1943, issued on February 10, 1944, by the Governor, Mr. G. F. Towers, be referred to this committee.

Mr. SLAGHT: I seconded that.

Mr. CLEAVER: I have an amendment which I should like to make. I hope we shall reach unanimity. After hearing the discussion that has gone on, I would move as an amendment, that the Bank of Canada report be considered after we have completed our study of the present bill.

Mr. SLAGHT: Oh, no. That is not an amendment.

The CHAIRMAN: We will have the vote taken.

Mr. CLEAVER: Are we voting on the motion or on the amendment?

The CHAIRMAN: We are voting on the motion.

Mr. JACKMAN: The amendment is out of order.

The CHAIRMAN: I think I must rule, Mr. Cleaver, that your amendment was out of order.

Mr. CLEAVER: Very well, Mr. Chairman; I do not appeal from your ruling.

Motion carried on division.

The CHAIRMAN: Gentlemen, we shall meet again on Thursday, when Mr. Towers and Dr. Clark will be present.

The Committee adjourned to meet again on Thursday at 11 o'clock a.m.

HOUSE OF COMMONS,

March 23, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Is it the pleasure of the committee to have a statement from the Deputy Minister of Finance, Dr. Clark?

Hon. Mr. HANSON: Before Dr. Clark begins may I express the pleasure I feel at being here and regret that I was not here on Tuesday, and make a request? This is the third revision of the Bank Act we are coming to. There are in the archives of parliament reports of the revision of 1923 and 1934. I would suggest, sir, that you arrange with the powers that be that the members of this committee be supplied with the evidence taken in 1934, and if anyone desires it, the evidence taken in 1923. It is very interesting and illuminating reading if you want something relaxing. I would also suggest that we be supplied in advance with copies of the present Bank Act as passed.

Dr. W. C. Clark, Deputy Minister of Finance, called.

The Witness: Mr. Chairman and gentlemen: I should like to speak about three or four points in connection with this bill which I think have been of interest to various members of the committee and of parliament. In what I say I shall try to reflect, as far as I can, what I believe to be the minister's understanding and approach to the bill, and to the particular problems I shall speak about.

First, I should like to say a little bit about why this bank has been proposed, what are the reasons for proposing it at the present time? In that connection I should like to make two main points. One is that I think there has always been a gap in our existing financial structure, a gap which has not been filled by the various types of private financial institutions which have developed in this country, and which this bill is intended to fill. It is intended definitely to supplement existing institutions rather than to supplant or compete with them.

Let us see just what I mean by reference to a gap in our financial fabric. I might take the case of a new small or medium sized industry. I think Mr. Abbott in one of his speeches in the house perhaps made sufficient reference to the new type of enterprise, using that as an illustration of the kind of thing that the government had in mind.

By Hon. Mr. Hanson:

Q. Was that in his first speech?—A. I think it was in his closing speech. He used the illustration of a new enterprise. I think also you are all familiar with the difficulties which small new enterprises having in getting started in this and in other countries as well. As an illustration of what I have to say about the gap I should like to take an existing enterprise, one that is short of capital, needs more permanent capital either because of rapid expansion in business or for some other reason.

Let us take a little company that may have been started fifty or seventy-five years ago by a man who built it up to proportions adequate to that day. Perhaps it has passed down now to two or three of his sons or one of his sons and they have provided good management, are making a good product and the demand is increasing rapidly. They have only $10,000 or $15,000 or $25,000 or $30,000 in the business, perhaps a little more, perhaps a little less, but under current conditions they may need a substantial amount of additional working capital. It may be $100,000, $200,000 or $300,000 which they may need to build an extension to the plant or put in new machinery and tooling. Let us say for the sake of illustration that they need a couple of hundred thousand dollars.

Q. Dr. Clark, did you use the expression "current conditions"?—A. Yes. I am speaking about the level of activity and income.

Q. Did you mean war conditions?—A. I am not thinking especially of war conditions; it is really post-war conditions. They go to a chartered bank and make a request for a line of credit or advance of a couple of hundred thousand dollars. They have only this small amount of capital in their business and the bank says to them, naturally and rightly, "Are you going to be able to pay this off at the end of a year or in a year or two"? Chartered banks normally like to see loans cleaned up each year, and provide the surplus working capital that is necessary to carry on industry and commerce. The answer has to be, "No, we cannot pay this off; we are not likely to be able to pay it off in a year or two." What the banker says is, "What you ought to have is more permanent capital in your business, more stock or more funds raised by a stock issue or by a bond or debenture issue."

I want to say that the bank is perfectly right. There is no criticism that can be made of the bank for taking that point of view because that is not the purpose for which chartered banks have been set up.

Q. It depends on the term that he wants, does it not?—A. Partly on the term and partly on the amount of capital that is required, partly on the amount of security that may be taken or ought to be taken to safeguard that kind of loan.

Q. You are talking, of course, of a loan for capital expansion and not working capital?—A. I am assuming primarily for capital expansion although there will be cases where there ought to be more permanent capital in the business to provide some working capital which a chartered bank could supplement.

Q. What is the ratio?—A. It is permanent capital, working capital, needed year in and year out, and most businesses ought to have some of that capital as permanent capital.

Q. All right, what is the ratio of working capital required in an enterprise as against borrowings?—A. It varies with every business, every industry. I do not think you can lay down any fixed ratio. Anyway, the banker gives his answer.

Q. Would two to one be a fair ratio?—A. Oh, it would vary. I think two to one might be all right in some industries, three to one, four to one and some a good deal more than that. The banker sends this man off to get more permanent capital in his business. Where does he go? He goes to an investment dealer, investment firm, and what do you find there? The investment dealer is probably very anxious to do business, to get a stock or bond issue which they can sell to the public, but if the amount is only for $200,000 or $300,000, or if this concern is not generally known—and it would not be under the conditions I have assumed, it would not be generally known throughout the country—it is practically impossible for that investment dealer to sell a bond or stock issue.

Q. Do you mean to say he could not sell preferred shares?—A. Very rarely.

Q. Well, it is done.—A. Yes, it is done occasionally. In New York they used to say that any firm that wanted a security issue for less than $1,000,000 had no chance of trying to raise the money in New York. It just could not be done. Here in Canada you can sell issues smaller than that, but you would probably find that if the issue is for an amount up to $500,000 or $600,000 it is going to be very difficult to get an investment dealer to underwrite such an issue and sell it, particularly if the company is not nationally known, has not a reputation, has not a back record of very satisfactory earnings, and so on.

What does the individual or this group of two or three brothers do then? In the occasional case again they might be able to get a loan from an insurance company or mortgage and loan corporation, but there the conditions have to be pretty favourable before they can get such a loan.

Q. It depends on the type of business?—A. Oh, yes, it depends on the type of business and the past record, and so on. Usually that kind of case that I am mentioning will not be able to get that capital unless the individuals concerned can find an angel, for instance, who is prepared to put up $200,000.

Q. Sugar daddy is the word?—A. Sugar daddy, and usually the sugar daddy if he puts up that amount of money wants to have control of the enterprise. He might want 51 per cent or more of the stock, or something of that sort. That is one type of case that the minister has in mind.

The other type of case is the brand new enterprise without any record behind it, perhaps with the public not knowing anything about the individuals who are proposing to start the new enterprise. Under the set-up of this Act such individuals could go into the Industrial Development Bank and present their case to the management of that bank and the bank would have the powers that are outlined under section 15 of the Act, "Lend or guarantee loans of money," or "Enter into underwriting agreements in respect of the whole or any part of any issue of stock, bonds or debentures of a corporation engaged in or about to engage in an industrial enterprise in Canada." Notice the words "enter into underwriting agreements in respect of the whole or any part of any issue." Then, "Purchase or otherwise acquire with a view to resale thereof, the whole or any part of any issue of stock, bonds or debentures," and so on. I think that in an institution with that kind of power the type of case that I have been referring to should be dealt with wherever there is a fair and reasonable chance that the enterprise is likely to succeed under conditions of high employment and high national income.

By Mr. Graham:

Q. Dr. Clark, as a side light would I not be correct in that case you mentioned that it would put that particular business in a very receptive mood if they could not get the capital required to listen to the big shots who would want to merge, take them over, and thus put an end to their troubles as to financing? —A. I think that might be the only resort. The second point that I wish to make is that while this gap under our financial structure has always been there, has been there for a long time in this and most other countries, and should be filled, I think it is very important that it should be filled in the post-war period into which we are coming at some time in the future. You have got in addition to the ordinary requirements of new enterprises and these expanding small or medium scale enterprises the reconversion requirements, the switch from war to peace economy which is going to require capital. It seems to me also you are going to have many new opportunities for new industrial enterprises based on the commercial application of many of the scientific developments that have occurred during the war in the electronic field, the plastic field and a great many other fields where technological developments during the war have been of astounding proportions, and where I hope we can make similarly great advances during the post-war period by applying the new science now learned, the new knowledge, to the needs of peace, to ordinary civilian requirements.

If we can fill up that gap which I have been talking about I think we will be in a much better position to promote what I think every section of the committee would like to see, an expanding economy after the war with a high level of national income, employment and productivity. It is adding just one other stone to the financial family. It may not be the coping stone but it is an important and much needed stone. If you go back over the history of the last ten years or so you can see that one step after another has been taken to fill out, round out, make more comprehensive and better integrated, the whole financial structure of Canada, the setting up of the Bank of Canada, the improvements made, developing and improving the short term money market, the central mortgage bank in the mortgage and long term loan field which has not been put into effect but presumably it, or something along that line, will have to be done after the war.

The government has indicated in addition to this bill you will have something in the field of the guarantee or insurance of export credits to facilitate export trade in the post-war years when such assistance may be greatly needed. I think also that Mr. Abbott has referred in the house to developments in the field of intermediate agricultural credit. This is one of the steps that have been and are being taken to fill out, round out, the financial structure.

The second general point to which I should like to refer for a few minutes is why do we propose to set up the new agency as a subsidiary of the Bank of Canada? The members who have discussed this I think have approached it from two angles. I think there are some who have suggested that perhaps it should be a private institution set up perhaps in some way by the chartered banks and other private financial institutions. I think that is a legitimate case for discussion. In considering that, note these points which I think are the ones which weighed with my minister in recommending the set-up which is proposed in this bill. As I have just said, the first point is that this is an institution which is being set up to do certain things which private enterprise has not done in the past and which, in my opinion, it can scarcely be expected to do. I do not think what I have said indicates that criticism should be made of the chartered banks for failing to make this type of loan, or of the investment dealer or other institutions. The type of loan intended here is a type which private institutions, as we have set them up in this country under the laws of this parliament for the most part, are not equipped to do and probably should not do. The new institution here is intended to supplement the kind of thing which private enterprise has been doing in the past.

In the second place I would point out that the chances of profit in the operation of an institution like this are, I think, very modest, and the risks are probably considerable. I believe there are not great chances of profit, or profit wholly commensurate with the risks that may have to be taken. The profit possibilities in relation to the risks are not, I think, such as to attract private capital to this kind of business. Therefore, it seems to me appropriate that the type of institution you set up to perform this function should be essentially a non-profit making institution which goes out to render a service that is needed rather than to make profits primarily.

By Mr. Graham:

Q. Is there a greater possibility there will be losses?—A. I think that will depend on the competence and good judgment shown by the management. Undoubtedly there will be some losses made. Perhaps Mr. Towers could speak far more effectively on this than I can. There will undoubtedly be mistakes made even by the most competent and most efficient of managerial set-ups which you could provide for an institution like this. There are losses in all kinds of lending and the fellow who does not make any losses is probably the fellow who does not make any loans at all. You can turn down all loans and you will save yourself from making losses. However, what we are thinking of here is an institution which will make loans, or give guarantees, where there is a fair and reasonable chance that the industry will succeed, that it is making a product for which there is a demand, that there is sound and relatively efficient management. If we get a reasonably efficient management what I would expect is that there would be a modest or relatively moderate profit rather than large profits.

By Hon. Mr. Hanson:

Q. That is just a pious hope, is it not?—A. You may say it is a hope. To me it is a belief. I have confidence in that appraisal. Perhaps we might look at it five or ten years hence and see whose guess is right.

By Mr. Tucker:

Q. It depends on the administration?—A. It depends wholly on the administration.

Q. The banks are intended to help new businesses but will only help new businesses with assets to pledge for the loan that you get. If you are going to help new business you are bound to have losses.—A. That is what I say. Under this heading our success in maintaining a high national income and high employment after the war will depend to an important extent on government policies both in the domestic and in the international field. The success or failure of the kind of marginal or residual industrial enterprise with which this bank is likely to be concerned will therefore depend to a very substantial extent on the success or outcome of the government policies. For that reason it is believed that a government agency is in a better position to operate in the field than any private institution, because it is in a far better position to estimate or appraise the outcome of those policies.

By Hon. Mr. Hanson:

Q. And it also depends on the taxation. This bank will pay no taxes while private enterprise will have to pay taxes?—A. Yes.

Q. I should like to attract some attention to that aspect.—A. Is that question pertinent here?

Q. It is pertinent to your statement made just a minute ago.—A. I have been talking about the proposal to set up a private corporation of some sort instead of this government agency to make this type of loan. I do not think that the success or failure of this institution is going to depend on the tax structure essentially.

Q. Do you not think it is an element?—A. It is an element. I do not know what you are thinking of, Mr. Hanson, whether you are assuming a continuance of tax rates on the present basis of excess profits taxes, and so on?

Q. I am thinking about taxes on the industry itself.

The CHAIRMAN: Excuse me, the reporter is having difficulty in getting your remarks.

Hon. Mr. HANSON: Perhaps we had better let Dr. Clark continue and then he will be re-called for cross examination.

The WITNESS: So much for the alternative.

Mr. KINLEY: I think I must intervene here. Dr. Clark has been stressing the idea of a private bank. I never heard that in any speech. He said that some were advocating that. The thing is whether it should be an interlocking directorate as a public bank with the Bank of Canada.

The WITNESS: That is what I am coming to now.

Mr. MCGEER: I do not think we have anybody in the House of Commons who would suggest that this should be a private corporation in view of the success of the Bank of Canada.

The WITNESS: The government had before it two alternatives. I have dealt with one. Now I am coming to the other. The second one is that it should be set up as a government corporation independent of the Bank of Canada, not interlocked, as you say, with the Bank of Canada. In this connection it is said it is unwise to mix the functions of the Industrial Development Bank with the primary central bank function which is the control or regulation of the volume of money and credit in circulation. On that point I would just like to make these comments. It is true that most central banks do not engage in ordinary banking operations. Nevertheless there is a precedent for the tie-up of this type of thing with central banks. I think various speakers in the house have referred to the Bankers Industrial Development Corporation in England set up under the auspices of the Bank of England, and also to the industrial loaning program of the Federal Reserve Banks of the United States administered under section 13(b) of the Federal Reserve Act.

There is a precedent for setting up this bank as a subsidiary of the central bank. In the second place under any form or organization there will be necessity for the closest possible co-operation between the Bank of Canada and the Industrial Development Bank. The Bank of Canada is the channel through which the monetary policy of the government is put into effect. The operations of the Industrial Development Bank will naturally have to dovetail into the country's monetary policy.

By Mr. McGeer:

Q. Would you say that this is modelled after the English practice?—A. No, I would not say it is modelled after the English practice.

Q. It is pretty similar to it. It is a subsidiary. What do you call that bank in England?—A. The Bankers Industrial Development Company.

Q. It is a subsidiary of the Bank of England in exactly the same way as this is.

Mr. TOWERS: Not wholly owned, only partly owned.

Mr. McGEER: Subject to that distinction, but the Bank of England is virtually the dominant head of that bank. I think we will agree on that.

The WITNESS: In this connection I think the preamble is pertinent.

> Whereas it is desirable to establish an industrial development bank to promote the economic welfare of Canada by increasing the effectiveness of monetary action through insuring the availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular consideration to the financing problems of small enterprises.

Rather, therefore, than provide for a separate form of government corporation and then try to bring about the necessary co-operation or co-ordination between the new government corporation and the Bank of Canada the government thought it more efficient and sounder to make the Industrial Development Bank a subsidiary of the Bank of Canada.

In the third place I should like to make a point which I am sure Mr. Graham Towers will not like. I am going to make it, anyway. It is that the government has great confidence, and I think rightly, in the management of the Bank of Canada, and believes that management can arrange more efficiently and economically for the carrying out of the difficult role which the Industrial Development Bank will have to play, provide a more efficient and economical arrangement than any new corporation built from the ground up almost over night.

Finally, the new function given to this subsidiary of the bank will not, I think, interfere in any way with the primary function of the central bank in regulating and controlling the volume of money and credit in circulation. On the contrary I would think that it might assist in enabling this main function to be carried out more efficiently because of more intimate contact with the Bank of Canada will hereby have with the conditions and the problems of small and medium sized industries throughout the country. I think it is an important point that this bank's work, this kind of function, will bring Mr. Towers and the management of the central bank more constantly and more intimately in touch with the conditions and problems of small business throughout the country.

The last point that I wish to refer to is the size of the bank, the question whether a $100,000,000 institution is sufficient to do the job. Under that head I should like to say first that $100,000,000 after all is a pretty large figure in spite of the ease with which we talk about billions of dollars these days. It is a pretty substantial figure. I think Mr. Abbott contrasted it with the couple of hundred million dollars of industrial loans by the chartered banks prior to the war. Secondly, it was thought wisest to start this bank modestly because we were breaking new ground, and to give parliament an opportunity to see how the new institution would work rather than start with a very grandiose scheme. In that connection if more funds are shown to be needed as the bank acquires experience in the next year or two it will be easy, presumably, to come back to parliament and request that the capital stock and the assets available to the bank be raised. That method of procedure will enable parliament at that time to review the operations of the bank, to see the function that it is performing, the need which it is filling, and to decide whether or not its assets, its size, its magnitude should be expanded. I think, Mr. Chairman, that is all I need to say at the moment.

The CHAIRMAN: Are there any questions that you desire to ask?

Hon. Mr. HANSON: Should we not have the text of this statement before we examine on it?

The CHAIRMAN: Shall we go on with the statement of Mr. Towers?

Hon. Mr. HANSON: That is just my suggestion. I do not want to force my will on the committee.

GRAHAM TOWERS, Governor of the Bank of Canada, called:—

The WITNESS: I have very little to add to what Dr. Clark has said. I think I should like only to endorse the remarks which he has made in regard to the existence of a gap in our present credit facilities. I think that might bring to people's minds the question, "Did this gap always exist; is it greater now than it used to be or not?" I think the answer is that the lack of facilities under modern conditions presents a more serious impediment to the small enterprise than was the case twenty-five or more years ago. Some considerable time ago if a small but progressive business concern found that the type of credit facilities which it needed were of such a term they could not properly be obtained from a commercial banking institution, were of a size and character which did not lend themselves to be supplied through the form of a bond issue or preferred or common stock issue in the general market, that small enterprise turned to individuals to try and obtain additional capital. It is still open for the small enterpriser to do so, but I think the difficulty which he would experience nowadays in interesting individuals in putting additional capital in a minority position in a small enterprise is much greater than it was twenty-five or thirty-five or more years ago.

By Hon. Mr. Hanson:

Q. Why do you say that?—I think you are perhaps correct, but why do you say that?—A. I say that first of all because the increase in savings of the type of person who had accumulated sufficient to put it into a small enterprise is, of course, greatly effected by modern income taxes. Furthermore, that individual has to think twice before he puts $25,000, $50,000, or whatever it may be, into a minority position in a small concern because some day or another in the natural course of events death will overtake him. His estate will then be in possession of a minority interest in a small enterprise with which they might find considerable difficulty in turning it into cash, in finding a market, in other words.

By Mr. Breithaupt:

Q. Because the stock at that time may not be listed and there is no market? —A. In all probability it will not. His estate faces the problem of raising cash for succession duties and yet having in this particular stock an asset which it is very difficult to realize on except perhaps at considerable sacrifice.

By Mr. Kinley:

Q. You are assuming he will buy stock and not lend the money?—A. In the ordinary course of events I would think he would buy stock.

Q. Be a minority shareholder to a large extent?—A. Yes, possibly, although that has never been easy in itself.

Q. It is not very attractive.—A. He may come in in some form of partnership participating in the business. There are all kinds of permutations and combinations. What you suggest has never been easy, and I agree with that, but I would simply suggest that for the reasons I have mentioned it is a good deal harder nowadays to interest individuals in putting in capital in a small enterprise unless they are ones which they are managing and trying to build up themselves.

By M. McGeer:

Q. Why is that?—A. Taxation.

Q. In other words, we are taxing ourselves out of private enterprise and taxing ourselves into a state of public aid or public ownership?—A. I think there is a tendency in that direction. I do not think the war situation can be cited as an example because during a period of war it is necessary to do things which may not be applicable in peace, but that the tendency existed before the war I think was also true although naturally not nearly to the same extent. I think, Mr. Chairman, that is all I would wish to say.

The CHAIRMAN: What do you suggest as to procedure? Shall we wait until we have printed copies of these statements or proceed with the examination now?

Mr. TUCKER: Mr. Chairman, I should like these gentlemen to deal with some points that have been raised. They must be prepared to do so. Then they could be asked questions on them. One point that was raised was why the Industrial Development Bank should not be permitted to obtain money on rediscount from the Bank of Canada at say 1 or 1½ per cent instead of having to go and sell bonds that are not guaranteed by the government in the market. Admittedly they would like to be able to sell them at no lower yield but in view of the fact they are not government guaranteed and that a very small profit is possible in this enterprise the Industrial Development Bank could not hope to sell bonds, in my opinion, at any less than 4½ or 5 per cent interest. Assuming the cost of operation of a bank is around 2 per cent, as Mr. Towers has told us before, it would mean that they could not lend money at less than 6½ or 7 per cent. The suggestion is made that this Industrial Development Bank should have the right to go to the Bank of Canada the same as the chartered banks and get money from the Bank of Canada at 1½ per cent the same as the chartered banks instead of having to go into the money market and get it at 5 per cent. That was raised in the House of Commons, and I do not see any reason why it should not be dealt with now. Then there is the other point which was raised also in the House of Commons that if the Bank of Canada has the dominating say as to what loans shall be made they will have to be extra cautious in the making of loans, as Dr. Clark has pointed out, for fear of bringing the management of the Bank of Canada into contempt with the whole banking community. In other words, a separate institution could operate purely for public purposes and for the sake of stimulating enterprise could afford to take losses, but if the Bank of Canada did that the whole banking community would say, "Well, the Bank of Canada management must be slipping; they cannot even manage their own business and they are undertaking to manage the business of the whole country." Those are two points which were made very strongly in the House of Commons and I suggest that they should deal with those questions and we can ask questions on them afterwards.

The WITNESS: As to the first point, the question of the desirability of the Industrial Development Bank having the right to rediscount from the Bank of Canada, I do not think that will be necessary because it is proposed that the Bank of Canada should be authorized to buy the securities of the Industrial Development Bank. These securities, of course, can be issued for any term. They may be one, two, three or fifteen years, provided that those in excess of ten years are limited in amount in so far as the Bank of Canada holdings are concerned. If certain needs of the Industrial Development Bank are temporary in character, that is, of a character which would have caused them to rediscount if they had the authority to do so, it is open to them to issue a short term security which can be bought by the Bank of Canada at a rate not in excess of the rediscount rate. Secondly, in regard to the cost of financing which the Industrial Development Bank will incur by the sale of bonds or debentures, as I have already mentioned, the Bank of Canada is to be authorized to purchase, and the Bank of Canada will have certain considerations in regard to the value of these bonds or debentures. It will take into consideration that the concern has a paid-up capital of, shall we say, $25,000,000, that its total liabilities are not to exceed, including capital, $100,000,000. In other words, there is a very substantial proportion of capital in relation to other liabilities. We would feel that these securities should sell on a basis approximately as favourable as government guaranteed bonds, and I would be prepared to say that is the basis on which they will sell.

By Hon. Mr. Hanson:

Q. You are prepared to say that?—A. Yes. If I were not prepared to say that I must also be prepared to say that the risk of loss is such that not only would the $25,000,000 capital disappear but that further capital then would not be forthcoming. I certainly would not be prepared to say that.

Q. You admit there is a risk of loss?—A. Most decidedly; I am coming to that now. The other thought expressed was that management by the Bank of Canada might not be the best type of management having in mind the purposes of the institution.

By Mr. McGeer:

Q. Just before you leave that other point, the point that was raised, Mr. Towers, was not just the one you have covered. As I understood it the point that was raised in the House of Commons was why this bank, which presumably had to get money for needy industry at the lowest possible cost, should have less right and power to acquire capital finances than the chartered banks have. When chartered banks borrow from the Bank of Canada, or acquire Bank of Canada cash, they have the power to multiply their capital finances for loaning purposes up to nine times. I am taking borrowing practice. Legally they can expand it up to twenty times, but in normal banking practice they do it up to nine times. Here is a chartered bank which borrows money from the Bank of Canada at your new rate of $1\frac{1}{2}$ per cent. It multiplies its capital finances by nine times without paying anything in the way of interest rates at all. Here the Industrial Development Bank comes forward and it is proposed to go in the open market and sell its bonds to acquire capital finances to reloan to needy small companies, and to compete with the chartered banks.—A. Theoretically chartered banks could borrow from the Bank of Canada and expand their liabilities in the way you suggest.

Q. They do, do they not?—A. No, they do not. The Bank of Canada would not make loans to chartered banks of a continuing character. They must necessarily be very short term. Secondly, even if the Bank of Canada were willing to loan to the chartered banks for the purposes you mentioned, which we are not and will not be, even if we were willing it would be unprofitable for the chartered banks to develop their business on that basis because they cannot afford to develop it on the basis of paying $1\frac{1}{2}$ per cent for the money. They extend their deposits in the way you mentioned, and they have to pay interest on those deposits on average.

By Mr. Tucker:

Q. Which costs them on the average how much? What is the average amount paid by the banks on their deposits?—A. About ·6.

Q. So they get their capital at ·6 per cent and you are requiring the Industrial Development Bank to pay at the very least 3 per cent?—A. Pay how much?

Q. They get their capital at ·6 per cent and you are requiring the Industrial Development Bank to pay to either you or the public at least 3 per cent?—A. No, not necessarily; it depends on the term.

Q. Under present circumstances?—A. No, it depends on the term of the obligation which was issued.

Q. These would be long term bonds?—A. Not necessarily because not all loans will be long term. The average length may be not fifteen years, but six or seven or eight.

Q. What is the average interest paid?—A. I should say a four year show would be about 2 per cent.

Q. But you said the average would be six years?—A. Call it two and a quarter.

Q. So in one case you are requiring the Industrial Development Bank to pay $2\frac{1}{4}$ per cent while the chartered banks get their capital at ·6 per cent for money which they reloan, credit they reloan?—A. There is one cost factor which you have left out, and it is infinitely more important than the interest charged, the cost of operation.

Q. Does the Industrial Bank not have cost of operation, too?—A. Not for taking deposits, and servicing them.

Q. It will have to pay employees for the sake of making loans and collecting them?—A. Yes. If one goes into the deposit business it is necessary to have a large number of branches and to have the staff to deal with cheques and other forms of bank deposits. I have no hesitation in saying that if the Industrial Development Bank were given power to take deposits from the public and if it wanted them in any volume it would naturally have to open offices and provide the staff for the operation of those accounts. I have no hesitation in saying that I believe the cost of the Industrial Development Bank obtaining funds in that manner would be greater than doing it by the sale of bonds or debentures.

Q. But the point, Mr. Towers, that we were dealing with was the establishing of a set-up whereby the banks are able to get their credit at ·6 per cent plus what it costs them to operate.—A. That is about 2 per cent more.

Q. Of course, that includes taxes?—A. No.

Q. You told us in the Banking and Commerce Committee in 1939 that it did include taxes?—A. Yes, I am speaking from memory.

Q. I have looked it up.—A. I could supplement my remarks later.

Mr. Graham: Mr. Chairman, may I suggest that Mr. McGeer asked the witness a question and I was interested in the answer. I am also interested in what Mr. Tucker is developing, but I would like to hear a completed answer to Mr. McGeer's question. I suggest we adopt the practice of allowing the witness to answer the question asked by a particular member.

Mr. Tucker: I thought I was following up the question.

The Witness: I think for all purposes, and again subject to correction, I had better say $1\frac{1}{2}$ ex taxes is my present guess. I say that without having gone back to my file.

By Mr. Tucker:

Q. Even on that basis you are letting the banks get capital roughly at slightly over 2 per cent and you are going to require this bank to pay more than that— —A. I should think that the banks on the basis I have mentioned—and this is subject to my amending it later on because I am speaking from memory—their costs ex taxes could be called about $2\frac{1}{4}$ per cent. I do not think that the average cost of the Industrial Development Bank will be more.

Mr. McGeer: We shall probably have the banks before us this year and likely get something better than a guess on that.

The Witness: I think so.

By Mr. Tucker:

Q. The point was that by virtue of our national set-up we have enabled the banks to get their credit from the government, leaving out of account cost of operation of ·6 per cent. If the purpose of this bank is to assist in the development of industry in the country, leaving aside everything else, why should not we say that we shall, leaving aside cost of operation, let the Bank of Canada supply credit to the Industrial Development Bank at the same cost as the banks get their credit, leaving aside cost of operation, which in one case is ·6 per cent and in the other case it is going to be somewhere around $2\frac{1}{2}$ per cent?—A. The Bank of Canada does not supply loans to the commercial banks as a steady diet.

Q. No, but what you do as a matter of fact is even better than that. You actually buy government bonds and supply the cash to people who take it into the banks giving the banks use of it at the average cost that they pay their depositors?—A. Plus operating expenses, yes.

Q. Leaving aside operating expenses, the Bank of Canada to-day is supplying credit to the chartered banks to do business at a rate of ·6 per cent; that is true, is it not?—A. The public are.

Q. The public and the government?—A. The public really, because they are the ones who leave the deposits there.

Q. You make it possible for the public to buy bonds or you pay currency out which they can take and deposit in the bank?—A. Yes.

Q. Between the Bank of Canada and the public under the national financial set-up credit is supplied to the banks which they can loan at the cost, outside of operating expense, of ·6?—A. I do not see how one can leave out operating expenses. It is really almost like saying that if a concern which is making an automobile finds it can get the materials for $100 and leave aside labour they can produce a car at $100; but as labour is the main factor in the construction of that automobile no one ever mentions in assessing the cost of a car—no one ever speaks of material; they go on and assess the cost of the labour.

Q. Yes, but if you leave aside operating expenses you can secure the operating expenses afterwards. If you borrow money on the sale of long term securities it is going to cost you well over $4\frac{1}{2}$ per cent and you will have to pay operating expenses, won't you?—A. In the Industrial Development Bank or any other bank we can get that credit at ·6 unless we are willing to spend the money for operating expenses, so that the expenses and the interest are absolutely indivisible and inseparable, and we cannot do the one without the other.

Mr. McGEER: Of course, you have no way of telling what your operating costs are going to be with the Industrial Development Bank because you are going into a field of unknown enterprise, and probably one of the heaviest items—

Hon. Mr. HANSON: Could you estimate that cost?

The WITNESS: No.

Mr. McGEER: —probably one of the heaviest items in cost of operation in the banks is bad debts. It may not be one of the heaviest, but it is substantial.

Mr. TUCKER: Of the chartered banks.

Mr. McGEER: Of the chartered banks. Now, that cost is certain to lump in the picture of the operation of this bank. So when you say, as you did a moment ago, that when you compare cost of getting the finances as between the chartered banks and the industrial bank you have to take into consideration the cost of operating the deposit system, while if you compare the cost of operating the Industrial Development Bank, keeping in mind, as you have said, the danger of loss, that cost probably will not be much less than the chartered banks' cost, so I say that if you state the cost of getting these finances first and then deal with the relative position of the operating costs of both institutions as apart from the cost of securing the capital finances required we will have a better understanding of the picture and less confusion. The point I raised was not a question of operating costs either of the industrial bank or the chartered banks but the question of what the capital finance costs before it is moved into operation at all; and that must be confined to the method of securing that capital finance. Why a publicly owned industrial bank should have to go into the market and borrow to re-loan when the chartered banks are not put to any such expense at all is something that I think the average citizen of Canada would want to be informed about.

The WITNESS: Of course, Mr. McGeer, I do think that is a point which should be cleared up, because unless we can agree what the chartered banks do it is very difficult to talk about what the Industrial Development Bank does.

By Mr. McGeer:

Q. I agree with you; and let us confine ourselves to the cost of capital finance.—A. You told us that the chartered banks do not have, as you say, to go into the market to finance, but that is just what they have to do, because they have to obtain and retain the deposits which the public make with them.

Q. Where else would they deposit them?—A. They nevertheless retain them and have the cost of operating.

Q. There is no place else to go.—A. Oh, yes, there is; it is possible to go into Bank of Canada bills or to put it into a mattress. That is exactly what would happen if there was any doubt with regard to the solvency of the banking system. As a matter of fact, there is a substantial amount of notes held in that form right now—not due to doubts with regard to the banking system but due to a certain preference which individuals have or seem to have.

By Mr. Tucker:

Q. The effect of that is a loan to the government without interest.—A. Unfortunately, not without interest because it costs money to print ciculation and keep it in order. You might call it the equivalent of a loan at about five-eighths of one per cent.

Q. You would have no competitive loans being made in large quantities—A. Well, from the narrowest selfish profit-making point of view, no, but in the interest of the general public, yes. I do deprecate it, because so many who cannot afford it tend to lose their small supply of bills because they have fallen into the stove or gone down the drain, or someone steals them.

By Mr. McGeer:

Q. But you have maintained ever since the Bank of Canada was incorporated or commenced business what is commonly known in bank parlance as an easy money policy which, as I understand it, provides the chartered banks with their reserves of cash?—A. Yes, we are in the interest on the bonds and they hold the cash without any earnings on it; it is rather a profitable operation for the Bank of Canada and the government.

Q. Well, the government pays you and you return the money to the consolidated fund?—A. Yes.

Q. It is a rather useless financial piece of bookkeeping. However, we will deal with that later. But you have maintained as a matter of policy keeping the banks supplied with cash at no interest charge to the banks?—A. Oh, yes.

Q. In the main?—A. Oh, yes.

Q. Could you tell us how much interest they ever paid the Bank of Canada? —A. The banks find that they have, shall we say, ample or at times high cash reserves because we have bought securities from Tom Jones and they have deposited the proceeds of that sale in the banks. The banks find that they have this idle cash that they have not asked for and on which they earn no interest.

Q. The point is, Mr. Towers, that you have actually maintained the policy in the Bank of Canada of providing finances through your easy money operations at no cost to the banks. I mean if I buy a bond and hand the government the credit and the government spends that when the recipient of that expenditure of Bank of Canada cash deposits it with the bank and it becomes the property of the bank; they do not need to borrow from the Bank of Canada at the bank rates; is not that correct?—A. Yes, that is not done at no cost to the bank.

Q. I am not saying it is not done at no cost to the bank but I am saying that the cost of securing that capital finance is not one of the items of cost? —A. Yes.

Q. That is correct, is it not?—A. No, it is not.

Q. Where does it come in?—A. Because in taking the deposit it costs the bank money.

Q. It costs the bank money to operate that deposit but it does not cost the bank anything to get the money?—A. They may pay interest on it.

Q. To what extent?—A. $1\frac{1}{2}$ per cent.

Q. Will you give us a statement of the interest the banks have paid to the Bank of Canada for the last five years, or since you started?—A. No, I do not mean to the Bank of Canada—to the customer who makes the deposit.

Q. That is again something separate and apart from the cost of securing the capital finance.

Mr. MAYBANK: Mr. Chairman, it is not just the easiest thing to catch what is being said by Mr. McGeer and the witness, and with all due respect to Mr. McGeer I wish to say that he is interrupting the witness too often and in so doing does not make it any easier for us. I know that the interruption is not intentional, but there is quite a lot of interruption of the witness as he attempts to give an answer, and I would ask that the members be more careful.

The WITNESS: I am awfully sorry to be so obstinate, but I cannot separate the two costs, that is the pure interest cost which the banks pay on deposits, whatever it may be, and the costs of providing the facilities which enables them to have those deposits. I cannot separate the two things. I cannot say: Well, interest cost is only ·6; and then proceed to consider some of the main features of banking operation with that ·6 in mind and say: Oh, well, we will think of the operating cost some other time; the two things are together. So to my mind the cost of the bank's financing with the public is what they do by retaining the deposit accounts and operating them for the account of the customers; and to my mind that financing cost is something of the order of 2 or $2\frac{1}{4}$ per cent. As said earlier, perhaps more accurate figures will be available later on, but I say this now because it is approximately correct.

Hon. Mr. HANSON: Mr. McGeer has suggested to Mr. Towers that there is a paid capital fund supplied to the chartered banks by the Bank of Canada without cost to the chartered banks; is not that your point? I would like the witness to elaborate on that. Is that correct in the first place? I do not know; I am asking for information.

Mr. SLAGHT: The Bank Act gives the power to the banks themselves to create the money with a bookkeeping entry.

The CHAIRMAN: Suppose we allow Mr. Towers to answer the question.

The WITNESS: The scent or the aroma of the reply is extremely important because it can be pushed either way. I think I will put it this way: if you had it in your power to print dollar bills yourself, if you had a printing press in the back garden—which I hope is not the case—and if you could print some of those bills and go to the corner grocer and buy a month's supplies with that paper you have provided the grocer with paper without charging him any interest other than he is giving you the goods, and I think you would have no hesitation in believing that you had perhaps the best of that particular transaction.

Hon. Mr. HANSON: Your answer is that the situation suggested by Mr. McGeer does not exist?

The WITNESS: I think that one thing we should guard against is the belief that it is a privilege for the banks to receive paper money in exchange for interest bearing securities. It is not a privilege, it is rather a responsibility and a liability. So that if the Bank of Canada takes steps by buying securities to force into the hands of the chartered banks a substantial amount of cash that is a liability in essence, an operating liability, so far as the banks are concerned if it forces into their balance sheet, shall we say, a substantial amount of non-earning assets. At the same time as that is happening the deposits of the public with the bank are increased, the bank's costs for payment of interest have increased, their operating costs have increased, and on the asset side what have they? Anything earning money? No; Bank of Canada cash. As they receive that additional cash due to our operations—received by assuming liabilities in the form of deposits, not as a gift—they have to struggle to try to overcome the disability to which we put them by forcing this additional cash into their hands at the cost of making them increase their liabilities to the public and their payments of interest and also their operating costs. They try to overcome that disability by adding to their earning assets.

By Mr. Tucker:

Q. I wonder if I could suggest this: when we met in 1939 there were members of the committee who were very anxious to know the exact cost of the banks' operations in regard to the cost of running their deposit system and the cost of financing their loans and covering their losses and all the rest of it. Now, Mr. Towers at that time made a guess of 2 per cent which covered taxation and the cost of doing business and covering losses on their loans and everything, as I understood. Now, here we are meeting again eight years later, and I think that as a committee conducting this hearing on behalf of the people of Canada that the people of Canada would like to know just how much it does cost the banks to get that credit—that is to operate the deposit system, to pay the depositors and to maintain their properties to the extent which it is necessary just to receive deposits, leaving out of account the losses. The losses have to enter in but I think we are entitled to have it broken down as to what it does cost the banks to get their credit, what they pay their depositors, what it costs to keep the doors open to receive deposits to get that credit, and if the Bank of Canada or the Department of Finance wants to put in also the cost of covering their losses that should be put in too, but I think they should be broken down. I do not think we should be asked to do business on guesses; we should have the exact figures, and then we can see whether we are asking the Industrial Development Bank to pay more for their credit than we are asking the chartered banks.

Mr. Slaght: I suggest that Mr. Towers cannot give us that. We have to go into this whole matter of Bank of Canada finance later and at the appropriate time, and it is only the chartered banks surely that can furnish what Mr. Tucker is asking for. I am as anxious as he is to have that on record, but it is not fair to point to Mr. Towers and suggest that he can give us that information, because he cannot.

Hon. Mr. Hanson: Is not that an argument for having the Bank Act before us at the same time?

Mr. Slaght: I think so.

Mr. Kinley: Both the witnesses in their presentation dealt with the angle of the little fellow. They were very close to the little fellow. Before Dr. Clark got through he got into the realm of one-half million dollar loans. It seems to me that if this is going to be a bank to help the little industries of the country that it should be preserved for the little industries, and for that reason I have in mind that there should be a ceiling or a limit on the amount that should be loaned to any one person by this bank. Dr. Clark did not touch on that, and I think it is one of the important points in connection with this bill.

Dr. CLARK: Mr. Chairman, I do not think I mentioned that the bank would loan amounts of $500,000; that is not what I intended to say.

Mr. KINLEY: You went to $300,000.

Dr. CLARK: I said that it was probably difficult in this country for an investment house to float loans for less or much less than $500,000. Now, in so far as the provisions of the Act are concerned, I think it would be preferable not to tie the bank down too rigidly as to the size of loans that should be made. I think it is better to leave that to the management. The primary purpose of the bank is to deal with the case of small and medium sized industries, but I think it is extraordinarily difficult for anyone to say now whether in the case of a $300,000 loan or a $400,000 loan or a $500,000 loan, or more if you like, it should not be subject to being made by the bank or being guaranteed. I say that it would be wiser not to attempt to put any restrictions in the Act as to the particular size of loans that could be made. It may be that a new industry setting up for the first time might need a $500,000 loan, and everybody in this committee, if they saw the facts, will agree that if the funds could not be raised in any other place that this bank ought to make the loan. That would be my offhand view of the matter. It would be better not to be too restrictive in regard to the size of loans. I think it is very difficult now to see just what the situation in the post-war period will require.

Mr. KINLEY: What made me think about the matter was the way you stressed the loans to the little industries.

Dr. CLARK: Yes.

Mr. KINLEY: Now, a man who gets $300,000 or $500,000 is not very little, and your capital is only $100,000,000, and you would only have a restricted clientele in the whole country if you are going to loan the money in half million dollars blocks. Now, there was another thing you said which struck me as being rather extraordinary. I presume that both of you are exponents of orthodox finance. You referred to the case of a man whose capital was about $50,000 and who might want $300,000. That is rather extreme. You are getting into the realm of business that is pretty hazardous. I had in mind that we should not loan more than $50,000 for any one man, and that these loans would be for small industry—what it is advertised to the public to-day for as a bank in the interest of the small industry of this country.

Mr. RYAN: We are now discussing the operation or the management of the bank once it has been established. I do not think the deputy minister has said anything about the loans. He mentioned the amounts of $300,000 and $500,000, but it would be up to the management to decide what would be the amount of each loan and in what circumstances they should make that loan. I do not think we should go into the operation of the bank.

Mr. KINLEY: Whatever the bill says.

Mr. RYAN: I think it is correct in the bill.

Mr. CLEAVER: Mr. Chairman, it occurs to me that there are three factors involved so far as this committee's work is concerned with respect to the present reference to us: (1), the cost of the money through the proposed bank to be set up; (2), the profits to be made by the shareholders of the bank; (3), the losses to be made. Now, as I understand the bill—and I want to make sure of this—the profits to shareholders are restricted to 4 per cent; is that correct?

WITNESS: Yes.

Mr. CLEAVER: And all the shares are to be held by the Bank of Canada. Now, coming to the question of the cost of the money, I do not expect an answer today, Mr. Chairman, but I would like Mr. Towers to supply to the committee his estimate of the cost of $100,000,000 which is to be made available to this bank for loans to the public, and also an estimate of the cost of $100,000,000 from our existing banks if we are going to loan this sum of $100,000,000 to the public. Then, with these two estimates before us we will be able to reach our own conclusions in that regard.

The other thing I would like to get if possible would be an estimate from the witness of the differences in amounts of percentages that we can anticipate by way of losses. I realize that that is very difficult, but I think that we should have that information. I may not have understood the witness correctly, but if I did understand him correctly I believe that it is anticipated that the type of loan which will be made by this bank will be more hazardous than the type of loans in the ordinary way made by the private banks. I would like an expression of opinion as to how much more hazardous these loans will be because that is a cost factor.

Mr. Fraser (Peterborough W.): Mr. Kinley mentioned having a ceiling. I believe we should have a ceiling on these loans because if we do not have a ceiling then when we do have losses on the loans your losses might be $500,000 for a number of firms, and that has to be paid by the taxpayer. $100,000,000 is one-fifth of the pre-war income of this country, and if we do not have a ceiling we are not going to be able to look after the boys who are fighting this war for us. They will not want $50,000 or $100,000 or $500,000 loans, they will want $10,000 or $5,000 loans. I think there should be a definite ceiling. I think that Mr. Towers and Dr. Clark should get together on this.

Mr. Slaght: There are two points I should like to clear up either with Dr. Clark or Mr. Towers. Perhaps I shall address my question to Dr. Clark. Doctor, I take it that this is the first departure whereby the taxpayers' money, as such, through a subsidiary of the Bank of Canada, is to be loaned to the public in Canada by way of commercial banking, which means that heretofore the Bank of Canada has never been permitted to do commercial banking business with the public; is that correct?

Dr. Clark: That is true.

Mr. Slaght: Now I have every interest in the small business man, small business enterprise, we all have, but will you tell me whether under this bank the farmer, whether he is alone or associated with others, the miner, the prospector, the logger or the fisherman, can get any public money under the provisions of this bank? Offhand, is it not class legislation?

Dr. Clark: Mr. Slaght, the loans under this legislation are to industrial enterprises, and industrial enterprise is defined to mean "...a business in which the manufacture, processing or refrigeration of goods, wares and merchandise or the building of ships or vessels, or the generating or distributing of electricity is carried on". I think I said, and certainly Mr. Abbott referred to the fact in the house, that the government would deal with intermediate credit to agriculture particularly in other legislation which it intends to bring down.

Mr. Slaght: Why do you discriminate in favour of the small business man and exclude from similar privileges the prospector, miner, logger and fisherman unless you are introducing class legislation?

Dr. Clark: I think, Mr. Chairman, that a loan of that type to a producer should not be taken care of under this legislation.

Mr. Slaght: I did not get you.

Dr. Clark: My point was simply this, that this type of institution is not considered appropriate for the making of the type of credit or loan which you have in mind. That kind of system should be arrived at in other ways, under some other kind of legislation. I am only a civil servant and I cannot predict the government legislation. I can only say what has already been announced on behalf of the governement, just as Mr. Abbott has in the house.

Mr. Slaght: The announcement, as I recall it, dealt with two prospective forms of relief, one to agriculture and the other to housing. Perhaps it is not fair to you. You do not make policies, at least in the open, and perhaps it is not fair that we should ask you about a matter of policy, but would you agree with me that the effect of this bill, if you do nothing but add the farmer, does operate to leave out in the cold, if I may put it that way, the miner, prospector, logger and fisherman? Surely that is so.

There is one more point. Would you direct yourself with me to section 15 which gives the powers of this new bank. It may only lend or, let us put it, provide credit or other financial resources, and then these words trouble me, "which would not otherwise be available on reasonable terms and conditions". You note that. That, of course, is an important limitation on the lending power of this bank. I suggest to you that you are asking Mr. Towers to take on an awful job. If the man has to do it I think he will be an excellent man if he were disassociated from controlling the commercial banks with which he competes and I am not querying in any way his ability if he were to devote himself to this. I think he knows that. I have here an advertisement I want to file. It is an advertisement by the chartered banks in McLean's magazine of March 15th. It is just cold.

> A chartered bank is one which competes with nine others for your business.

Then the ten banks are the Bank of Montreal,—and it recites them. Then it says that it is the custodian of your money and so on.

> Ten competing chartered banks are the very opposite of a state monopoly,

and so on. It says:

> Under state monopoly if you failed to get accommodation at the one bank you could not go to any one of nine others to seek it. You can to-day.

Now, a man comes along to Dr. Clark for a $20,000 loan. I suggest to you—and you will correct me if I am wrong—that Dr. Clark has got to be assured that he has endeavoured, from each of the ten competing banks, to secure that loan on such security as he was able to offer. What do you say?

Dr. Clark: I think that is carrying the clause very far. I think the purpose of that clause ties in with what I said a little earlier, namely, that the type of loan that is envisaged here is a type of loan that the chartered banks are not equipped to supply. Their legislation is such as not to allow them to make the typical kind of loan that is envisaged here.

Mr. McGeer: To what legislation do you refer?

Dr. Clark: The Bank Act.

Mr. Slaght: Surely, Dr. Clark, this implies the direct opposite of what you are telling me because it says, "to provide credit or other financial resources which would not otherwise be available on reasonable terms and conditions". That surely indicates you are going into competition in part, at least, with the commercial banks? Would that not be so?

Dr. Clark: If the commercial banks were not allowed to make the kind of loan that is in mind here surely you could say that this type of loan is not otherwise available from the chartered banks.

Mr. Slaght: If it is the intention to allow this bank to lend only to borrowers to whom the chartered banks are forbidden by law to lend why do we not say so? I do not understand that to be the intention. I understand you to have a vehicle which will go into competition with the commercial banks in a certain branch of the lending you do, but has this got to be a cat or dog that no chartered bank would touch and would not loan money to? I think, if I may suggest it, that is a dangerous thing to do with the taxpayers' money.

Hon. Mr. HANSON: Hear, hear.

Mr. SLAGHT: Am I wrong in that?

Hon. Mr. HANSON: The chartered banks are not forbidden to do this business. They are forbidden to lend on mortgages but they are not forbidden to take long term credits. It is a matter of policy.

Mr. KINLEY: Oh, no.

Hon. Mr. HANSON: Yes.

The CHAIRMAN: Order, please.

Dr. CLARK: The type of long term loan that would be taken by this bank, if it were a long term loan, presumably would be secured by mortgage security, you see.

The CHAIRMAN: We will allow Mr. Slaght to continue his examination.

Mr. SLAGHT: I will conclude very shortly. There is another point which troubles me about section 15. We have in Toronto alone seventeen trust companies. I have a list of them. We know the trust companies. Then we have mortgage companies and investment trust fund corporations who have the right to make just the kind of loan you were last talking about, one that a chartered bank might have trouble with. I suggest to you that Mr. Towers, if you put this burden on him, has got to say to a prospective borrower, "Have you exhausted your efforts to secure money from the mortgage loan companies of this country or investment trusts of this country"? You would agree with that, would you not?

Dr. CLARK: I think it is a matter of legal interpretation. I think that is carrying the clause pretty far.

Mr. SLAGHT: It is a matter of common sense, surely. Listen to the language: "In order to provide credit or other financial resources which would not otherwise be available on reasonable terms and conditions". How dare Mr. Towers lend $10,000 to a borrower who has not been able to satisfy him that he could not otherwise secure that loan on reasonable terms and conditions? That is clear, is it not? There is no legal acumen required about that.

Hon. Mr. HANSON: It is not a question of law. It is a question of fact.

The CHAIRMAN: Order, please allow Mr. Slaght to continue.

Mr. SLAGHT: Is that not clear, Dr. Clark?

Dr. CLARK: I think it does involve the interpretation of that clause. I am not a lawyer but I would think offhand that the legal interpretation you are putting on it is stretching things pretty far. I am not sure. However, I should like some person who is a lawyer to answer.

Mr. SLAGHT: Dr. Clark, you are a banker which is more important in this connection.

Dr. CLARK: Just a civil servant.

Mr. SLAGHT: As a banker are you telling me if you had this trust fund—because this is the taxpayers' money you are asking Mr. Towers to administer—and faced with that definition of your power to lend, that you would make a loan to any applicant unless he satisfied you, or Mr. Towers in his position, that that money was not otherwise available to him on reasonable terms and conditions from any other possible lender in Canada? I do not want to bring too much in, but does it not follow he has got to go around to all lending institutions who would have the right to lend that type of money, submit his security and submit his own reputation, because a great deal depends on the borrower's personal integrity. He must be a man who has not had two failures and a fire or two fires and a failure, or been in jail. He has got to go to these institutions, submit his personal record, submit his security and say, "I want a loan." He is bound to do that before he can come near you or your new bank, and then he must come, and I suggest to you, satisfy you that he has done that and has been refused from every other reasonable source.

Mr. GRAHAM: I would suggest...

The CHAIRMAN: Order, please; would you allow the Governor to answer that question?

Mr. GRAHAM: I just wanted to make this suggestion to Mr. Slaght, that it has been suggested that the section can be corrected by inserting after the word "which", "which, in the opinion of the directors, would not otherwise be available".

Mr. SLAGHT: I am taking it as I find it, but surely the directors must act according to the directions we give them under the Act. If the directors are going to form an opinion they have got to form it on facts, and the borrower must submit facts to enable them to reach that opinion. That is my view. I want to be corrected if I am wrong.

The WITNESS: Without passing an opinion on the legal aspects of the matter I would say that the method of operation which you have suggested, Mr. Slaght, would, of course, be completely impractical and that, in fact, the only way in which it could operate practically would be if the judgment of the bank was relied on for the interpretation of that provision, "not otherwise available on reasonable terms and conditions". When a person came for a loan I think the first thing one would say would be, "Have you discussed this with your bankers? Are facilities not available there"? Suppose he said he had and the bank had felt the loan was too long a term for them, that it was a seven or ten year loan which was quite outside their province; then the question as to whether it might be possible to do it by an issue on the market is something which I think one could quite readily form judgment on. There might be the occasional case where the judgment was that they could not do it whereas at a subsequent date the firm which was in that business would say they could have. There might be occasional disagreements on that score, but I should imagine that there would not be more than one in a thousand.

Mr. SLAGHT: Mr. Towers, may I suggest this? The chartered banks themselves have put out a call to the public against the state monopoly of banks—and I agree with them—basing it on the fact that one chartered bank might turn you down and you have got eight others to go to and you could get the money. If a man came to you and said, "My particular banker"—who may know him too well—"would not lend me money on the security I offered", are you going to take that in the face of an advertisement of this kind, that he has not been able otherwise to get the money, and not have him go to the seventeen trust companies and the numerous mortgage loan and investment companies before you dish out the taxpayers' money to him? I cannot conceive that you could, and I think I am befriending you in not wanting to put you in the job under this wording. It would place an intolerable task on you if conscientiously and honestly discharged as I am sure you would discharge it. I think you would be subject to grave censure if on application for a loan you said, "Have you talked to your own banker about it," and he said, "Yes, I could not get it from him", and you did not say to him, "Have you gone to some of the other nine banks which are clamoring for your business in competition in a half page advertisement"? "No, I did not go anywhere else". "Did you go to a mortgage company"? "No". Then you sit down and write him a cheque for the money. Surely that is not workable.

Hon. Mr. HANSON: May I ask a question? Is it your contention that these words in section 15, "and which would not otherwise be available" imply a condition precedent to getting a loan of this money?

Mr. SLAGHT: Certainly; section 15 is the empowering section beyond which, if it is not amended, no manager of that bank dare lend a dollar and be honest about it. The power is clear to read; it is only to a man to whom such a loan as he wants is not otherwise available on reasonable terms and conditions, and it does not take a lawyer to tell anybody that.

Hon. Mr. HANSON: Mr. Chairman, it is nearly one o'clock. I should like to see the evidence before I attempt any cross-examination of the two gentlemen who have favoured us with their presence. If it is agreeable to the chair and the committee I should like to make a motion in line with the suggestion I made at the opening. It is that the committee procure fifty copies of the evidence of the Standing Committee on Banking and Commerce at the sessions of 1923 and 1934, and fifty copies of the Bank Act, 1934, and that they be distributed to the members of the committee. I understand that a formal motion is necessary because they have to be paid for out of the House of Commons vote to the King's Printer. I make that motion, seconded by Mr. Jackman.

Mr. JACKMAN: Are fifty copies enough in view of the fact there are fifty members of the committee?

The CHAIRMAN: What is the pleasure of the committee?

Mr. COLDWELL: I have been sitting here listening and wondering even if these documents are distributed how far we are going to get in this discussion without going into the whole matter of banking and the chartered banks. Again and again this morning we have returned to what the banks will do or will not do, what their charges are and what they are not. I am of the opinion that while this will be very useful to us what we really want to have before us is the bill amending the Bank of Canada Act or revising it or extending it.

Mr. KINLEY: Consider the bill.

Mr. COLDWELL: As the case may be; to my mind we are going to waste a lot of time if we do not do that.

Mr. SLAGHT: May I supplement that by suggesting that we have been told that some sort of vehicle for lending to farmers is going to be set up. Is there going to be another bank, a farmers' bank of agriculture? Then, will there be a miners' bank? We ought to have this legislation before us to know how much it involves, what the total commitments for the budget are to be?

Hon. Mr. HANSON: Hear, hear.

Mr. MCGEER: Mr. Chairman, if I might there is a document here which I wish to distribute. I have not got a sufficient number of copies for the committee as a whole. I presume you are conversant with the plan entitled "A Twentieth Century Economic System", which I think was developed by the secretary of the London Chamber of Commerce and I believe endorsed by that institution which is representative of some 3,000 of the leading business men of London.

The WITNESS: Not endorsed by the institution.

Mr. MCGEER: In any event, I should like to examine both Dr. Clark and Mr. Towers on that plan. I will distribute the copies as far as they go.

The CHAIRMAN: Gentlemen, we have a motion before us moved by Mr Hanson and seconded by Mr. Jackman. Will you please read the motion?

Motion read by clerk of committee.

The CHAIRMAN: All those in favour please say yes.

Motion agreed to.

Mr. LECLERC: Mr. Chairman, as we have been sitting for the last two hours I want to propose that we adjourn until next week at the call of the chair. At the same time I wish to move a vote of thanks to the two witnesses who have been kind enough to give us the information we have had this morning.

The CHAIRMAN: Before we adjourn what is the wish as to the date of adjournment? We can have this committee room to-morrow if we want it.

Hon. Mr. HANSON: We will not have the printed evidence to-morrow. I suggest that we meet on Tuesday.

The CHAIRMAN: If we can get the room; it will be at the call of the chair then.

Hon. Mr. HANSON: I think we ought to preempt this room. The Banking Committee has always had it.

Mr. SLAGHT: Having a vote of thanks in which we all concur does not mean that Dr. Clark and Mr. Towers will not be with us again?

The CHAIRMAN: No.

The committee adjourned at 1 o'clock p.m. to meet again at the call of the chair.

HOUSE OF COMMONS,
March 29, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, let us proceed, and I would ask that we give the floor to the Governor of the Bank of Canada. There are some statements which he desires to make tying in what was said last session with the inquiry today. Mr. Towers, will you proceed.

Mr. GRAHAM TOWERS, Governor of the Bank of Canada, called.

The WITNESS: Mr. Chairman, I wonder if I might have the committee's permission to remain seated. It will be helpful if I might.

The CHAIRMAN: Certainly.

The WITNESS: At the last meeting of the committee the question was raised about the desirability of the Industrial Development Bank being authorized to take deposits from the public. It was suggested that this might be a cheaper means of financing than through the issue of bonds or debentures. I thought it might be useful if I placed on the record for the benefit of the committeee our estimates of what the earnings and expenses of an Industrial Development Bank are likely to be. I am proposing to do so on the assumption that the $100,000,000 which the bank will be authorized to have in the form of total liabilities, including capital and, therefore, total assets, is fully used in the form of loans. It is easier to estimate earnings and expenses on that basis than it would be if one had to make the assumption that the loans outstanding were, say, $5,000,000 because the expense ratio with a very small amount of loans is naturally much higher than it would be when a certain volume has been obtained. If it is the policy on the part of the directors and management to make loans and investments at an interest rate of, say, 5 per cent per annum then that would produce about $4\frac{3}{4}$ per cent earnings on total assets because, of course, something has to be kept in the form of cash.

As to expenses, if interest on bonds and debentures was approximately $2\frac{1}{4}$ per cent, assuming that the average term of those bonds or debentures was, say, 4½ or 5 years, that would represent 1¾ per cent per annum cost in relation to total assets. I would think that the general operating expense of the bank would be about ½ of 1 per cent per annum of total assets. I have put in here an estimated provision for losses of 1½ per cent per annum on total assets. If these estimates turn out to be approximately correct the bank with total loans of, say, $95,000,000 would then have available for reserve fund and dividends some 1 per cent of total assets which would be equivalent to 4 per cent on the capital stock.

I think I would like to point out that loans made by the Industrial Development Bank would not be "cats and dogs" which were avoided by other lenders because they bear a terrifically high loss ratio. They would be loans which, because they were for periods of several years and in rather small amounts, were not suited to other financial institutions. The fact that such advances were of the type I have described would probably lead to the Industrial Development Bank incurring somewhat larger proportional losses than do the makers of ordinary short term loans.

When I first went into banking business about twenty-five years ago I recall that those who were then experienced in it assumed that about ½ of 1 per cent per annum on total loans was the loss ratio which could normally be expected. The experience of the last twenty-five years certainly leads me to believe that that old experience of ½ of 1 per cent per annum is a little on the low side. The normal losses which a commercial bank might expect over a period of years might now be something a little less than ¾ of 1 per cent per annum of total loans. It is hardly necessary for me to add, of course, that any institution in the banking business must or should make losses because a bank which never makes a loss is no good to man or beast. No losses mean that a bank is operating so extraordinarily conservatively that it is not performing its function in the community.

If we take a little less than three-quarters as the normal desirable expected experience of a commercial bank in respect of losses I do not think it is necessary to estimate the probabilities for an industrial development bank at higher than 1½ per cent per annum, double the commercial bank figure. If it were higher than that consistently I would think that it reflected on the management of the bank, subject to this exception that if after a certain period of satisfactory volume of business in the country, if after such period we suddenly had arise again a situation of the character of 1930, 1931 or 1932, then I think that the loss ratio that I have mentioned would turn out to be somewhat low; but I do not beleive that we should make our plans or do our business on the basis of an expectation of a return of that catastrophic situation.

Turning to the possible benefit—to the benefit which it is thought might be obtained by an industrial development bank financing through taking public deposits rather than borrowing by means of bonds and debentures, I would estimate that the operating expenses of the chartered banks are of the following order approximately: I believe the interest on deposits represents ·6 per cent per annum of the deposits themselves, or in terms of total assets, ½ of 1 per cent per annum. I would guess that their costs of operation in respect of administering loans and investments is about ¼ of 1 per cent per annum, all those figures being percentage of total assets. I should think that administering the deposit banking business and all the ancillary activities which are connected with it, costs about 1½ per cent per annum, so that the total operating costs would be 1¾, not including interest costs. These operating expenses I have mentioned include local taxes but not taxes on profits. If the Industrial Development Bank tried to do its financing by means of obtaining deposits from the public it would have to expect an average interest cost of ·6 per cent. And general operating expenses of 1½ per cent. So I believe that the cost of money to an industrial development bank would be 2·1 per cent per annum. Then one would have to increase the costs of the industrial development bank—increase the estimates which I made a moment ago—by reason of the fact that instead of keeping 5 per cent cash reserve it would have to keep more if it was in the demand deposit business. That, I would say, would have an effect which would make the over all cost to the Industrial Development Bank of obtaining funds in that form 2·35 per cent per annum as against my estimate of $2\frac{1}{4}$ in the case of securities. I need hardly say that as someone who may be connected with the management of the institution I am concerned to find the method which should be followed to obtain funds at the most reasonable cost, and the opinions which I have just expressed are based on the desire to operate in the most economical way. Naturally, the picture which I have endeavoured to give is only an approximate one. It has not made any allowance for the fact that in the case of conducting a general banking business the chartered banks obtain a certain amount of earnings for various services performed which go a part of the way toward meeting their cost of operations. On the other hand, I have not included any allowance for the fact that if the Industrial Development Bank obtained its funds through deposits repayable on demand instead of by issuing securities for a term of several years it would have to keep a fair part of its assets in short term liquid investments on which earnings would be small; also I have not made any adjustment for the fact that if the industrial development bank carried on a deposit banking business with only $75,000,000 on deposit, its operating costs would be much higher than the figures which I have given in respect of the chartered banks, because of the small volume of deposits.

On the whole I believe the comparative figures I have given underestimate the picture so far as the cost of deposit banking would be concerned for an industrial development bank.

Hon. Mr. HANSON: You think it would be more than that.

The WITNESS: I think it would be more than that. I am sure it would be more on a volume of $75,000,000.

Hon. Mr. HANSON: So that you reject the suggestion that they should take deposits, and that is why the recommendation is in the bill?

The WITNESS: Yes, I believe it would be more expensive.

Hon. Mr. HANSON: Yes, I do too; and it would be competitive with the chartered banks.

The WITNESS: It would have to go into the general commercial banking business.

Hon. Mr. HANSON: Right.

The WITNESS: There are one or two other questions which were raised at the last meeting, Mr. Chairman.

The CHAIRMAN: I think it is the wish of the committee that you should make your statement.

The WITNESS: Mr. Kinley asked if the bill should not provide for a maximum limit on loans to any one borrower if the Industrial Development Bank is designed to do small business. I think it is very difficult in practice to make provisions of this kind. Either the limit is so high that it has no practical value or it is so low that it prevents certain desirable loans being made. While the emphasis in the Industrial Development Bank is toward small and medium size credits I would assume that it is desirable to encourage the development of any size of enterprise. It seems to me that to follow the other course is to withhold assistance from workers who happen to be employed in a large business instead of in a small one. If the resources of the Industrial Development Bank are so small that they are insufficient to go around and there has to be rationing, then

I would be inclined to favour a form of rationing which gives special consideration to small business, but the government has indicated that if $100,000,000 is found insufficient it is prepared to ask for additional sums. So I would not, in practice, see any risk of small business not being able to obtain loans because the supplies have been exhausted through loans to large enterprises.

There is one final point I would like to touch upon if I may. Mr. Slaght suggested that the effect of the wording of section 15 of the bill, namely to provide credit or other financial resources which would not otherwise be available on reasonable terms and conditions would make it necessary for the Industrial Development Bank to make sure that every potential lender had been canvassed by the applicant before the Industrial Development Bank could properly make a loan. Obviously it would not be practicable for the management to go to any such lengths. Leaving aside the legal question for the moment, my opinion is that the bank would have to operate along the following lines: if an applicant wanted a loan of a type in which a commercial bank might reasonably be interested the Industrial Development Bank would see that he discussed the matter with an least one representative bank normally doing this kind of business; if the credit requested was one which might be expected to be available by the issue of securities I think the development bank would want to know that he had talked to someone in that business to see if arrangements could be made; and similarly if it was the type of business which might well be done by an insurance company or a mortgage or trust company he should have some contacts of that kind before coming to us. The wording of section 15, so far as I understand it, was intended to confirm the thought expressed in the preamble of the bill that the Industrial Development Bank was to supplement existing lenders rather than displace them. For practical reasons I do not see how an absolute guarantee can be given that every potential lender in the country will be approached, in fact I am not sure that this would be entirely desirable. Perhaps the public interest would be better served by leaving lenders some incentive to look for business themselves. If the present wording of the section means that the Industrial Development Bank could not legally proceed in the way I have described, then I think the wording needs to be changed. In view of the terms of the preamble of the bill I think it is clear that the Industrial Development Bank should operate to supplement rather than displace whether or not a similar thought is actually incorporated in section 15.

By Hon. Mr. Hanson:

Q. You will agree immediately that the enacting clause 15 overrides the preamble—it overrides the pious wish of the preamble?—A. Yes; but I would like legal minds to interpret the enacting clause.

Q. Yes. I am going to make this suggestion to the sponsors of this bill, that they give consideration to the suggestion which Mr. Slaght raised on a strict construction. I would say in interpreting this bill that that is right and that would render—I agree with Mr. Towers—the operation of the bill very ineffective. That is the suggestion I make.

Mr. Donnelly: It would make it impossible.

Hon. Mr. Hanson: Almost.

Mr. Abbott: In view of the estimated figures which Mr. Towers has given as to the operating costs of the commercial banks, I think perhaps I should tell the committee that it is the intention of the Minister of Finance to present exact facts with respect to the profits of the banking system as a whole together with figures as to their expenses for doing business. I think that I should make that statement now.

Hon. Mr. Hanson: Are they available now?

Mr. ABBOTT: They are always available to the Department of Finance.

Hon. Mr. HANSON: Are they available to this committee now?

Mr. ABBOTT: No. I am not prepared to make them available now, but I am making the statement that at the appropriate time, probably before this committee or in the house, the Minister of Finance intends to present exact facts with respect to earnings and operating expenses of the system as a whole.

Hon. Mr. HANSON: That is interesting. I think we should have them before this bill passes.

Mr. ABBOTT: It might be more appropriate.

Mr. BLAIR: With regard to the case of a person engaged or about to engage in an industrial enterprise, if that enterprise is started and is in debt to the chartered banks, or if that enterprise finds difficulty in carrying on, is it possible for the chartered banks to tell them to go to the Industrial Development Bank and unload their financial difficulties with respect to these companies that are not making a success of their business? Will the Industrial Development Bank be a scapegoat for the chartered banks, used to carry their burdens?

The WITNESS: As the chartered banks are operated by human beings, Mr. Chairman, I would not like to say that that possibility does not exist, and I think it would, therefore, be up to the management of the Industrial Development Bank to have sufficient wit to give assistance where it was justified and not simply to allow themselves to be made a scapegoat.

Hon. Mr. HANSON: The answer is Yes.

Mr. BLAIR: Yes, it looks like that. We do not wish to have the Industrial Development Bank used for the purpose of exonerating the other banks from their responsibilities.

The WITNESS: I absolutely agree.

Mr. GRAHAM: I want to take the opportunity of dealing with matters I have in mind: first, that it is debatable whether this institution should be called a bank, because it seems to me, Mr. Towers, that the word bank in Canada is synonymous with safety. I do not mean a record of no failures, but in the eyes of the public who use our banks, there is almost a blind assumption that an institution entitled to use the word "bank" is a safe depository for any surplus funds and a safe institution to rely on in financial dealings. The Bank of Canada has established the same reputation in the field in which it has been set up. It strikes me, therefore, that we should be extremely jealous of the use of the word "bank" in attaching it to a given institution. It strikes me, Mr. Towers, that one of your difficulties is this: as I listened to your outline of the purpose and the plan for instituting this industrial development bank, I felt that there is a slight conflict between your idea of the purpose of this bank and the purpose I would think the great majority of the members of the House of Commons think it is being set up for; and the purpose that the House of Commons thinks it is being set up for is not in the strictest sense of the word a banking operation; it is a means to assist in a period of reconstruction to create employment, it is a means of assisting in the decentralization of industry, and it is a means, I think most members believe, of assisting men coming back from the services to engage in industry with reasonable prospects of becoming a success and becoming a sturdy part of our economic life.

Now, if that purpose is carried out, it is obvious to me at least that the officials cannot follow what would be considered "good banking practice" in making loans. We expect more than that, we expect them to appreciate the purpose of parliament and to make loans based not on security or on the immediate prospect of success, but on the ultimate hope that there is an industry that has the requisite hope of success; that some agency should be prepared to loan money in order that these industries may develop either in western Canada or in the maritimes or in central Canada, and that moneys out of this institution should be advanced for that purpose. Now, that is a big task which involves, at least, $100,000,000, a very large sum of money, even comparative to our long record of commercial banks. It, therefore, strikes me that since the agency is not presuming, as you point out—you are not recommending it to be a depository, it performs only one function, and that is of making loans that are thought advisable and proper to make. Many of the things we associate with commercial banking this agency does not intend to do at all; and because of the purpose intended by parliament, and the desire that it will not strictly adhere to the accepted policy of banking institutions generally in the loaning of money, there will be in my opinion ultimate losses that cannot be foretold on any basis of comparison with losses made by the commercial banks. Undoubtedly, in my opinion, the expectancy is that if one or two of the industries fall by the wayside and two or three prove their success, that will be good business, but the institution will have no partnership in the good ones; they have to take a small return from the loans and will have to absorb, of course, the losses where the loans do not come up to our expectation.

Now, in the reconstruction period I do hope that the Bank of Canada will not become involved in the inevitable political pressure, using that term in the best sense, territorial and economic. It is the quite apparent desire of the Canadian people as a whole that we do our best to achieve a new era of prosperity, of high national income and full employment, and that we do it by seeing to it that small industries, and particularly the men who are coming back, be not handicapped in the matter of obtaining reasonable funds. I am therefore very anxious to have you consider if it would not be unwise to drive the Bank of Canada into association with an institution that is going to meet that pressure. I would think that the handling of $100,000,000 for the carrying out of this purpose is a big enough task for a separate management group. We found you, Mr. Towers, in the chartered banks; let us look over the institutions, let us look over the banking concerns, there may well be a person like you who is fully fitted to handle this particular institution for the purpose for which it is intended, and who will do credit to our general set-up of credit institutions.

And so I suggest to you that if we are going to do likewise with regard to the farmers—if we are going to set up a similar institution—we are going to impose on the Bank of Canada tasks that I do not think the officials have the time or the inclination to supervise with the care required; and secondly, I am fearful that we will involve you and a very important institution—the Bank of Canada—in an atmosphere of economic and political pressure, which will be a very unwise thing to do.

Finally, it seems to me that we have to keep this in mind, that if you pursue that policy which I think parliament expects of this institution I cannot, for the life of me, see how you can hope to induce the public to subscribe to an issue of bonds and debentures at a rate equivalent to our victory loans or dominion issues guaranteed by the dominion authority. I am speaking my own reaction when I say that if I had the choice between buying a dominion government bond of like terms I would frankly not consider purchasing the issue of this particular bank or institution which is going to engage in a somewhat hazardous enterprise for a national purpose which is considered proper and wise under existing circumstances. Therefore, I think we would be unwise to invite the public to subscribe to the issue of such an industrial bank so closely associated with the Bank of Canada. Whether we like it or not, in the mind of the public the two institutions will be identified as one—that is to say the Bank of Canada. The failure of one will reflect on the other.

And as one final word I would ask you to deal with this: it seems to me that there is nothing that the Bank of Canada can do for this new agency that men particularly chosen for the task could not do just as well, having, of course, the Bank of Canada officials for the purpose of advice and counsel in large matters that come up, but standing on its own feet with its own management. I would like you to deal with that thought.

The WITNESS: First of all, with regard to the name, certainly from the point of view of the management of the Industrial Development Bank there is no particular merit in the word "bank". If the committee or the government were to think that another name would be more desirable it certainly would be no handicap so far as the new institution is concerned.

By Hon. Mr. Hanson:

Q. It is not a matter of substance.—A. It is not a matter of substance in so far as the institution itself is concerned.

By Mr. Kinley:

Q. You contracted out of the Bank Act in this bill?—A. Yes.

Q. Therefore you are not a bank?—A. Not a bank of that character.

Q. Under the law.—A. Not a bank of that character. The Bank of Canada contracted out of the Bank Act too, as you will recall, and so did the Central Mortgage Bank.

Q. You have not the privileges of this bank under the Bank Act nor the restrictions?—A. No.

Q. Therefore you are not under the Bank Act.—A. Not under the Bank Act, no.

Q. Then if the Bank Act defines a bank, you are not a bank?—A. The same statement, of course, can be made of the Bank of Canada and the Central Mortgage Bank.

Q. You may have been wrong there.

Mr. ABBOTT: No.

Hon. Mr. HANSON: It is a federal reserve bank of a different type.

The WITNESS: The second question was as to the association of the proposed bank—I will keep on calling it a bank until the bill is changed—with the Bank of Canada. I fully realize the possibilities which have just been mentioned, of the new bank being exposed to pressures, territorial and otherwise.

Hon. Mr. HANSON: And political. Do not leave that out.

The WITNESS: Political was mentioned in the best sense, Mr. Hanson.

Mr. KINLEY: What is that sense?

The WITNESS: In the broad sense. The directors of the Bank of Canada carefully considered that feature when the proposal was made that the Bank of Canada should assume this responsibility; and even recognizing these risks, they felt that if the government so desired, it was not only our duty but also appropriate for us to take those risks. I have never found that it paid to be unduly timorous. There is a suggestion very often made that Central Bank officials live in an ivory tower.

Hon. Mr. HANSON: Hear, hear.

The WITNESS: The ivory tower has not been very apparent to me since the Bank of Canada started business, and that is particularly true of the war years, but it must be said that, partly because of the character of central banking business and partly because of the fact we are located in Ottawa which is away from the main centres of industry and commerce, over a period of years there would be difficulty in maintaining that touch with what is going on which is desirable if the managers of any concern are to keep their blood running freely and their intelligence at an appropriate level. I think that, joined to the disadvantages and risks which are involved in this association with Industrial

Development Bank there is that other feature, that it does provide a touch and a direct knowledge of what is going on which is very much better than the second-hand information obtained on casual visits to various parts of the country. It would be necessary, of course, to find people who would staff the institution and who would take on the bulk of the work involved.

Mention was made of the possibility—farm credit, I think was mentioned—that other duties would be imposed on the Bank of Canada. I do not believe that is the case. I think this proposed bank is the only thing with which the Bank of Canada would be concerned. Perhaps I might add that when the proposal for this institution was made, I thought that I should express the view to the Minister of Finance that if the Central Mortgage Bank was brought to life, revived in any form—put into operation, in other words—it would be necessary for the Bank to Canada management to ask that they be dissociated from it or from any responsibility for it, because of these other duties.

By Mr. Graham:

Q. Did you mean the proposed bank to take care of the needs of the farmer? —A. I beg your pardon?

Q. When you speak of the mortgage bank, did you mean the suggestion made by Mr. Abbott that that would be an agent to deal with the farmers?—A. No. I am just saying if the Central Mortgage Bank is brought to life in any form—and I have no knowledge of intentions in that respect—instead of being where it is now, in cold storage, the Bank of Canada management would have to ask to be relieved of their present responsibility there.

Q. What about the proposed institution to take care of the needs of the farmers?—A. The Bank of Canada would have no association with anything along those lines.

By Hon. Mr. Hanson:

Q. If I may be permitted, may I ask this. If it is not feasible or desirable for the Bank of Canada to have any responsibility in relation to the Central Mortgage Bank or the proposed agricultural assistance bank or whatever you are going to call it, for good and sufficient reasons, does not the same reasoning apply to your going into a semi-commercial banking business?—A. One of the reasons for not having association with the other things is that the amount of work involved would be very much greater, and there is a limit to the amount of work which can be undertaken.

As to the general principle of our being associated with the Industrial Development Bank, I have mentioned one or two factors, but I should not like to carry the thing any further. It is not as if the Bank of Canada were, so to speak, anxious for the business, or seeking the privilege.

Q. No.—A. I really think it is more a matter of government to discuss than it is for the Bank of Canada, although I have thought that it was appropriate for me to mention one or two of the pros and cons.

Q. You suggest it is a matter of policy for the government to decide, and you are willing to co-operate. That is your position?—A. Yes. There was one other question Mr. Graham raised.

Q. All right, go on.—A. That was the question of selling bonds and debentures to the public or to institutions such as banks because of the risk element involved. I would not, of course, ever for a moment believe that any holder of such bonds or debentures would experience a loss. If the loss ratio is higher than the figures which I suggested as possible earlier this morning, it is not going to happen all of a sudden that the $25,000,000 capital is wiped out. There will be an annual report to the Minister of Finance; and I would certainly say that if the situation was such that the capital had been impaired by the end of any fiscal year, the Minister of Finance would unquestionably be advised to that effect. The Bank of Canada is authorized to buy these bonds or debentures, and would do so. It will have views in regard to their value, and I think those views will govern the market price. I see no chance whatever of a holder being left with them and suffering a loss.

By Mr. Fraser:

Q. Suppose there was a sudden slump or a great depression. Would there not be a chance then of your $25,000,000 being lost? You would have failures right across the country?—A. That would represent a sudden wiping out of 25 per cent of the loans. I cannot conceive it.

Mr. MACINNIS: Mr. Chairman, might I ask Mr. Graham a question to clarify what he has said?

The CHAIRMAN: Yes.

Mr. MACINNIS: Is it your contention that the Industrial Development Bank should operate more for social ends rather than on a strictly profitable business basis?

Mr. GRAHAM: Oh, I would not say for social ends; but I certainly think that parliament now is of the impression that this particular institution must not pursue strict business dealings in accomplishing its purpose.

The CHAIRMAN: Will you repeat that a little louder, please, Mr. Graham.

Mr. GRAHAM: I was saying that I would not care to use the term "social purposes" although it may be that Mr. MacInnis has the same thing as I have in mind when he uses that term. But I am convinced that parliament does not believe that this particular institution proposes to pursue strict business dealings in accomplishing its purposes.

Mr. MACINNIS: That brings me to the next question. If instead we use the term "the common good," that purpose cannot be met by present banks; the present banks are not in a position to accomplish that, following strict business principles. They are not able to do the things that we expect this bank to do.

Mr. GRAHAM: They are handling other people's money, and we cannot expect the commercial banks to do this.

Mr. MACINNIS: Will not this bank be doing that?

Mr. KINLEY: Are they doing that?

Mr. MACINNIS: Will not this bank handle other people's money too?

Mr. JAQUES: I thought we had gone out of that state of affairs.

Hon. Mr. HANSON: This is a very interesting discussion, but I do not think we are getting very far. My chief objection to the establishment of this bank is this. In my view, in the final analysis, it means that the government of this country is lending the taxpayers' money. I object to the government going into the business of lending money. You can say it is not a likely event, but suppose that happens which you say is unlikely to happen, and this institution goes broke. Who is going to pay the piper? Look at the Home Bank. Look at all those failures which happened in days gone by. The taxpayers of this country footed the bill. Is it a desirable situation that the government of this country shall, in any contingency, get into the business of loaning the taxpayers' money?

Mr. MCNEVIN: May I ask a question, Mr. Chairman?

The CHAIRMAN: Just a minute.

Hon. Mr. HANSON: Let me finish.

Mr. MCNEVIN: Just a question.

The CHAIRMAN: Excuse me, Mr. McNevin. Mr. Hanson has the floor.

Mr. MCNEVIN: I thought he was through.

Hon. Mr. HANSON: I made a statement and I asked a question to this effect: Is it not, in the final analysis, the taxpayers' money that is being loaned through this government agency?

The CHAIRMAN: Mr. Towers, do you care to answer?

The WITNESS: It seems to me that the question of whether the government indirectly should engage in any business of lending to the public is a matter of government policy which I should not deal with.

Hon. Mr. HANSON: All right. If you do not want to deal with it, I am not going to quarrel with you. You say that is a matter of policy, and you do not want to answer the question. I think that is fair enough, and I am content.

Mr. MCNEVIN: Mr. Chairman, what I wish to ask Mr. Hanson is this: How would he explain the action taken to loan $50,000,000 of the taxpayers' money under the Canada Farm Loan Board if he does not believe that the government should loan the taxpayers' money to farmers or anybody else?

Hon. Mr. HANSON: It was a case of necessity. I do not believe that we should do it in normal times, but should rather leave it to the appropriate agency. However, we did it. I understand we do not have much accounting from them, and nobody knows whether it has been a success or not.

Mr. ABBOTT: Yes. I tabled a statement yesterday or the day before, of last year's operations.

Hon. Mr. HANSON: I understand that Mr. Bennett had great difficulty in finding out about the affairs of the Farm Loan Board. It was a very independent board.

Mr. ABBOTT: I filed a statement yesterday.

Hon. Mr. HANSON: I am not as familiar with it as I might be. However, asking another question does not answer the question I have put. That is the old story of cross-examination.

Mr. MCNEVIN: I should like to continue. I think that the Honourable Mr. Hanson has stated the Canada Farm Loan Board was set up to take care of a special difficult period in Canada's history. I believe that the post-war demands will constitute circumstances of a nature just as special, and perhaps more so, in the industrial field than existed with regard to the setting up of the Canada Farm Loan Board by the administration with which the honourable member was associated in the early thirties.

Hon. Mr. HANSON: We did not set it up.

The CHAIRMAN: Mr. Kinley has the floor.

Mr. KINLEY: Mr. Chairman, in view of the introductory remarks of Mr. Towers and Dr. Clark, the preamble of the bill, I am much surprised that you objected to a ceiling so that this bill will be preserved for the small enterprises of Canada.

The WITNESS: You are surprised that I objected to a ceiling?

By Mr. Kinley:

Q. You are changing your premises, I think, from your introductory remarks and the preamble of the bill when you want a free hand to lend this money ad lib. —A. That is because I believe two things. First, I believe that a rationing will not be necessary; and if there is need for a larger amount than $100,000,000, I would think that the government and parliament would agree to an enlargement. That I do not know. That is only my opinion. Secondly, I believe that requests for large loans will be distinguished by their rarity. The large organizations can usually arrange their financing elsewhere, and I think a large loan will be a rarity. But I think it would be unwise to debar a loan of a substantial size.

Q. I know. But do you think it is unwise to protect the small man?—A. I believe that the small man will be protected by two things: (1) the lack of need of the large one to borrow from the Industrial Development Bank and (2) the probability that additional funds would be available if the $100,000,000 were fully absorbed.

Q. Have you not unduly stressed in your introductory remarks this need of small enterprise as the reason for this bill?—A. I believe that, in fact, the real need is with the small enterprise to the extent of 90 per cent of the use of the facilities of the Industrial Development Bank. I believe that its business will be almost entirely with small enterprises. But I should not like to rule out the possibility that there may be one, two or three larger loans.

Q. That depends on the management of the bank.

Mr. McGeer: Yes.

The Witness: Yes.

By Mr. Kinley:

Q. And your management to-day—that is, your directors—are men who are mostly acquainted with big business?—A. All kinds, I would say.

Q. You do not convince me that there should not be some regulation on the maximum amount that could be loaned under this bill which gives limited funds to the bank.—A. Well, of course, much would depend on the size; but I think there would be cause to regret it. Suppose a situation came along where a request was made for a loan for, shall we say, some millions of dollars and it was felt that that was desirable, that it would help to maintain and provide employment in the industry concerned, if that industry by definition is large, it may be quite a factor in the life and affairs of its particular community and in its powers to provide employment. I think that the first case of that kind which was turned down because of a limitation on the amount which the Industrial Development Bank could lend, would certainly lead to representations, and very well-founded ones, from the people of the community to have that provision changed.

Q. We are dealing with supplementary services, and there are banks in this country now who look after the usual business; and we also have the trust companies. A company that needs a lot of money will float a bond issue or something of that kind, and you are going to get in competition with the floating of bond issues and all that sort of business.—A. If the company can float a bond issue or obtain funds from another financial institution, the Industrial Development Bank would not make the loan; not if they can obtain funds on reasonable terms and conditions.

Q. I have in mind that the small man might get cheap money from this bank, or reasonably cheap money. If you do not have a ceiling on it, the big man will come along with his bond proposition and he will try to get into that circle of cheap money that is for a social purpose, rather, as my friend here says. You will have competition which will be most disconcerting and will destroy the virtue of what the bill is intended to do, namely, to build up small industry and give it a chance in the country.—A. Well, it is a matter of opinion.

Q. Quite so.—A. But as I say, I think most definitely that small industry will not find itself unable to get loans because someone else has borrowed the funds.

Q. Do you not think that when this war is over, money will be about the cheapest thing we have in this country?

The Chairman: Mr. Picard has a question.

Mr. Kinley: I asked a question.

Mr. PICARD: Mr. Chairman—

Mr. KINLEY: Mr. Chairman, what I wanted to convey was that the amount of money that is being put into circulation, with the amount of industry that is going on, is such that when this war is over it is reasonable to believe that there will be funds in the hands of the public away and above what was conceived of before in this country, or in the experience of other countries, and that the banks and the people will have money to lend that they never had before.

Hon. Mr. HANSON: They are being taught that.

Mr. BREITHAUPT: Why worry if this bank makes large loans?

The CHAIRMAN: Order, gentlemen.

Hon. Mr. HANSON: Before Mr. Picard asks his question, may I correct a statement made by Mr. McNevin when he said that we set up the Canada Farm Loan Board. It was set up in 1928 and came into operation in 1929.

Mr. McNEVIN: I stand corrected.

The CHAIRMAN: Mr. Picard has the floor.

Mr. PICARD: I should like to get into my mind the type of business that bank is going to carry on. I came away from the radio committee just for the purpose of trying to get my ideas clear on this point. The purpose of the bill, according to the preamble, is to promote the economic welfare of Canada. Then it goes on to point out three ways in which that can be done. The first is by insuring the availability of credit to industrial enterprises; the second is by supplementing the activities of other lenders; and the third is by providing capital assistance to industry—and then there comes in the idea stressed by Mr. Kinley—with particular consideration to the financing problems of small enterprises. Later on in the bill the word "industrial enterprise" is described as follows: " 'Industrial enterprise' means a business in which the manufacture, processing or refrigeration of goods, wares and merchandise or the building of ships or vessels or the generating or distributing of electricity is carried on." Now may I just say this. Parts two and three of this description do not apply at all to small enterprise; I mean with regard to building ships and generating electricity. Therefore it would mean that the help to small enterprises would be under the item of " manufacture, processing or refrigeration of goods, wares and merchandise." Therefore the importance of knowing exactly what will be considered as a small enterprise becomes apparent, or what part of the assets of the corporation will be devoted to small enterprises. If we have the idea that throuhgout the country a large number of small enterprises is to benefit —and a large number of people in a large number of districts are concerned in the general welfare of Canada—it is of the utmost importance to know right now, when we are studying the bank, what those who drafted this bill meant by the term "the economic welfare of Canada" and what they mean by "small enterprise." I will have other questions later on, but I should like to have Mr. Towers' reaction to that.

Mr. McNEVIN: Just a minute. I wish to make a correction to a statement that Mr. Hanson made correcting me. I should like to make it clear that the Canada Farm Loan Board was not operated in the Province of Ontario, in which I live, until it was put into effect by the administration with which the honourable member was associated.

Hon. Mr. HANSON: I do not accept that.

The CHAIRMAN: Order. Mr. Picard has the floor.

Mr. PICARD: That is very interesting.

The CHAIRMAN: Mr. Picard has the floor.

Hon. Mr. HANSON: The board was set up in 1928.

The CHAIRMAN: Order, please. Mr. Picard has the floor. Would the Governor of the Bank of Canada care to answer the question he has put.

The WITNESS: I think the only thing I can say is that I believe small enterprises should have priority.

By Mr. Picard:

Q. They should have priority?—A. Yes; and that if there were any indication that the available funds might run out, that a reserve, so to speak, of loaning powers should be kept, to make sure that the small loans could be made and avoid any risk of large loans having so taken up the authority that desirable small ones could not be encouraged.

Q. I understand that "small enterprise" is an expression meaning anything. I should like to know what is in the mind of the Governor of the Bank of Canada and this bank too, and what we may expect to understand as to the meaning of the words "small enterprise." What I mean is this. The idea of the chairman of the First National Bank of New York may be such that it would mean a loan of $15,000,000, and to the chairman of a small bank in one of the smallest cities in the United States it may mean a small enterprise of $5,000 or something. What is in the mind of the Governor of the Bank here? What does "small enterprise" mean? I know it is hard to put a limit of any figure, but would it be $50,000 or $60,000? Could we have that? —A. My ideas are very small. Because it is a manufacturing enterprise, the amount of capital involved naturally tends to be somewhat larger than it would be in a very small retail store. But I can visualize loans of $5,000, of $10,000. I would not visualize loans of $500 or $1,000.

Q. No. There you would be going down to the loan business.—A. Yes.

Q. Which is not considered under this bank.—A. That is right.

Q. But there is one item only out of the three mentioned in the preamble which applies. The first is "insuring the availability of credit to industrial enterprises"; and industrial enterprises would mean rather the larger enterprises than the smaller ones. The next is "supplementing the activities of other lenders"; when a manufacturer needs $10,000 he will surely be able to get that somewhere or else his record is very poor. Then there remains "capital assistance to industry with particular consideration to the financing problems of small enterprises." Then when you come down to the description there is only one of these items that can be considered as small. The building of ships cannot be considered as small. The generating of electricity cannot be considered as small. We are left with "the manufacture, processing or refrigeration of goods, wares and merchandise." It does not apply to the building of ships or vessels, or the generating or distributing of electricity. It applies only to "the manufacture, processing or refrigeration of goods, ware and merchandise." Here is a man, let us say, in one of the smaller districts where there are a lot of fruit and vegetables growing and he has the idea of a plant to dehydrate fruit and vegetables. He may need $100,000. He has no capital, although possibly he has had administrative or business experience. He has an idea that could well be exploited, the process of dehydrating. I just happened to pick on that. I do not know anything about dehydrating myself. That is just one that came to mind because it could be used in a small district to the advantage of farmers. This man has no capital personally but he can find a certain amount if he can supply the balance. Would it be the policy of the bank to underwrite, let us say, 25 per cent of the amount he needs? With the underwriting of that amount the man would probably, if the amount was being investigated by such a bank, immediately find other capital in the vicinity or might find other people who would want to put up the capital if and when the bank comes in and gives a substantial amount. That is a new venture. It is a new enterprise in that district. Would that come under the ideas of the bank as promoting the economic welfare of a certain district?—A. My answer would be yes.

Q. I beg your pardon?—A. I would say yes.

Q. You would say yes.—A. Yes. Whether the Industrial Development Bank in such case should take 25 per cent of the equity stock, I doubt. I think probably its assistance should take some other form; whether that might be preferred stock, debentures or income debentures I would not be prepared to say now. But I think that, if other people were prepared to provide a fair proportion of the capital required, and risk their money after investigation, having determined that the prospects were, in their opinion, reasonably good, the Industrial Development Bank could furnish the rest of the funds required in some appropriate form.

Q. If I may say so, if it has already been investigated by prominent people who are willing to invest, the regular banks would probably go into it. What I mean is would the Industrial Bank if a man comes to them with a prospect of that kind, or with a proposal of that kind, investigate the prospect and say, "Yes, if you can find a certain proportion of your capital, we think there is a chance for it; and we are willing, to promote the economic welfare of that district, to take let us say, such and such per cent of your bonds, such and such per cent of your other preferred stock or whatever it is, or underwrite you for a certain amount of bonds." Would it also come under the function of this Industrial Development Bank to say, "Well, we will guarantee for a period of seven years" or "we will underwrite for a period of ten years a loan of that nature to the company," or would it take any of the bonds, stocks and so on? It may be of great importance and may be a determining factor for that company to establish itself. If an institution like this bank comes in with its staff and investigates this matter and sees that there is a chance of the company carrying on and that it has a reasonable chance to prove successful, that they will go ahead providing they can find the capital required. Would it be one of those projects that you would describe as "helping the small enterprise"?—A. Yes.

Q. Now, that might mean small amounts of $25,000 or $50,000. For small business I would not go down to $1,000 but I would say about $5,000 to $50,000 or from $5,000 to $70,000, and you would be helping the small plant. Now, let us say that a municipality has a plant, a hydro electric plant. The municipality has already reached the limit of taxes it can impose, its financail load, in the way of funded debt, is about all it can carry and it would not be good policy for it to float a further issue of bonds. It would not then be possible for them to go ahead with the enlargement of their plant, yet they want to enlarge and develop electricity for the surrounding rural districts. Now, let us say that this hydro electric plant is owned by private enterprise that needs, say, $500,000 and let us say that they have good prospects of bettering their position if they can enlarge their producing facilities if they get a loan of that size. For a company like that wishing to generate more electricity in order to contribute to the electrification of the surrounding rural districts, would that be considered as "something that might promote the welfare of that district"?—A. Yes.

Q. Of course, I am not thinking of building vessels or ships because that would not have anything to do with small enterprises, unless they were wooden ships, and I think that business to a certain extent would be limited because such ships serve only the fishing trade. When we come to determine what loans this industrial bank will make or how this bank should help such an enterprise may we have some idea of what procedure will have to be followed by a business man who has a prospect and goes to the bank? Will they have to go to Ottawa or send an application through to the bank? It is difficult, I know, to establish and staff a large number of branches and so on, but will there be branches in the different provinces with a set up such as regular banks have? Will there be only nine such branches, one for each province, or will there be more according to the needs of different districts of Canada? Will these people who have a prospect submit their case locally or will that case have to be decided by the main office at Ottawa?—A. I would say that in the first instance the bank would have great difficulty in establishing anything much in the way of branches. I say that because of the war. It is going to be difficult enough in the early stages to find a few people, but that is something which the bank will have to try and overcome. As soon as it became possible to add to the staff—I do not imagine that at any time a really large staff will be required, but the quality will have to be good, will have to be particularly good, in order to engage in a business of this kind. As soon as an adequate number of persons of proper quality can be obtained—

Q. You refer to the quality of the personnel?—A. The quality of the personnel, yes, because they will not be numerous but they should be good. As soon as they are available I would say that it would be desirable to establish certain branches so that the distance between prospective borrowers and the bank would not be too great. I think that the extent to which branches are established would naturally depend on the prospect of volume of operations? For example, if in a certain given region we do not hear either directly or indirectly of more than two or three or half a dozen concerns which want to borrow then I do not think that we could establish a branch even in quite a fair sized city in that region. I say that for two reasons: (1) that it will be uneconomical to have staffs there if there are only half a dozen or a dozen prospective clients; (2) apart from the fact that it would be uneconomical it is also a killing thing so far as staff are concerned; they have to be kept busy otherwise they stagnate. But with those views expressed with regard to the branches, the underlying thought would be that as quickly as possible we should respond to the needs for services as those needs develop. Also it should be possible for people who want to contact the bank with the idea of borrowing money to do so through their present bankers.

Q. With regard to small business, do you not think that the centralization at one point of decisions rendered for small business scattered all over Canada might work against the interest of small business—the fact that the decisions, the investigating and everything else are handled from a centralized board in Ottawa—would not there be the tendency to leave aside and neglect the small enterprises? In the light of this I might point out that our private banking system in Canada, which was more successful than the banking system in the United States in avoiding bank failures during the depression, has other disadvantages. The headquarters of the banks are in Montreal or Toronto and the tendency is to speed the big corporations and the big companies which are there, businesses with which the banks are constantly in touch, and where needs were better known and whose possibilities were better known by the head offices in Montreal and Toronto; therefore, those centres have benefited more under the present system. However, in the United States, under their private banking system there is a higher risk of bank failures, small banking firms were scattered here and there, but they had not the centralized system that we have here. These banks have developed in the small towns many small industries and contributed to the prosperity of a great number of centres of industry. In the case of the Industrial Bank now under study the whole business is carried on from a central point, and I am asking whether there would not be a tendency in the case of applications coming from remote parts of the country that they would be neglected and that the requests from larger businesses located in big cities would be handled more quickly. Despite the statement that small loans should have priority and that this is a principle that will be followed, would there not be a tendency because of this centralizing influence to facilitate the larger concerns rather than the smaller ones? There might be two or three of these concerns in a rural district, and these firms located in places with a small population should have the same opportunity as the big concerns that have contact men in Ottawa and have easy access to the industrial bank. That is a point I want you to consider as regards small business.—A. Perhaps I might say, as regards that, that that I am in favour of branch offices staffed by men of sufficient intelligence and sufficiently high calibre to be given authority.

The CHAIRMAN: Are you finished, Mr. Picard?

Mr. PICARD: No, I am not.

By Mr. Picard:

Q. Mr. Towers, you admitted a moment ago the importance of banking men being in contact at all times with the centre of business. You mentioned that it would be a good thing for the Bank of Canada, I mean officers of the bank in Ottawa, to be in closer daily contact with the people who are running the financial affairs of the country in Toronto and Montreal. I think there might be a quarrel between Montreal and Toronto as to which city should be selected and I think Ottawa for that reason is a good choice, although I agree with you on the necessity of personal contacts in business. It is a fact that first-hand knowledge of a commercial or manufacturing enterprise is of the utmost importance in determining the financing of those enterprises. Then, if you have your central authority here with no branches in the provinces or in the districts I doubt if those applications would receive the same consideration as they would if there were branches. With regard to the present set-up in the personnel of the head office of the Bank of Canada here, do you think frankly that an industry located in rural Saskatchewan or rural Quebec—it is even more applicable to rural Quebec because the business practice there may be different from what it is in Toronto or Montreal—would there be at the head office of the bank a personnel who would understand these conditions just as well as if you had a man stationed in the district knowing the industrial enterprises in that particular district? Now, no matter how broad may be the views of those who are presiding over this bank or how good its set-up may be, it is a fact that you have very few people there with experience in the business life of the Province of Quebec. It may be said, although I do not agree, that it does not matter in the case of the Bank of Canada, but it is not what is should be for an industrial bank that will have to look after the economic welfare of all parts of the country, and yet we have the same set-up for this bank as we had for the Bank of Canada. I doubt whether small industry in the western provinces or in some parts of Quebec would have much chance, with all due respect to the broadmindedness of the head of the bank and with due regard to previous experience and the knowledge acquired in different fields —I doubt whether they would have much chance in a bank like this unless the bank had on its staff people who know the conditions in these districts so that people coming from one part of the country will get the same consideration as people coming from other places?—A. First of all, the Industrial Development Bank will have to have its own staff; I mean it cannot be operated by the Bank of Canada staff. For one thing we have not got the people available.

Q. But according to this statement is it not provided that the general manager and others will be the same people who are now managing the Bank of Canada?—A. It is provided that the Governor of the Bank of Canada shall be president of the bank, but certainly the Industrial Development Bank would have to operate with its own staff.

Q. "There shall be established a bank to be called the Industrial Development Bank, consisting of those persons as members who for the time being comprise the Board of Directors and the Assistant Deputy Governor of the Bank of Canada..." and so on. That is the board of directors. As to the administrative staff, do you intend to separate entirely the staff of the Bank of Canada from the staff of the Industrial Development Bank?—A. Yes.

Q. An entirely new set-up?—A. Yes. We might loan one or two people, something of that kind, but apart from that it would have to take on its own staff.

Q. They will not be loaned as was done in the case of the Foreign Exchange Control Board where nearly half of the staff went over?—A. Oh, as a matter of fact the maximum we loaned there at any time was thirteen. All we loan now is three.

Q. At one time I thought that nearly half of the staff of the Bank of Canada had been switched to the operation of the Foreign Exchange Control Board?—A. Oh, for the first ten days they worked in the Bank of Canada in the daytime and in the Foreign Exchange Control Board all night, but that was an emergency. However, I do agree that the maximum decentralization which is practicable should take place.

By Mr. Jaques:

Q. I would like to know whose money this bank is going to lend?—A. I hope you will not think that I am being flippant, Mr. Jaques, if I say your money if you will buy some of the debentures.

Q. Then the bank is going to be limited, or rather it will not be granted the powers which the chartered banks have of creating what they lend or creating what people borrow?—A. That has been discussed, of course, under the question of the desirability of the Industrial Development Bank taking deposits from the public.

Q. I understood you to say in 1939—in fact you were very definite on it—that the chartered banks could not lend their depositors funds?—A. It is a question whether the egg or the hen comes first. In the banking business in which the chartered banks are engaged it is the case that a bank can, by making loans, increase its assets and its liabilities. I think that the fundamental trouble which creates the ocean which separates us is the belief that a deposit is an asset. I think that is the difficulty which stops many people from being able to understand the operations of the banking system—the belief that a deposit is an asset; and as it is said that the banks create deposits, some people think they create assets, which would certainly be a wonderful privilege; but the banks create liabilities, which is a responsibility.

Q. And they cannot lend their liabilities?—A. No.

Q. But the real distinction between the two kinds of money is this, that if I lend money or if any individual lends money it is money which he has earned by work which he has performed in the past?—A. You can do the same type of business as a bank, Mr. Jaques, only in a somewhat limited way. When you buy a suit of clothes and charge it you have done a banking business, you have created a liability.

Q. Not quite, because my credit is only good for the suit of clothes whereas the bank creates general credit.—A. I say in a small way.

Q. Yes, it is very limited, that is obvious. I want to get this clear, that this proposed bank would be limited in its operation strictly to the money which already is in existence in Canada?—A. You mean that in selling its debentures it would have to appeal to those who are already in possession of the money?—A. That is partly true, although it would be able to sell bonds and debentures to the Bank of Canada; but even if that were not the case the volume of money to which the Industrial Development Bank could appeal, of course, runs into the billions. However, I think that is entirely a separate question. The question of monetary policy for the country as a whole is something quite separate from this institution.

Q. By monetary policy you mean the increase or decrease in the amount of money in the country?—A. Yes.

Q. It is not proposed to use this bank as a means of increasing the amount of money in Canada?—A. That would not be its function, that is the function of the central bank and other sections of the financial community—but not of this institution.

Q. Any money that this proposed institution might lend for industrial purposes would not be in any way an addition to the amount of money in Canada?—A. The two things are not connected in any way.

Q. If I have a business proposition and I go to a chartered bank and I borrow any sum of money to finance this business that is a real addition to the amount of money in the country, is it not?—A. Oh, no, not necessarily, yours is, but at the same moment somebody else may repay a loan.

Q. I am not thinking of what somebody else is doing.—A. One has to because it is not a one way street.

Mr. GRAHAM: Mr. Jaques, if I get your idea rightly you would like to see this institution affiliated with the Bank of Canada print $100,000,000 of new money and give it to the bank to lend out to individuals, thus increasing the purchasing power; is that your idea?

Mr. JAQUES: No. I think the printing press is used as propaganda.

Mr. GRAHAM: I am only trying to get your viewpoint. Is it your idea that that would be good for Canada?

Mr. JAQUES: It might be. I think that the idea has been mentioned here this morning that this bank will lend the taxpayers' money—I think that was the expression used—and therefore it then becomes fixed in people's minds that the first duty of this bank is to safeguard the taxpayers' money. Now, if they do not lend the taxpayers' money I take it that that idea is mistaken. It seems to me that the first purpose of this bank is to add to the production of wealth in this country. I do not say for one moment that the purpose of the bank is to create employment, I leave that to other people. The first duty of the bank should be to increase the production of real wealth in Canada, but if you are going to say that that must be limited by the taxpayers' money then I will only say that we are going back to the system which prevailed before the war. You cannot fight a war on the taxpayers' money only, and I do not think you are going to fight the peace on it either.

The WITNESS: We have fought the war on the taxpayers' money.

By Mr. Jaques:

Q. Is there no increase in the total amount of money in Canada today to what there was before the war started?—A. I am assuming that all people in Canada are taxpayers and the war has been fought partly from the money they pay in taxes and partly from the money which they lend either in the form of purchase of victory bonds or war saving certificates or in the form of the additional deposits which they have in the banks.

Q. Partly, yes. It has already been stated here that there is going to be such a lot of money after the war that it will be a problem—there has been such an increase in the amount of money. I think that is surely another way of saying that there has been an actual increase in the money in Canada during the war?—A. Yes, a billion and a half.

Mr. FRASER: Mr. Chairman, Mr. Towers I believe said that the way the borrower would have to contact the Industrial Development Bank would be through his own chartered bank.

The WITNESS: No. He has the choice.

By Mr. Fraser:

Q. He would have a choice?—A. Yes.

By Mr. Maybank:

Q. He would what? I did not catch that.—A. He would have a choice; either direct, or if it was more convenient for him, he could make contact through his bank.

By Mr. Fraser:

Q. I thought that what you said was that he would have to contact through his bank.—A. No; just if it was more convenient for him to do so.

Q. What personnel would the Industrial Development Bank use? Would they use the managers of the chartered banks? Would they go to them and get their advice on these loans? Because the manager of a chartered bank in many cases has lived all his life in a community, and he knows the people and knows the conditions in that section.—A. I would hope that would be the way in which they would work.

Q. You would try to work with them?—A. Yes.

Q. That would be the idea.—A. By an amicable working arrangement with the customer, the chartered bank and ourselves; because I believe that, to the extent that it turns out there are needs for Industrial Development Bank facilities, the provision of these facilities will be in the interests of the borrower and of his bank, because if the borrower progresses, that is a good thing for the bank with which he does business.

Q. If he worked through the chartered bank and you worked through the chartered bank, there would be less chance of loss, would there not?—A. I think that is true.

Q. There would be much less chance of loss.—A. So I would hope. That is, in fact, the way in which it would work in a great many cases. But naturally the direct access must always be open to anyone.

Q. Take the case where an industry borrowed money from the Industrial Development Bank and eventually they were closed out by Industrial Development Bank. Suppose they failed and the Industrial Development Bank took over, and the industry was not satisfied with the treatment it got. Would they have to get permission from the government to sue the bank or would they be able to sue in any event?—A. No. My understanding is that they would be able to sue. Certainly that is the way I believe it should be.

Q. In the case of the Bank of Canada, do they have to get permission to sue it?—A. I do not think so.

Q. You are not sure of that?—A. No. I do not think they have to.

Mr. Abbott: There is nothing in this bill in that regard.

The Witness: That is the principle.

By Mr. Fraser:

Q. Yes, that is the principle. That is what I was getting at. As the Industrial Development Bank is now under the Bank of Canada, I wondered if there would be any provision for that, just to safeguard the borrower.—A. Instead of my giving an answer which might not be quite correct, I should like those who looked after the legal points in the bill to answer that.

Q. It can be answered next time.—A. But it was discussed; and as I recollect it the intention was that suit could be taken without fiat.

Q. I think that would be fair.

By Mr. Maybank:

Q. I should like to ask a question with relation to the use of the chartered banks. You say that you will be using the managers in different places. They will be agents of the Industrial Development Bank. They are in the employ, however, of quite a different institution. What possibility is there of a clash of interests and what consideration has been given to that? To what extent might there be a clash of interests and it colour the advice of the agent?—A. I think there will be two possible cases. One would be where the Industrial Development Bank made the entire loan to the borrower. In such case I believe that, by arrangement with the commercial bank concerned, it would be possible to talk to the manager of the branch who dealt with the customer and obtain the benefit of his advice and experience. He would not be acting as an agent of the Industrial Development Bank. He would be acting in what you might call a co-operative capacity, by agreement with ourselves and with the customer.

By Hon. Mr. Hanson:

Q. What the lawyers call amicus curiae?—A. I would not know.

By Mr. Maybank:

Q. I was not suggesting that there is necessarily a clash of interests, but I was asking what consideration had been given to the possibility of such being the case.—A. Mental consideration has been given. You have in mind the possibility that his views might be unduly liberal, perhaps?

Q. I did not quite catch that.—A. You have in mind the possibility that the manager's view might be unduly liberal because he was anxious to aid the customer?

Q. Or the opposite.—A. Or the opposite. To appraise the value of that advice would be the job of whoever in the Industrial Development Bank was dealing with the case. In other words, they would have to have their wits about them.

Q. Is there any possibility of a clash of interests of his employer in some of these loans? The interest of my bank which has been serving for thirty years is affected by this particular proposal I have in front of me at the moment, and I am advising the Industrial Development Bank pro or con with reference to this application. What about that sort of mental hazard? Is there any possibility, in your opinion, of such a clash of interest?—A. Oh, it would be impossible to say that there never could be such a situation.

Q. I am not seeking it out.—A. No.

Q. If there is only the faintest possibility of it, then my questions are of no importance at all.—A. I think it boils down to this, that the Industrial Development Bank representatives have to make up their own minds in regard to the quality of the advice they receive. It may be good. It may be bad.

Mr. McGeer: This goes on and on. Pardon me.

By Mr. Maybank:

Q. Then that means that it is going to be just about as much centralized as Mr. Picard was fearing.—A. I do not see that that follows.

Q. It does not necessarily follow, but if there is not anybody whose advice can be taken at a point a distance from the centre, where are you?—A. I would hope that ninety times out of one hundred the Industrial Development Bank would feel that the quality was good.

Q. Yes, I see.—A. Secondly, I do visualize the possibility that loans could be made in conjunction with chartered banks.

Q. Yes.—A. That is, that they would take a certain percentage of the risk.

Q. Of course, if you are both in it, that makes a big difference. At any rate, with reference to any possibility of clash of interests hampering the purposes of the bank, you start the day out rather optimistically?—A. Yes; because there is no fundamental clash; and any clash which might take place would be due to misunderstanding.

Mr. BREITHAUPT: In the remarks of Mr. Picard, I think he rather left us with the impression that the chartered banks discriminated against the small borrower, particularly in the large cities throughout the country. I come from a district which is highly industrialized. The industries are very diversified. There are large businesses there, branches of American industry and plenty of small industries that started from scratch. In my experience I think it is only fair to the chartered banks to say that they have, in all cases that I have known about—and I have known about some up there, having been president of the Board of Trade for a number of years and in that way they have come to my attention—they have actually not discriminated against the small borrower. As a matter of fact, they have helped the small borrower. I think there is a need for this bank as well as the chartered banks. I do not think we should place the chartered banks and the loan companies in the wrong light.

Hon. Mr. HANSON: That is a very good statement. Mr. Chairman, may I ask a series of questions before we adjourn?

The CHAIRMAN: Yes.

Mr. KINLEY: Before Mr. Hanson goes on, may I just say a word here in connection with what Mr. Breithaupt has just said with regard to the banks. They will loan the little fellow money if he gets a good endorser. It seems to me that this system of the banks' loaning money with endorsers, without consideration, is an imposition on some of the public, not excluding the politicians.

Mr. MAYBANK: Have you been hooked too?

The CHAIRMAN: All right Mr. Hanson.

Hon. Mr. HANSON: Mr. Towers, I am not expecting an answer to-day to these questions, but I should like you to think them over when you read them. Both you and Dr. Clark emphasized the position that there was a gap between the facilities serving the borrowers in this country. Have you made any survey of the gap to determine how big it is or how wide it is? Have you tried to ascertain the extent or size of the gap?

Mr. KINLEY: A little louder, Mr. Hanson, please. I cannot hear you.

Hon. Mr. HANSON: What is the extent of the gap? You made a further statement that such lack is a more serious impediment now than it was twenty-five or thirty years ago. That is an expression of opinion, and I should like you to give us some supporting testimony. Coming specifically to the series of questions which I have propounded in thinking this thing over, we are in agreement, I think, that the job of this bank is to advance capital to persons who are establishing or extending industries, be they small or whatever they may be. I think we are in agreement on that. I should like to put this question to you: On what ground will you select the industries to be aided? I do not want just a general answer, if you will pardon me for saying so—and I am not being dogmatic—but I want something specific. I do not want just an answer that they will be industries of advantage to the nation. I want to know what the tests will be which will be applied. One will have to be, of course, that they cannot obtain capital elsewhere. We are in agreement on that. Another will be, I assume—or it should be, I assume—that such industries will pay or have a reasonable expectation of paying. If the industry will pay or have a reasonable expectation of paying, why should there be any doubt of its being able to obtain capital in the open market or in the locality?

Then there is a further point of view which I should like to put to you. Is it not a fact that by giving this aid to industries which you select, you are using the power of government to favour certain industries and certain localities where they are established, as compared with other industries in other localities? It is a fact, of course, that every industry in Canada competes, or should be competing, to some extent with every other industry, for labour, for power, for materials of all sorts. Why should the government assist one industry in preference to another? Dr. James, in his monumental work, has stated that we ought to expect, if we are to keep up our Canadian standards of living and progress, that about 20 per cent of the national income should be devoted to capital—to the providing of new operating equipment or the improvement of present equipment. The national income is supposed to be running around $8,000,000,000 per annum—perhaps larger.—Is it not perhaps larger than $8,000,000,000.

The WITNESS: There are so many definitions of national income. I would prefer that Dr. Clark should answer that.

Hon. Mr. HANSON: I have never been able to determine what is the true national income. I have tried it many times, but I find that there are as many opinions as there are economists giving the opinions. They all start on different bases. Assume that it is $8,000,000,000 at the present time. Twenty per cent of that would be $1,600,000,000. I do not suppose that you expect that your bank will be able to obtain a return on its investments—that is, return of the capital; I am not speaking of the income—in less than ten years or some comparable term. There are not many businesses, I suggest to you, which can hope to repay capital quicker than that, and I know of some that have not paid in that period of time. Therefore your bank would add $10,000,000 a year to the capital funds available in Canada. I ask you this question: Is it worth while having a bank to add $10,000,000 to a requirement of $1,600,000,000 per annum?

Then there is another very important question, and I am using the word "political" here not in the highest sense, because this is a mundane affair; and if you know as much about human nature in Canada as I think you do, and as I hope I do, there is such a thing as political pressure. Suppose you build a factory in Regina, Moose Jaw, or Winnipeg. Some other place will want one too. Why should Regina get help and it be denied to Moose Jaw? If you have any factories in British Columbia, why should not Alberta be asking for one too?

Mr. BREITHAUPT: Or Fredericton.

Hon. Mr. HANSON: Yes. I will certainly put in my oar for Fredericton, if I am here, which I do not expect to be.

Mr. BREITHAUPT: Or British Columbia.

Hon. Mr. HANSON: Yes. British Columbia will want to be treated as well as the maritime provinces; and you will hear often of the maritime provinces, make no mistake about that. The maritime provinces will want fair treatment as compared with the other provinces, which we maintain we have not had. We are not going to debate that now. Ontario and Quebec which are supplying the major part of the capital in this country—they supply the major part of the taxation of this country, there is no doubt about that—will be saying, "Well, you cannot take care of the poor relations at our expense. We will want our share." How do you propose to deal with situations like that? I particularly do not want you to say that there will be no politics in this in the lower sense of the word, for I should like to remind you, this committee and the people of Canada, that it is the duty of this parliament, elected by the people, to guard the expenditure of the money that is taken from them by way of taxes. This government of ours has no open sesame to revenue except by taxation or borrowing its people's money; and to guard that expenditure the members of parliament have to decide what line they will take, and that decision will be made along party lines. You may not like it, but that is the fact. Any one who tells you otherwise is just bluffing or kidding you. That is a realistic attitude for me to take, and it has been impressed upon me. In other words, and in plain language, everything which the government of Canada finances is subject to political control, and is going to be as long as we have representative government in Canada. What I want you to say is how you propose—

Mr. KINLEY: I object. Either government or bureaucratic control.

Hon. Mr. HANSON: At the moment we have bureaucratic control, and I object to that.

Mr. KINLEY: It came down to us.

Hon. Mr. HANSON: What I want you to tell the committee is how you propose, as a government bank, to stand against the pressure; because although you can call it by any other name you like, this is a government bank and the people will look upon it as a government bank, and if there is a loss, it is going to fall on the taxpayers. How are you going to stand out against this political pressure?

I should like to make this observation. I believe that the treasury of this country and the Bank of Canada are in the hands of very competent people. But that has not saved us from pretty rash financial policies in Canada in days gone by. For example,—and I wanted to bring this out in the railways committee the other day, but I did not have the opportunity—when the C.N.R. put its brief in to the reconstruction committee, it put in a reconstruction program and said that it was going to spend $260,000,000 for projects which might not pay and $103,000,000 for projects which would not pay, because they were desirable. That sort of thing does not commend itself to me as a taxpayer.

Mr. KINLEY: That is what you did with the Hudson Bay Railway.

Hon. Mr. HANSON: I did not. I had nothing to do with that, and I am not going to be deflected from my purpose here.

The CHAIRMAN: Order, please.

Hon. Mr. HANSON: Or the line of argument I am taking.

Mr. KINLEY: That is exactly what you did.

Hon. Mr. HANSON: If you want me to say it, both parties are responsible. You started it and we finished it. We went on with it, I always thought improperly; but I do not want to go into that now.

Mr. JAQUES: It created a lot of work.

Hon. Mr. HANSON: I have not heard either the treasury or the Bank of Canada telling the C.N.R. that their business was not to worry about what was desirable, but to run the railway at a profit. That is what they ought to do, if possible. But when I think of them spending $363,000,000 for projects which may pay possibly and some which could not possibly pay, out of the people's money, then to me it is sheer nonsense. How do we know that the Bank of Canada is going to take any better stand on other projects such as this, especially if the time comes when the bank has not as good a governor as it has today?

Mr. ABBOTT: Soft soap!

Hon. Mr. HANSON: If this bank is not established, do you really and seriously believe that anything will go very wrong in this country as a result? If so, what will be the wrong that will follow? If not, why should we adopt this very radical departure from the principles of allowing private enterprise to function on its steam?

Finally there is this; and it ties in with the suggestion made by my colleague, Mr. McGeer, the other day to which you, I thought, at least gave partial assent, and to which I am going to refer in a moment. Is it not a fact that a very small reduction of the taxation in this country would render a huge volume of capital available for capacity in industry, a great deal more than this bank can ever put into circulation? I refer to Mr. McGeer's question. It was near the end of your examination the other day. Mr. Kinley had been cross-examining you on certain matters, then Mr. McGeer asked a question in reply to an answer which you made to Mr. Kinley. "Why is that?" Perhaps, in order to give the context, I had better go back to the bottom of page 14. The record reads:

By Mr. Kinley:

Q. You are assuming he will buy stock and not lend the money?—A. In the ordinary course of events I would think he would buy stock.

Q. Be a minority shareholder to a large extent?—A. Yes, possibly, although that has never been easy in itself.

Q. It is not very attractive.—A. He may come in in some form of partnership participating in the business. There are all kinds of permutations and combinations. What you suggest has never been easy, and I agree with that, but I would simply suggest that for the reasons I have mentioned it is a good deal harder nowadays to interest individuals in putting in capital in a small enterprise unless they are ones which they are managing and trying to build up themselves.

By Mr. McGeer:

Q. Why is that?—A. Taxation.

That is your answer, Mr. Towers. Then Mr. McGeer asks this question:

Q. In other words, we are taxing ourselves out of private enterprise and taxing ourselves into a state of public aid or public ownership?—A. I think there is a tendency in that direction.

Is there not a tremendous amount of truth in that statement? I am going to leave this with you, Mr. Towers.

The CHAIRMAN: Before we adjourn, Mr. Abbott has a statement to make.

Mr. ABBOTT: I have not very much to say. This will be the last meeting before adjournment, I take it, and I think I can say definitely that very shortly—probably immediately after we resume—the government will be in a position to introduce the Bank Act and probably the other financial measures which it proposes to place before the house. I think the proceedings this morning have demonstrated, however, that we have been able to make some progress with the discussion of this bill. As to what the order of business will be after we resume, that of course will be in the hands of the committee.

The committee adjourned at 1 p.m. to meet again at the call of the chair.

May 16, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: The next order is an Act to incorporate the Industrial Development Bank. Is it your wish that we proceed with No. 2 or that we proceed with No. 3, Bill 91, an Act respecting Banks and Banking?

Mr. MCGEER: In connection with that, Mr. Chairman, this is not a committee set up to consider the amendments proposed; it is a committee dealing at this time with the revision of our banking laws which comes up every ten years. It is somewhat different from any other sitting of the Banking and Commerce Committee which we have held in the last few years. In fact, it is only comparable with those sessions of the committee that have been held every ten years.

The proposed industrial bank and the proposed amendment to the Bank Act can be considered, I think, only when we have a very comprehensive understanding of the operation of the system which was inaugurated in 1934. In 1934 Canada established a new monetary system, a monetary system based upon the establishment of a central bank. In 1938 that policy was again changed and the central bank became a publicly owned institution. I suggested in this committee, and this committee accepted the suggestion and the recommendation was made to the House of Commons that the report of the Bank of Canada covering last year be referred to this committee. That is a most comprehensive document. It is a document that deals not only with the fiscal situation in Canada but makes very sweeping recommendations with regard to the whole economic structure of Canada and the requirements as they are perceived or understood by the Governor of the Bank.

It does seem to me that before we move to consideration of the specific legislative proposals before us that we should have before the committee a complete review of the operations of the Bank of Canada year by year since its inauguration. We have never had before the Banking and Commerce Committee an examination of the accounts of the Bank of Canada. We get a general statement as what its profits are. We have never examined the operations of that bank nor have we ever had any understanding as to just what are the costs of the operations of the chartered banks. Certainly one of the issues that is now before us is the question of the cost of servicing the financial needs of the people of the Dominion of Canada. We are now told by the Minister of Finance that if we borrowed 3 billion dollars from the Bank of Canada rather than from the chartered banks the cost would be more. It does seem to me that parliament through this committee, and the people of Canada through parliament, are entitled to know whether the costs of the operation of the present banking system are fair and reasonable, and if they are too high in what way those costs can be reduced, because I think that anybody who examines the costs of this war, notes the bills we have accumulated, notes the indebtedness that has been established, notes the interest charges that are involved over the next indefinite period of time, must realize that the cost of financing public enterprise, including war, is to-day more costly than the actual financing, or actual construction and development of public enterprise, or the actual costs of the war itself. Do not forget that the last war established an indebtedness that still stands on the books of this nation for every dollar that was incurred. We have paid out in interest to date more than the last war cost us. Our debt situation is such to-day that no one can look at it without being apprehensive as to what the situation is going to be in the future. If we can find no other way to finance public enterprise for municipalities, for provinces and for federal administration, than that of pyramiding forever an accumulation of unpayable debt then we are putting the course of this nation in the same course that brought Europe to disaster. What I feel is if we are going to deal intelligently with the proposals, if we are going to make constructive suggestions as to improvements in our fiscal system, then there are a great many facts that we need to know.

I suggest that we should have the auditors of the Bank of Canada before us, and that a good start could be made in examining last year's report. I believe we must call witnesses from the provinces and from the cities as well as witnesses from the banks. When we have that information before us then I think we can proceed, not only to deal with the amendments proposed but to make constructive suggestions as to what changes should be made for improvement of our fiscal policies, our fiscal powers, and our economic structure throughout the dominion.

I offer these suggestions. I appreciate that the committee has power to develop its own course of procedure. I for one feel that without this information no intelligent consideration, as far as I am concerned, can be given to the amendments proposed.

Hon. Mr. HANSON: What you are suggesting is a wide open inquiry.

The CHAIRMAN: Gentlemen, the question I raised was whether we should proceed with bill 7 or bill 91. Do I understand that it is the pleasure of the committee, and your suggestion, that we take up bill 91, Mr. McGeer?

Mr. McGEER: No, I am suggesting that we do not take up either one of them, and that we proceed to call witnesses. My suggestion is that first we proceed to an examination of the report of the Bank of Canada which is referred to this committee for review.

The CHAIRMAN: Will you convert your suggestion into a resolution or motion?

Mr. McGEER: I am offering it as a suggestion. I do not know that I want to make a motion. If my colleagues on the committee do not agree with it then we cannot proceed that way.

The CHAIRMAN: I cannot tell whether they agree or disagree unless they vote.

Mr. BLACKMORE: Mr. Chairman, I feel that I desire to support the member for Vancouver-Burrard in his contention. I believe there are two other matters, or perhaps three, which it is the unavoidable duty of the members of this committee to examine with great care at this critical juncture in the history of our nation. In the first place I have never had it definitely defined in my presence just exactly what the Canadian people are justified in aiming to achieve through their banking system. I doubt very much that any satisfactory number of those who have charge of the administration of our whole banking system have ever definitely asked themselves that question and answered the question so that they could answer intelligently to others.

The next question which has never been answered satisfactorily in my hearing is this: To what extent has our banking system as a whole achieved the objective which we, as Canadian people, have a right to expect it to achieve.

The third question which I think we must ask ourselves and have answered is if the Canadian banking system is in any degree falling short of the objective which we are justified in expecting it to attain why is it so falling short?

I believe that until we can answer these three questions definitely it is impossible for us to appraise accurately the value of the industrial development bank or of the Bank Act itself.

While I am on my feet I will just raise one question which is a difficult question for me to answer. Why is there no preamble to bill 91? We have no whereases to bill 91. Surely you would expect a preamble to bill 91. We turn to this measure which we had to consider first, a relatively insignificant thing, and we find quite clearly set out in the preamble just why we are considering this bill. I have sought in vain through bill 91 for any statement of why we are passing that bill. We all assume apparently that the bill ought to be passed because our great-grandfathers passed a bill somewhat like this, quite disregarding the fact that the conditions under which we live might be widely different from the conditions under which they lived, and in the light of which they drafted their Bank Act.

I support the hon. member from Vancouver-Burrard in his contention that we should have the most accurate and extensive examination into every aspect of the financial situation in this Dominion of Canada before we proceed with either of these bills, anxious as we all are to proceed with them and to dispose of them.

The CHAIRMAN: Will you move a resolution to that effect?

Mr. BLACKMORE: I would be happy to. I should like the member for Vancouver-Burrard to draft it because he has had legal experience. I would be happy to move it.

The CHAIRMAN: I think it advisable we have a motion.

Mr. McGEER: I move that before we proceed to the consideration of the bills on the order paper, that is, bills Nos. 7 and 91, that we take such evidence as the committee may decide from time to time is appropriate to a proper understanding of the amendments proposed and the bills suggested.

Mr. BLACKMORE: I second the motion.

Mr. COLDWELL: In supporting that I want to say that I think what the member for Vancouver-Burrard has suggested is the only possible course for this committee to take at this time. He has suggested that we have a number of witnesses on a number of topics. I do not believe we have a steering committee?

The CHAIRMAN: Not yet.

Mr. COLDWELL: I think if this motion is adopted we should have a representative steering committee so that we can arrange immediately for the witnesses we shall require. We shall require not only witnesses from our Bank of Canada, the provinces, probably some of the large municipal organizations, maybe even representatives of some of the rural municipalities in some of the provinces, but also a lengthy number of witnesses from the chartered banks. We should consider very carefully just who these witnesses should be, and we should map out our work accordingly.

It is now the fifteenth of May and the session is running out. I think it is regrettable, since this legislation had to come before the House of Commons and the committee sometime during this session, that we did not proceed with this long ago so that we would have been well on with our work at the present time. I do not want to speak too often because there are a number of members of the committee who have ideas they wish to express, but while I am on my feet I want to say that I hope that the committee and the chairman will not endeavour to rush this thing along so that we do not get an opportunity to consider the material that is placed before us from day to day. I saw a report in the paper suggesting that we sit while the house is sitting today, tomorrow when the committees are sitting, Thursday and I think even Friday all day. I submit that that is not the procedure to be followed. We want to give this measure every consideration. We also have our duties to attend to with regard to other committees of the House of Commons. I know that this committee with me will take precedence over anything else I have to do, but I hope that when the time comes to consider sittings of the committee, we shall not be called upon to sit every day, morning and afternoon. I think that would be entirely wrong, would overburden the committee and prevent our giving the consideration to this matter that should be given to it. I think, when we are considering what we should do, we should have a small committee to go ahead and map out the work for us. However, I am supporting the motion now before the committee.

The CHAIRMAN: Mr. Coldwell, may I suggest that the report in the papers is, I think, greatly exaggerated. The sessions of the committee, of course, are in the hands of the committee. The only thing I would suggest is that we try to meet, as far as possible, every day at 11 o'clock and get through at 1 o'clock and that we carry that on regularly day after day. That is the only suggestion I have to offer in regard to that.

Mr. GRAHAM: Mr. Chairman, Mr. McGeer's suggestion is, of course, taking us a long way from the order paper. I have no objection at all to this committee at some time being asked to explore the very vast field which Mr. McGeer suggests to the committee and which Mr. Blackmore adds to with respect to the numerous problems that seem to have engaged his interest. I am not opposed either to the house in some manner doing what Mr. McGeer suggests should be done with regard to the whole system of credit agencies and banking, both the national bank and the commercial banks. But my mind suggests that we have two concrete tasks to perform as a committee of the House of Commons. One is consideration of the Industrial Development Bank and the other is the decennial revision of the Bank Act. It seems to me that common sense suggests that we discharge the two concrete tasks first; because in my opinion if we do not do that, then there is the danger that time alone will prevent us from doing the job that parliament has asked us to do in this session.

I would say to Mr. McGeer that the commercial banks have been in business for a long, long time, and that the Bank Act is not a new statute, that we all will want the commercial banks to carry on, even though we are considering the larger phases of the whole matter of banking. I would point out too that parliament, if it sees fit, can at any time again request this particular committee or some other committee, or even another commission such as the Macmillan Commission—as I think in the end it will have to be—to again in the light of the new experience that we have gained through the war in the matter of finance, to inquire into and report on the matter. But I do sincerely suggest to the committee that consideration of the Industrial Development Bank and consideration of the revision of the Bank Act are in themselves immense tasks and they must and should be done, it seems to me, with reasonable speed and with a reasonable degree of compliance with the wish of the House of Commons from which we spring. I am therefore opposed to the motion in this sense, that I am anxious that the committee tackle the job of clearing its decks of the Industrial Bank Bill and revision of the Bank Act. Then if the committee in its wisdom thinks it is wise, we could proceed with the larger inquiry.

Hon. Mr. ILSLEY: Mr. Chairman, I have listened to the discussion and am disposed to agree with Mr. Graham, I think, almost wholly, if not wholly. As I understand it, the House of Commons has declared in favour of the principle that the charters of the commercial banks should be extended for another ten years. That is the principle of the bill. I should think that the banking and commerce committee should proceed within that principle.

Mr. McGEER: I agree.

Hon. Mr. ILSLEY: The important matters for this committee to consider are what changes, if any, should be suggested in the draft of the bill that is placed before the committee for consideration and which has received second reading in the House of Commons. As to whether the bill should have been introduced before or not, I will not discuss; but the fact is that this is the 16th of May and the charters of the commercial banks expire by the 1st of July. It is very important, I think, that we get down to considering the terms on which the charters of the commercial banks should be extended. I think that is the most important matter and the most pressing matter before this committee. I think that the Bank Act should have precedence over the Industrial Development Bank because it is so much more important and because time presses there and does not press in the other case. I think if either measure is to have precedence, the Bank Act is the one to have it. I should like to see the committee begin its examination of the Bank Act which is before the committee; and if, when we come to certain sections, such as for example section 59, we are drawn into much wider issues such as the desirability of borrowing from the Bank of Canada rather than the banks, operation of the reserve racial and so on and so forth, it seems to me that those broader considerations could be dealt with under some one or other section of the Act. In other words, I am not in favour of the resolution. I am afraid if we get considering a resolution which is a broad economic inquiry, where there is nothing very concrete about what we are considering, for we are considering the whole financial system of Canada in a broad way, the discussions will take so wide a range that we will not get down to anything concrete. It must be borne in mind that in these discussions, if one witness makes a statement, very often some one else wants to contradict that statement and he wants to bring evidence to show that such statement is not precisely accurate. That leads to a great extension of discussion, broadening and broadening all the time, without anything definite before the committee for consideration. So I really believe that, without limiting any discussion that is relevant to the extension of the charters of the commercial banks and the terms on which they should be extended, we should not engage in a general economic inquiry before we take up the Bank Act itself. I do not know whether there is any definite proposal for a steering committee, but that is a matter as to which perhaps hon. members would like to express their views.

The CHAIRMAN: We have a motion before us. I think we should confine our discussion at the present time to Mr. McGeer's motion.

Mr. SLAGHT: I shall speak strictly to the motion, Mr. Chairman, which is, as you will recall, that the committee take such evidence as it may decide from time to time before going through the bill clause by clause as the Honourable the Minister of Finance suggests we should start doing. To me it is unthinkable that we should take up the Bank Act in that way. I quite agree with the Honourable Minister that the Bank Act should have precedence over the Industrial Bank Bill as such, and that we should not forget that there is a Farm Loan Bank Bill which we have not seen yet and which all ties in in our deliberations, in an economic policy. May I suggest why this motion should carry? The Minister of Finance was good enough to put on Hansard on the 2nd of May a statement of the current operating earnings and expenses of the ten chartered banks, which gave us some information that we have never had before. There are three items there that I suggest must be broken down for us before we can review the economic system with any intelligence. One item, you will remember, of the earnings of the banks is $60,000,000 for interest and discount on loans. That is page 2620 of Hansard of May 2. Another item is interest, dividends and trading profits on securities, $48,000,000. Until we know how much there is wrapped up in that $48,000,000 of interest that the taxpayers of Canada are paying on bonds and on short-term securities locked up in the vaults of the chartered banks, we cannot approach section 59 with any intelligence whatever. Then there is another item, item 3, in the total of $144,000,000 of earnings last year by the ten banks: exchange, commissions, service charges and other current operating earnings, $35,000,000. That is what the banks made last year in service charges and commission. I personally want that broken down, because the Minister on the 11th of May raised an entirely new issue—I was going to call it a smoke screen but I will not do that—by saying that if we borrowed three billion dollars from the Bank of Canada we would force them to pay interest on a considerable part of it through their savings accounts and the chartered banks would have to impose an additional charge of twenty-two and a half million dollars. That to my mind is an inaccurate statement. I should like that statement broken down by a banker or some one from the Bank of Canada who can review for us the ten banks as of one—we will save a lot of time in that way—for the simple reason that, as the Minister of Finance well knows, the chartered banks are not forced to take any man's deposit in a savings account, to open an account for him nor pay him 1½ per cent interest. I opened an account this morning in the post office savings bank for $10; they were glad to have it and they are paying me 2 per cent interest on my money. All this flood of three billion dollars that might be released can go at once to our savings banks and be deposited there. I have not any brief for Mr. Mulock's system, but it was pointed out to me by the very obliging clerk in the post office that there were 10,000 post offices in Canada into which I, if I were stranded, could walk with my little book, and there from 8 o'clock in the morning to 8 o'clock at night, cash any part of my deposit. So I do not think we should be carried away with the bald statement of fact.

Mr. MACDONALD (*Brantford*): I am afraid the clerk gave you wrong information. It is not as easy as that to get your money out of the post office.

Mr. SLAGHT: It is not?

Mr. MACDONALD (*Brantford*): No.

Mr. JACKMAN: I do not think you can issue cheques on it.

Mr. SLAGHT: No. Nor can you issue cheques on the savings departments of the chartered banks that we are to be alarmed about.

Hon Mr. HANSON: Yes, you can.

Mr. SLAGHT: No; not without paying a service charge.

Hon. Mr. HANSON: Oh, yes.

Mr. SLAGHT: Very well. You are favoured people, because I know some industries that pay a service charge. Take the little clerks right here in Ottawa who issue cheques against a small savings account. The chartered banks charge them 7 cents a cheque to issue them. When they issue about ten a month, there is 70 cents a month to issue little cheques for $1.25. I do not want to get into an argument about it. My point is this. How can we render a report to parliament without having heard evidence which is at the very root of this problem? How could we try a case in court and go on through the pleadings, section by section of the claim, if we were to call a witness about one item, let him go home and then find, the next day, that we have got to have him back on another item? Surely we must have placed before us by the accountants of the chartered banks, one or more of them, and the accountant of the Bank of Canada, the breakdown of the way they do their business and what is made up in the service charges of $35,000,000. We are told that we are going to force the banks to take those deposits if we deal with the Bank of Canada in financing government needs. We are told that the bank charters expire on the 1st of July. We would have power, I fancy, to recommend to parliament to give them three months' extension of their charters if we did not conclude our deliberations before then. I am not alarmed about that state of affairs. But if we are to take section 1 of the Bank Act and section 2, and go along without the evidence we have to have, we cannot do our job in the proper manner, I suggest.

Hon. Mr. ILSLEY: The sections do not need to be taken in order.

Mr. SLAGHT: Do not need to be taken which?

Hon. Mr. ILSLEY: In any order.

Mr. SLAGHT: No. Then why call witnesses about a particular section, say section 43 or section 59, and not have in our minds the examination of other witnesses on the whole economic setup involved in the renewal of the charters of these banks?

Some Hon. MEMBERS: Hear, hear.

Mr. SLAGHT: We cannot do it piecemeal and bite by bite. I suggest we have got to have the whole broad picture presented to the committee. It would be a travesty to go at the matter the other way. I feel very strongly about that.

Mr. JAQUES: Mr. Chairman, if this bill must be dealt with quickly, why was it left so late in the session before it was brought before the committee. I think we have got to ask ourselves this question: Does this country exist to serve the banks or do the banks exist to serve the country? I do not know where some hon. members make their inquiries or get their experience outside of this house, but if they are not aware of the thinking of a great many of the people of this country it is about time they woke up. If anybody here thinks that the people of Canada, speaking generally, are satisfied with conditions as they were before the war, and if they think that the people of Canada are willing to go back to those conditions, that is not my opinion as the result of conversations with the people. They have no intentions of going back to those conditions. It is a question of whether we are going to modify the financial system of this country—or the parliamentary system of this country—whether the people are going to retain the sovereignty they have enjoyed or whether that sovereignty is to be surrendered; because what they demand and what they intend to have is economic security, and that is something which the financial system of this country or any country was not able to give them before this war. If they cannot get that security with liberty, then they will surrender their liberties in order to get it. My whole interest in this inquiry is this: I believe it is possible for the people to have economic security and at the same time retain the liberties which they have always enjoyed. In fact, I will go further than that and say that it is possible to enlarge those liberties. I will make one more statement, and that is that if we surrender those liberties it will not be long before we lose our security.

Hon. Mr. HANSON: As regards the words of my learned and hon. friend, what I have to say will be strictly to the point of the amendment. I was greatly intrigued with the amendment when it was first spoken to and moved by the hon. member for Vancouver-Burrard.

The CHAIRMAN: It is a motion, not an amendment.

Hon. Mr. HANSON: A motion, yes, pardon me. If we were beginning this inquiry at the opening of the session I would feel rather disposed to vote for this motion, because to me it will be very informative and instructive, and I do not know anybody in this committee who needs more information and instruction on this matter than I do. But may I remind the committee that we are confronted with a condition and not a theory. It is unfortunate that the Bank Act was introduced at so late a date. There were probably good and sufficient reasons for that. I rather chastised the minister in a mild way for bringing the Bank Act in late, but I can understand that there would be, perhaps, good reasons why it was done.

Mr. SLAGHT: What are they?

Hon. Mr. HANSON: I can suggest this reason, and I think it would appeal to my hon. friend from Parry Sound, that the minister's health must be a factor; I do not think we ought to forget that. Now, here we are on the 16th day of May. We are all business men, I think, and we have a job to do and a very limited time in which to do it. I do not know whether hon. members desire to stay in Ottawa until the snow flies, but I do not look forward to that situation with any degree of equanimity. As far as I am concerned I am not going to stay here until the snow flies. My health would not permit. But aside from personal convenience, I do not think we ought to be asked to stay here for a very lengthy discussion.

Now, this is the suggestion I have to make: Being somewhat familiar with the Bank Act I am of opinion, and I hope this will appeal to the hon. members, that the questions raised by my friends from Vancouver-Burrard and Parry Sound will inevitably be raised in connection with certain sections of this bill. The very difficulties which the hon. member for Vancouver-Burard has raised will come up under one or another of these sections, and on those occasions I am sure the committee would desire the opportunity to be given to explore the avenues which he wishes to explore, and in that way his purpose will, I think, in a very large degree, be accomplished.

That is a practical suggestion. It may appeal to him in the interest of time. I put it that way. I do think that we ought to examine the operating report of the Bank of Canada. I think we voted to have that included in the reference. It is a very important document. I am sure that the minister and the committee know this and would not want to exclude discussion on the report when the time comes. However, in the interest of good realistic business progress, I say if we open this subject up to wide discussion on monetary theories well, God only knows when we will get down to the bill. I think we have to be rational about this matter; and reluctantly, from the standpoint of time, I am afraid I will have to vote against the amendment. I do so for that reason and for that reason alone, but I will support the member for Vancouver-Burrard when the proper opportunity comes if he wants to get evidence here on the subject matter that he has at heart and which, I think, can be appropriately raised under appropriate sections. That is the suggestion I make.

Mr. McNevin: Mr. Chairman, as far as I am concerned, at the appropriate time I would welcome a wide open discussion on the whole fabric of our economic, financial and banking system; but we passed this bill in the House of Commons, bill 91, and it was referred to the Banking and Commerce Committee to be dealt with, and I think we should proceed along the lines of that reference and deal with this bill.

The point has been raised as to why this bill has not been introduced in the earlier stage of the session. Well, Mr. Chairman, I would direct your attention to the fact that the war appropriations are not yet through the House of Commons, and I think parliament and the country generally recognize that the war apropriations are the most important problem facing the house. I think that explains why this bill might not have been brought in sooner.

I would like to make one reference to the suggestion of the hon. member for Parry Sound with regard to post office accounts. I happen to have carried over a good portion of my life a small acount in the Post Office Savings Bank. Now, it is not a suitable account for the conduct of general business. It is all right if you have a few dollars that you do not need for an extended period of time; it serves a splendid purpose. It is not adapted to the general practice you would use in carrying on business. I am quite satisfied of that fact from my experience.

I am going to move an amendment to the effect that the committee proceed with the consideration of bill 91.

Mr. Gray: Mr. Chairman, it seems to me that we have had, first of all, a very specific duty assigned to this committee by the House of Commons, namely consideration of this specific bill. Secondly, I do not agree with my hon. friend, Mr. McNevin, altogether that because the principle has been adopted in the House of Commons that that principle must necessarily be pushed down our throats, so to speak, and that we cannot consider a principle here in committee. I have never agreed with that thought. I have heard the point raised by the government in office to-day and the government which sat from 1930 to 1935. They have always said: We have adopted the principle, therefore you cannot consider it in committee. Nevertheless, I somewhat agree with what has been said by the member for York-Sunbury. I do not do so entirely on the question of time; I do not think we should consider the matter altogether on that basis, although in the final analysis that is an important element; but it has been my experience over a period of some years, and especially during the years when I occupied the office of chief government whip, that you have in committees and in the house repetitions and repetitions, reconsiderations and reconsiderations to such an extent that it does seem to me that in the final result we will get along faster and achieve the results desired by the hon. member for Vancouver-Burrard and the hon. member for Parry Sound if we follow our reference. I agree most heartily that there should be real consideration given not only to the report of the Bank of Canada but also that we should have evidence from the banks themselves. It is my recollection that when we last considered the Bank Act the hon. member for Vancouver-Burrard gave evidence at some period during the discussion of the Act. I am not one of those who slavishly follow a precedent, but I repeat that it does seem to me that if we adopt the principle and start with the consideration of this Act, reserving to all these members who feel that at some stage consideration should be given to certain matters the right to discuss those subjects, that with the help of the steering committee that could be set up by you, Mr. Chairman, we would accomplish everything that has been sugested by the mover of the motion. At the same time we would come to the root of the matter and make progress with the discussion of this bill.

Mr. PERLEY: Mr. Chairman, I agree with parts of what has been said by all who have spoken so far, but I think there is hardly any excuse for the fact that we haven't had this bill down sooner. We have been in session for three and a half months, and the minister had his parliamentary assistant, who has acquitted himself very well, and I think we could have had the bill here at a much earlier date.

I agree with the previous speaker that there has been an awful lot of repetition of different measures discussed in the house—the war appropriation measure and this bill also; but the official opposition cannot be criticized for holding this measure up because I think only three or four of us spoke. I spoke briefly because I thought it was my duty to do so. I recall in 1934 when a similar bill was before this committee that we had very interesting witnesses, and we got a lot of information from them. That was ten years ago. Conditions in Canada, financially and otherwise, have changed to a considerable extent in that ten year period. I think that before we can intelligently consider the bill we should have, at least, some witnesses from the chartered banks as we had the last time. There have been considerable changes in the bill. I think they could give us a lot of useful information. I agree with the suggestion made by Mr. Coldwell. I think we should have, as Mr. Gray has stated, a steering committee named by yourself, or by this committee, to consider whom we shall call, what witnesses shall be heard. I think that would facilitate matters considerably. That is very important. If that is included then, if anyone would make that motion, I would be pleased to support it, but if it is not I am going to support the motion as it stands because I think there is a lot of information this committee can get which we have not heard in the House of Commons and which I think we should have before we can intelligently proceed with the sections of this bill.

The CHAIRMAN: May I just recall that at our first session the member for York-Sunbury gave us a list of witnesses whom he thought ought to be called.

Hon. Mr. HANSON: Types of witnesses.

The CHAIRMAN: At the time the proceedings were not being recorded, but I would suggest that that list now be placed on Hansard. I have the list here.

Hon. Mr. HANSON: On the 16th of March I wrote this letter to the Chairman of the committee. I am only reading part:—

> I desire to suggest that before the committee proceeds to take up the bill section by section, hearings be held in relation to the general principles involved—

That is in the bill; I was referring then to the Industrial Development Bank because this other bill had not been introduced, but the same remarks are applicable to bill 91.

> —hearings be held in relation to the general principles involved, and that a few witnesses be called including (*a*) the Deputy Minister of Finance, (*b*) the Governor of the Bank of Canada, (*c*) one or more representatives of the investment bond and share dealers, (*d*) the president of the Canadian Bankers' Association, (*e*) a representative of the Dominion Mortgage Association, (*f*) such representatives of small industry as may be available.

I did not have anybody in mind. I said that.

> In this connection I have no one in mind, but it does occur to me that this aspect of the case for this bank—

meaning the Industrial Development Bank—

> —could with propriety be heard.
>
> (*g*) Then it occurs to me that someone representing the large war plant industries, built, owned and operated as crown companies, might be called, in order that the committee may have some idea as to what is being considered and done with reference to their continuation in the post-war period.
>
> This is a rather imposing list of suggestions, but I do hope that the suggestions contained in this letter will commend themselves to your good judgment and that of the committee.

The CHAIRMAN: Thank you.

Mr. TUCKER: Mr. Chairman, with the letter which has just been read I find myself very much in agreement except for this, that one of the large industries in this country is the farming industry, and certainly representatives of the farmers in this country should be heard.

Hon. Mr. HANSON: Quite right.

Mr. TUCKER: In regard to their attitude to the banking system of this country.

Hon. Mr. HANSON: If it had occurred to me I would have included it; I agree entirely.

Mr. TUCKER: I do not think there is really much difference of opinion between us basically because it seems to me once we have decided in regard to basic principles the actual sections themselves will not afford us very much difficulty or take much time. It is just a matter of whether we should hear witnesses first and come to a conclusion in regard to those witnesses and then put the sections through afterwards or whether we should start with the sections and then run into a snag and have somebody say, "I want to hear evidence on that", and then be held up while witnesses are being gathered together on that.

As I understand the motion, Mr. Chairman, it is this, that there are certain basic problems which we want to be satisfied about, and when those problems are dealt with then it will not take very long to deal with the sections of the bill. As far as I am concerned there are a couple of things. One was the lack of a sense of responsibility on the part of the banks towards the discharge of the trust which has been given to them, feeling they are the sole owners of that credit and are not responsible to anybody except they have got to come back here once every ten years. I submit there should be some authority which should have the right to examine into their discharge of that trust continuously, and that they should feel they are responsible to that public authority, that that public authority could report to this parliament, and this parliament could look into it year by year.

I suggested one example of that, an Act passed by this parliament, the Farmers' Creditors Arrangement Act. I understand the banks took the attitude tha farmers who presumed to avail themselves of the privileges given them by that Act would no longer receive credit which they were entitled to as citizens of the country if they had otherwise kept themselves in good standing. If that was the case, which I understand it was, certainly the large banks should have been called to account for it at the time and not two or three years later when their charter is coming up for renewal. That is a matter I think we should hear some evidence on.

Then there is the other important question as to the limit on the rate of interest which banks may charge. The Minister of Finance put on Hansard the costs of operation of the banks, and he included in those costs of operation very heavy losses of approximately $13,000,000 a year. Those figures are very important figures in regard to our whole attitude towards the banking system of this country. It seems to me before we begin to pass specific sections we should have some representative of the banking institutions explain those figures and explain why it costs 1½ per cent to run a deposit business, why there should have been $13,000,000 losses, whether it was losses in little accounts or in a few big accounts, perhaps in industrial centres.

Once these things are thrashed out it seems to me that the actual dealing with the bill section by section will not take very long. So far as I can see there is no fundamental change in the banking system proposed in this Act, and once it is decided exactly what is fair for the banks to charge and whether there should be more supervision over them it seems to me it should not take very long to put through the Bank Act itself, but until that fundamental question is decided you are going to have this problem, that on every single section you are going to have all these possible objections raised. I think you will find then that this whole thing will repeat itself. The best thing is to get the whole principle established and out of the way by your steering committee finding out the witnesses that the various members want called, get them called and examined, and then after that it seems to me it will not take very long to put your bill through section by section. That is why I propose to support the motion of the hon. member for Vancouver-Burrard because I think it is the most expeditious way of dealing with the matter, that it means we will set up a steering committee to decide what witnesses we are going to have, get them here, call them, dispose of them, ask them anything about the whole Act, and also the Industrial Development Bank Act, and I hope by that time we will have the Farm Loans Improvement Act before us so that we can deal with the whole financial set-up with each of these witnesses when we have them before us. I think in that way we will get through this bill much quicker than if we attempt to go through it section by section and try and call witnesses when somebody wants a witness called. I think in that way we would drag out the proceedings interminably. Understanding the motion as I do, that it means we will set up a steering committee and call the witnesses we want called, I have no hesitation in supporting the motion of the hon. member.

Mr. Macdonald (Brantford City): It has been stated by a number of members that they regretted that the bill was not brought down sooner. It has been suggested it is the fault of the government it has not been brought down sooner. I do not think it is the fault of the government it has not been brought down sooner. Considering the great problems we have to decide and the great decisions we make I think the bill has been brought down very soon, indeed. As we all know there is a war on, and Canada is playing a very big part in that war. She has a tremendous role to play and is playing it. Our first consideration must be making provision so that Canada can continue to pull her end in this war.

You will recall, Mr. Chairman, that the first order of business before parliament was the adoption of the speech from the throne. Immediately that was completed what did we go into? We went into the War Appropriation Act. We have been considering the War Appropriation Act ever since, and I do not think we have been spending too much time on the consideration of that bill. It is the biggest thing Canada ever considered. It is the consideration of the spending by this government of 5 billion dollars which is a tremendous sum of money. That bill is not yet through the house. I am not one who thinks it should be crowded through the house. I think every item should be most carefully considered and scrutinized. Therefore, I think it is to the credit of the government and to the credit of parliament that we have given such careful consideration and are still giving such careful consideration to the War Appropriation Bill.

With regard to the business before this committee I would say that I hope the committee will get all the information which the member from Vancouver-Burrard and the member for Lethbridge suggest in their motion. It is just a matter of how that information is to be brought forth. The hon. member for Parry Sound in supporting the resolution referred to the account which he had opened in the savings bank. I do not think, as the hon. member for Victoria suggested, that the hon. member for Parry Sound intimated that the post office savings bank would take the place of the commercial banks throughout Canada. I believe his reason for mentioning the post office savings bank was that money can be deposited there and drawn out without a service charge. I think that is true, although money cannot be drawn out in any branch just as easily as the hon. member for Parry Sound suggested. He will no doubt find that out if he goes to Vancouver and tries to draw on the post office savings account which he has in the city of Ottawa. It has been suggested by the member for Lambton West that it will take a great deal less time in this committee if we consider Bill 91 clause by clause. I am in accord with him in that view. I understand the Minister of Finance to say we would not necessarily have to consider the sections as they are numbered but we could consider, for instance, section 5 to-day and then jump to section 10 and then back to section 9 if it is more convenient. It is my opinion that if we go into a general discussion of banking with no bill before us that we will continue that discussion interminably and we will not get down to the business which has been assigned to us, the definite business of considering this bill.

I do not think, as the member for Rosthern has said, that there is very much difference between the viewpoint expressed. It is merely the method of procedure, in what way it can be done most expeditiously. I have listened to all who have spoken here to-day, and although I am anxious to get the information which it has been suggested by the motion we should have, nevertheless I think we will go along more quickly and get the information just as satisfactorily if we consider the bill which has been presented to us. If it is necessary for someone to move that this bill be considered, as the hon. member for Victoria has suggested, I would second his motion.

The CHAIRMAN: I think we ought to dispose of the first motion of Mr. McGeer before we take up the next one.

Mr. MACDONALD (*Brantford City*): Very well. Then I will not second the amendment, but I will say that in order to proceed in an expeditious and thorough manner I think the bill itself should be considered.

Mr. MAYHEW: Mr. Chairman, personally in considering this bill there are three questions which I would have to ask myself. Without making a speech in connection with each one of them they are: Have the chartered banks of Canada performed a useful and adequate service to the people of Canada? Has that service cost Canada too much? Are they capable, as they are presently constituted, to carry on and develop Canada in the light of the developments that we are anticipating? I do not know how I am going to answer those questions to my satisfaction unless we do hear some of the evidence which has been suggested. But I cannot go the whole way with the honourable member for Vancouver-Burrard or with the member for Lethbridge in what they propose here, because here is the way it would work out, it seems to me. First you would have to hear, I suppose, the Bank of Canada, and there would be a long examination there. Then you would have to hear from the ten chartered banks. It was suggested also that we hear from the cities, so you would probably take in the four larger cities. Then you would have to hear from the provinces and you have nine provinces. It was also suggested that we hear from the municipalities. Suppose you take a municipality from each of the provinces. You would have nine municipalities to hear from. Then if we are to hear from the farmers, no one knows where we would stop if you got down to hearing from the farmers and from the different communities. Then you have to hear from industry, large and small, from the various provinces. Then you have to hear from the bond dealers and so on. So I suggest, just hearing one from each, you have thirty-six witnesses to call. If I remember rightly, when hearing witnesses before, it was a case of a long examination. I can see here, just with those alone, that it will be thirty-five to perhaps forty weeks before you will get through the examination of witnesses. Surely that is not what is meant by the motion; but from the way it reads here, that is the way it would appear to me to work out. You would run yourself into that situation. If we can eliminate that, and hear one from the banks, hear from the Bank of Canada and some of the others and get it down to a list of reasonable proportion, then I would perhaps agree with the motion of the honourable member for Vancouver-Burrard. But if it is left wide open in the way it is at the present time, I could not agree with it, because I do not propose to stay here the balance of the year just on banking and commerce. I am sure if I were here, most of my time would be spent listening to a repetition of a lot of questions that would be answered. However, I do think there is certain evidence that we should hear. Whether we do it before we start on the bill or whether we do it at the time of considering the bill does not seem very material to me, but I think we should hear a reasonable number of these people and hear them in a reasonable way. I do not believe that one person should come and take up the whole of the time in cross examining witnesses while the rest of us who did not know so very much about it would simply have to sit and listen to a repetition of it time and time again. So if your steering committee can be formed and a reasonable number of those proposed heard, I would support it, but as it is now drawn I could not support the motion.

Mr. Cleaver: Mr. Chairman, there are at least three distinct schools of thought in regard to our banking system and the way in which it should be handled. The majority in the house were not impressed with two of the more radical schools of thought and I am quite frank to admit that I was not impressed. I was shocked to learn for the first time that section 59 of the Bank Act was an empowering section, a section which gives the bank power to expand its credit. I always thought that it was a restrictive section, a section which said that the bank must do so and so to protect the depositors. That and many other things should be thoroughly discussed, I think, and canvassed in a banking and commerce committee. I want to say at once that while we have only one and a half months to go, I am not the least bit impressed by that argument. The Bank Act comes up for revision only once in ten years. There has been a lot of talk—while I think it is loose talk, I may be wrong—in the country along the line that the banks are getting something for nothing, that the banks have mythical powers of expanding their credit facilities and all that kind of thing. Mr. Chairman and gentlemen, if we were to jam this through, if the majority of the sound banking members of this committee were to jam through this Bank Act in short order, as we could, and vote down the minority, I do not think it would be a wise or democratic thing to do. It does seem to me that we face two alternatives. We can ask for the co-operation of the minority, who have a perfect right to their views—and I concede at once that the House of Commons is not a very satisfactory forum in which to try to sell an idea. While the Commons has already passed on the spirit of this bill, I do not feel that my hands are tied. I think those men who feel so strongly in favour of some other type of banking should have the freest possible right, within reasonable bounds, to present their views to this committee. If they are wrong, we will hope to sell it to them that they are wrong; and if they are right, I hope they will sell it to me that they are right. It does seem to me that we are faced with the situation that we can choose two courses. We can either choose to exert the power of the majority and put this amendment to the Bank Act through with only a formal discussion, or we can ask these other groups for their co-operation. It has been suggested that a steering committee should be set up. I think that is a good idea. I have generally found that people respond to fair treatment. There are a few isolated exceptions—I can think of one newspaper—but I have found that most people respond to fair treatment. I think that if the other groups that hold divergent views feel that they have a fair opportunity to present their cases to this committee, we will get their 100 per cent support and they will facilitate proceedings instead of attempting a filibuster on the bill. Those are my views.

Mr. RYAN: Mr. Chairman, I think the thing is quite simple. From my understanding and observation, the majority of the members of the House of Commons have decided that they are not in favour of the nationalization of the commercial banking system. Therefore, that being decided, the next thing to determine is how to proceed with this bill. To my mind we should take the bill as submitted clause by clause. The thought has come to my mind, after hearing the discussion, that it might be a good idea to form the steering committee and have the steering committee divide up this bill into sections and to decide how many witnesses you want for the study of each section. I believe we could arrive at the same thing as the member for Vancouver-Burrard wants to arrive at. I personally do not say that I am in favour of every paragraph or every section of this bill, and during the discussion I, with the other members, will have something to say, no doubt. But I do not think we should deviate and pass a resolution, if Mr. McGeer will excuse me for saying so, such as this. I believe we should go ahead with this bill. One thing is decided, there is no question of discussing any other system of commercial banking. We have decided that this government is not going to nationalize the banking system. Therefore the thing to do is to find out what kind of bill we are going to pass, governing how the commercial banks will be directed in future. That is all I have to say on that matter.

I would ask the pardon of the chairman just for a moment while I refer to a couple of other matters. I should like to offer my congratulations, and no doubt the congratulations of the committee, to the Honourable the Minister of Finance and to the Victory Loan Finance Committee, for the great success they had in the sixth victory loan. I think it should be a great encouragement to the Minister of Finance for all the work he has done and also to his deputy, Dr. Clark. I think that success is wonderful, and I think it is a great encouragement to the government and to all members of parliament. At this point too I should like to offer my congratulations, as a member from Quebec, on the able way in which the Governor of the Bank of Canada handled his work during this victory loan. I might offer my congratulations again as a Quebecker on the splendid command he has of the French language and tell him that the people of Quebec were delighted with the way he addressed them in the different cities.

Mr. NOSEWORTHY: Mr. Chairman, as I understand the discussion, the question before the committee now is whether we shall proceed by first of all an examination of our present banking system, by calling witnesses and entering into a general discussion or whether we shall immediately begin examination of the bill itself, clause by clause. I think the only question before the committee is as to which will, within a reasonable length of time, facilitate the examination not only of this bill but of the banking system in general. Those who have spoken against that general examination have indicated that time will be permitted during the examination of the bill to question witnesses and to get this general picture. I am going to support the motion because I think if we get that general discussion over first, it would be best. I am not visualizing a discussion running into thirty weeks, as one speaker suggested. I think the members of this committee are reasonable enough to limit that discussion, certainly within reasonable limits. But my opinion is that time will eventually be saved by giving us the opportunity of that general discussion first. Otherwise you are going to have the examination of the bill interrupted by a whole series of general discussions. This matter comes before parliament once every ten years. I submit that that general discussion is warranted in the public interest, and those who are supporting the present banking system will, in my opinion, do that system an injustice by giving the country at this time the impression that there is an attempt to choke off discussion of this subject. I think those who are most ardently supporting the banking system will be working in their own interest to permit at this time the broadest discussion that can be given within the time at our disposal. I am certainly in favour of a steering committee. I think perhaps all the general committee will be quite willing to follow the directions of such a steering committee first to plan the general discussion for us, then an examination of the bill. It is my opinion, Mr. Chairman, that you will facilitate the examination of the bill itself and facilitate the whole work of the committee by giving us first the opportunity for that general examination.

Mr. Picard: Mr. Chairman, I think it is of major importance at this session that due consideration be given to our financial structure and our banking system. I think the proper time to do it is now when we are discussing the Bank Act. If we do not do it now, I fear we shall not do it during the life of this present parliament. It has been said that, if we accept the suggestion of the honourable member for Vancouver-Burrard, the discussion will last too long. I think that results more from our procedure in the house for years past than from these specific proposals now. After observing the work of the house since 1925, I may say that the same thing has happened under every government, under every administration year after year, whatever government was in power. In the first weeks of the session there is the debate on the address in reply to the Speech from the Throne. Before the war it lasted for six weeks. Now it is shortened, fortunately. Then after that there comes the most urgent or most important business, which is now the war appropriation. The discussion on that has lasted more than two months. We have been on that for quite some time. Bills such as the Bank Act, shall I say, are staple goods. The Department of Finance and the government have had since 1934 to look at this bill from every possible angle and suggest changes that could be made. I do not think it is an emergency bill or that the government had to draft it at the last minute, which may have prevented its being brought up before us at an earlier date. If that were so, I would perhaps feel differently about its having come down so late. I quite grant that the Minister of Finance deserves the rest that he had to take, and if it were a case of making a last-minute decision on it I think it would be proper that we should wait until he was back, considering the amount of work he has had to carry on. But I do not believe that the Bank Act is not such an emergency Act. Therefore I think it might have been brought down before now. If all these staple bills were ready and brought before the house in the first month, and the committee work were started right away, we would not then be short of time and have to rush a bill. I think this procedure of going through a bill rapidly at times will not increase the prestige of parliament, which is not now in the ascendant in some quarters.

I think we should have a guarantee that on any specific question referred to in any section of the bill we may have any witness we want to bring before us. I think that is proper on any part of the bill. I think the question of principle involved is most important and that we might want to clarify our ideas. As Mr. Noseworthy and other members have suggested, I think it is to the advantage even of our banking system not to let the people think that we are rushing through this bill but rather that we are giving it consideration. I am in favour of giving consideration at the same time to our financial structure and monetary setup. I am not in favour of the nationalization of banks, although I think their power should be curtailed in many ways. That is done by one of the items in the new Act preventing them from issuing money after a certain period of time. I think we should go into the bill carefully. I think it is far more important to do that now than to rush through it. I wish to tell the Minister that I am not trying to embarrass him in any way; far from it. I am one of his many great admirers. I think he has done great work, not only in his own department but also in preventing inflation and so on. I think we are all behind him on that. I think the question now is a much bigger one than personalities, and that we should clear our minds on the whole question of our financial system and our banking system. Therefore it is up to us to decide whether this method of procedure proposed by the honourable member for Vancouver-Burrard is the better one by which to reach our aim. I think we should have the general discussion on principles dealt with at first. At the moment I feel disposed to support the motion.

The CHAIRMAN: Are you ready for the motion, gentlemen?

Mr. McGEER: Mr. Chairman, speaking to the motion, may I say that I quite agree with what some members have said, and particularly with what Mr. Mayhew said, I think if you will look at the resolution you will see that it contemplates, of course, the establishment of a steering committee and the calling of witnesses as the committee sees fit. That is the only way I know of by which evidence can be brought before a committee of this kind. There just seems to me to be a little conflict or maybe some slight confusion as to what the work of this committee is, and I think Mr. Graham has overlooked the fact that the primary, the all-important work of this committee is to consider the renewal of the bank charters. That is the thing. Mr. Chairman, if I may I should just like to say a word on that. That has been a practice incorporated in our banking legislation since the first Bank Act was passed. It was recognized by the men who passed the first legislation that they were creating a monopoly, that they were extending a great privilege, and that they were handing over to one group in the community a power that could affect, in one way or another, the well-being of the community itself and of all the people in the community. The safeguard that they established was that we would have for a period of ten years a fixed banking law. At the end of that ten years there would be a review and a consideration of the whole matter and another renewal for ten years. That has become a constitutional practice of our nation. Every time that ten-year period moves around, those who support the existing system have the opportunity to sustain it; those who wish to offer amendments or changes have an opportunity to present them. But this is the open forum of the people of Canada in which their representatives in parliament will review what has taken place in the last ten years and lay down for the next ten years the fiscal policy that will govern the lives of the people of the Dominion of Canada.

Mr. GRAHAM: May I interrupt for a moment, Mr. McGeer?

Mr. McGEER: Yes.

Mr. GRAHAM: May I point out that my chief objection to the resolution is that you made it quite clear that you did not want to proceed with the consideration of either of the two bills, but that you wanted to have first a discussion of the larger question of our financial structure. I am quite aware of what you say, and I am quite prepared to discharge that task with a complete degree of care and regardless of time. But there is the point that you raise, that you do not want to proceed with the two bills.

Mr. McGeer: I hardly think that is the question. I do not think we would agree on that. Whether or not I want to proceed or do not want to proceed is not the issue. The question of whether I shall proceed with my eyes open or proceed blindly is the thing that I see in the resolution. As far as getting the evidence here is concerned or having this thing jammed through as my friend Mr. Cleaver suggests—well, I have not any fear of that.

Mr. Graham: No, no.

Mr. McGeer: What I had hoped was that there would not be any question of that kind of conflict, although I must confess that when I read in Toronto newspapers that this committee was to be called upon to sit—

Hon. Mr. Hanson: Morning, noon and night.

Mr. McGeer: Yes, morning, noon and night, I was a little bit disturbed. I was rather concerned. If that kind of thing was going to take place, of course the proceedings in the committee would be far from what I hoped they would be. What I do believe now is this. When you come to start, you have the committee of 1923. You have the list of witnesses that they called. They were representative men of the banking world, of the public life of the community and the industrial community.

Mr. Gray: At what stage did they call them?

Mr. McGeer: Right off the bat. As a matter of fact, it was a rather jumbled-up affair and they lost a good deal of time. But I think the model committee—that is the committee of 1934 of which our friend Mr. Hanson was chairman—laid down a steering committee and that steering committee decided on what witnesses they would call and what witnesses they would not call.

Mr. Gray: Did they not call them during the consideration of the bill?

Mr. McGeer: They called them from time to time.

Mr. Gray: Yes.

Mr. McGeer: I was saying that we should set up a steering committee now and call our witnesses from time to time.

Mr. Gray: That is what I suggested.

Mr. McGeer: Because with a bill of this size there is no question of tying this bill up and never getting at it at all. If the bill were tied up there is no difficulty for the government to pass an emergency bill extending the charters of the bank for a year. That has been done before. There is no difficulty about that.

Mr. Gray: Don't you think you could probably amend your motion or drop your motion so as to have the steering committee set up and we could then all agree—I hope we can get together.

Mr. McGeer: I would be glad to move that a steering committee be formed for that purpose.

The Chairman: I think we ought to dispose of the resolution—

Mr. McGeer: I can change my resolution with the consent of the committee if I want to.

The Chairman: Please don't interrupt me until I get through.

Mr. McGeer: I have something to say; we are going to have something to say here.

The Chairman: Yes, I know, but please don't say it between my paragraphs.

Mr. McGeer: All right.

The Chairman: Suppose we dispose of your resolution and then we can take up the matter of the steering committee? That seems to be the proper way to proceed.

Mr. McGEER: As a matter of fact, what I am saying is that I presume if this committee were formed the steering committee would merely take charge of these matters, and that is what I had in mind; so if the suggestion is that the inference is not plain, with the consent of my seconder I now move that the steering committee be set up for the purpose of deciding what witnesses should be called and when they should be called.

The CHAIRMAN: Well, do you substitute that?

Mr. McGEER: Yes, I am glad to.

The CHAIRMAN: That resolution is substituted for the one we have now before us.

Hon. Mr. HANSON: I think all a steering committee ever does is recommend.

Mr. McGEER: The steering committee is only a sub-committee and it brings in its recommendations which may be accepted or not.

The CHAIRMAN: Then you withdraw your present resolution and make a new resolution; is that it?

Mr. McGEER: I move, Mr. Chairman, that a steering committee be set up to recommend to the members of the committee from time to time the witnesses who should be called before the committee for examination.

Mr. GRAHAM: I second that.

Mr. McNEVIN: Does that mean that the former resolution is withdrawn?

The CHAIRMAN: Yes.

Mr. COLDWELL: This is a radically different proposal from the former one, because the steering committee may recommend now that certain witnesses be called on certain sections of this bill, and we lose sight entirely of the principle which the member for Vancouver-Burrard had in mind at first, which was that we were going to get a list of witnesses of the banks, not thirty-five people, but a representative from the chartered banks, a representative of the agricultural communities, etc., and in that way we would get the whole picture before us before we went into any of the clauses. Now, this leaves the way open for discussion of the bill clause by clause by permitting the steering committee to recommend who will be called at some particular stage of the discussion of the bill. I am going to suggest that we will have this discussion all over again, and I would rather see the procedure laid down now rather than to have this same discussion when the striking committee brings in its report. I think it will be well for the committee to decide on the two methods of procedure: (a) whether we are going to discuss the general principles of the banking system—and I may say that I accept the verdict of the House of Commons for the time being that the question of the nationalization of the banking system has been decided by the house—I accept that, so I am not interested from that point of view; but I am interested in getting this committee going as quickly as possible, and I believe that if we have this discussion all over again—and I anticipate it—we shall be losing time. So we had better settle the method of procedure one way or the other now. I am sorry that the member for Vancouver-Burrard has withdrawn his motion.

Hon. Mr. ILSLEY: I do not think there is much disagreement about what we want to do. I myself prefer to take the discussion under some clause. I think you will get exactly as wide a discussion as you will in any other way. For instance, under clause 5 of the bill—if hon. members will look at clause 5, which is the extension of the charters of the chartered banks—you will see that you can have just as wide a discussion as you like about that.

Hon. Mr. HANSON: The general application of the bill.

Hon. Mr. ILSLEY: The general application of the bill. The Bank of Canada can be heard and the chartered banks can be heard, and so on. I am quite content to accept the motion as Mr. McGeer has moved it, that we appoint a steering committee to recommend to this committee the witnesses who should be called, but I think we should follow the ordinary practice of dealing with the Act clause by clause—not No. 1, No. 2 and No. 3 necessarily, but under some clause. I do not think there will be any repetition under what I propose more than there would otherwise be.

Mr. TUCKER: The steering committee could recommend that we start with clause 5?

Hon. Mr. ILSLEY: Yes.

The CHAIRMAN: Are you ready for the question?

(Carried.)

Hon. Mr. HANSON: I should like to call the attention of the committee to the minutes of procedure of the 6th March, 1934, wherein my friend Mr. Duff, now Senator Duff, moved:—

> That the following be adopted as the procedure of the committee in connection with the bill—
>
> 1. Non-contentious sections to be disposed of first.
> 2. Any clause to which there is objection may stand on the request of a member of the committee for future consideration.
> 3. Reconsideration shall be permissible on notice of motion.
> 4. Important amendments introduced in committee may be received as notices of motion to be discussed and not voted upon until a subsequent meeting of the committee. Members of committee to be furnished with copies of such amendments.

Now, I do suggest that that is a very proper method of procedure which should commend itself to all the members, and I make that motion.

Mr. TUCKER: That is the reverse of what we have decided: the steering committee deciding procedure and making recommendations.

Hon. Mr. HANSON: No.

Mr. TUCKER: I understand that the steering committee to be set up would make recommendations and the committee will decide whether it approves or not. This is another departure.

Hon. Mr. HANSON: May I hear the motion as it was passed? The steering committee were to make recommendations as to what witnesses were to be called.

The CHAIRMAN: The clerk will read the resolution.

The CLERK (Reads):

> That a steering committee be set up to recommend to this committee from time to time on witnesses that should be called.

Hon. Mr. HANSON: That is what we decided.

Mr. GRAHAM: I think Mr. McGeer had in mind a steering committee in addition to the committee which would discharge the usual duties of the steering committee to recommend the course of procedure.

Hon. Mr. HANSON: No.

Mr. TUCKER: I move, Mr. Chairman, that the question of procedure to be followed should also be left to the steering committee to bring in a recommendation, and to be decided—

Hon. Mr. HANSON: No, you do not want that.

Mr. TUCKER: I make that motion. I have a right to make it and I do make it.

The CHAIRMAN: Do you make that motion?

Mr. TUCKER: I said I do make that motion. I understood when I was voting for that motion that the steering committee was going to decide on the procedure to be followed and the witnesses to be called, and then on that basis we could proceed. Now, if we are going to start to debate this matter all over again we will have another day's sitting.

The CHAIRMAN: Mr. Tucker, may I suggest that we have had meetings before and we have had steering committees. As I understand Mr. McGeer's motion and the duties and functions of the steering committee, it merely recommends to the committee as a whole the course it suggests should be followed, and the committee has a perfect right to decide whether it is a proper or an improper thing to do.

Mr. TUCKER: That is what I understood was in the motion.

Mr. JACKMAN: If there is a motion, and if there is not a seconder yet, I take pleasure in seconding Mr. Hanson's motion.

Hon. Mr. HANSON: I move—

> That the following be adopted as the procedure of the committee in connection with this bill—aside altogether from the steering committee's functions:—
>
> (1) non-contentious sections to be disposed of first.

There are a lot of non-contentious sections.

> (2) Any clause to which there is objection may stand on the request of a member of the committee for future consideration.
>
> (3) Reconsideration shall be permissible on notice of motion.
>
> (4) Important amendments introduced in committee may be received as notices of motion to be discussed and not voted until a subsequent meeting of the committee. Members of committee to be furnished with copies of such amendments.

Now, the object of No. 4 is to give members an opportunity to consider the import of the proposed amendment. It is not limited. Any member can give notice of a notice of motion or proposed amendment. It is a perfectly democratic procedure, and I do suggest to hon. members that it makes an orderly procedure if we have some such formula as this adopted.

Hon. Mr. ILSLEY: There are members of the committee who want a general discussion under some clause. To take up the non-contentious clauses first does not preclude them.

Hon. Mr. HANSON: It did not the last time.

Hon. Mr. ILSLEY: I thought, perhaps, that would be an appropriate procedure to adopt afterwards.

Mr. GRAY: Could not the course suggested be called to the attention of the steering committee? It seems to me we are just nullifying our motion and setting up a steering committee for the purpose of merely calling witnesses. What are we going to call witnesses about, if they have not power to map out a program and suggest it to this committee? We do not have to adopt their recommendation, as Mr. Tucker said; but surely a committee set up to call witnesses must be empowered to map out the program of this committee.

I am quite in accord with a good deal of what Mr. Hanson has said as to the course that might be adopted, but I think we will accomplish the same thing by suggesting that this be called to the attention of the steering committee, and then if the steering committee do not recommend it, when they bring in their report it seems to me it is then a matter for you to move an amendment to their recommendations. But let us have this committee set up. If we move that a steering committee be set up and then we start to dictate to them upon what procedure they shall adopt, as far as I am concerned I would not want to be a member of that steering committee.

Mr. MACDONALD (*Brantford City*): Mr. Chairman, Mr. Hanson was present when the Bank Act was revised ten years ago and he has had that experience. He has had the benefit of that experience as have some other members of this committee. The committee at that time apparently went into the method of procedure very carefully, and after giving the matter consideration they decided that this was the best course to follow. I do not see anything wrong in the course that was suggested in 1934. Apparently it got very good results then. Now, Mr. Hanson's motion is merely giving the course upon which the committee will be steered, he is setting forth the course and it will be up to the steering committee to keep on that course. The steering committee will just decide what is non-contentious business, I presume, although I do not know how they are going to arrive at the non-contentious clauses.

Hon. Mr. HANSON: What happened was this: the clauses were taken up one by one and if nobody asked to have a clause stand it was considered as a non-contentious clause and passed. There were a number of innocuous clauses, but a great bulk of the sections were asked to be allowed to stand. Any member could ask to have a section stand, and then we took up seriatim those that were allowed to stand later on.

Mr. MACDONALD (*Brantford*): It seems to me, Mr. Chairman, that would be a good procedure to follow at this time. The steering committee will go along that course. That is all Mr. Hanson's motion decides; it sets the course which they should follow.

Mr. MCGEER: That was not the plan that was followed. The motion was moved and immediately afterwards there was another motion that affected it seriously. The motion that was moved by Mr. Power and seconded by Mr. Vallance is this:—

> That before proceeding to a clause by clause examination of bill No. 18, an Act respecting banks and banking, this committee inquire into,
>
> (1) the interlocking of directorates as between banks, trust companies, insurance companies and important industrial concerns, and the effect of such interlocking directorates on the general, financial and economic conditions of the country.
>
> (2) The general policies adopted by the chartered banks to combat the effect of the depression, and to what extent the said banks are responsible for the drastic deflation from which the country suffered, and is still suffering.
>
> (3) The circumstances which brought about the enactment of P.C. 2693, October 27, 1931, permitting the chartered banks to show investment securities in their monthly and annual financial statements at a valuation other than the actual or market value thereof.
>
> (4) Relations of the chartered banks to the wheat pools, and the extent to which the guarantees by the dominion government to

the banks, of the said pools' grain market account was utilized for the purpose of speculating in wheat on the Winnipeg or Chicago grain pits.

(5) The relationship between the chartered banks or any of them and the Canadian Pacific Railway Company, and the circumstances which brought about the guarantee by the Dominion of Canada of a loan of 60 million dollars to the said railway company.

(6) The relationship between the banks or any of them and the pulp and paper industry, and the extent to which uncontrolled extension of credit brought about over-capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.

And for the purposes of obtaining information on the matters and things hereinabove enumerated, witnesses shall be called, including Sir Herbert Holt, president of the Royal Bank of Canada, Sir Charles B. Gordon, president of the Bank of Montreal, and such other bank presidents and directors as the committee may deem it advisable to summon.

That was the procedure that was followed.

Hon. Mr. HANSON: No, no, excuse me; the hon. gentleman has not stated the position correctly. If he will go down two paragraphs he will see that it was decided to consider this as a notice of motion postponed for consideration at a subsequent meeting of the committee. The resolution of Mr. Power did not carry on that occasion. What happened was we went on and considered the non-contentious causes at that very same sitting of the committee and we passed sixty that morning. We made some progress. I submit, gentlemen, that my suggestion is a sound suggestion for this committee to follow. My learned friend will get all he wants under the proper section.

Mr. MCGEER: I quite agree, but at that time the Conservatives were in charge of the situation.

Hon. Mr. HANSON: Let us not interject that.

Mr. MCGEER: Of course, you would hardly expect that procedure to be adopted then, but what I am saying is that as the Liberals are now in power we should follow the procedure we recommended when we were in opposition, and I am quite satisfied that if Mr. Power were on this committee he would move exactly the same resolution to-day and invite the same kind of inquiry. I want to tell this committee that any attempt to put this legislation through without a full inquiry will find its echo in the expression of the people throughout Canada. I can quite see where this thing is going, but I want to tell you there is not a subject that the people are more vitally interested in than the adjustment of our monetary system for the next ten years.

Mr. MACDONALD (*Brantford City*): I do not think there has been any suggestion by any member of this committe that there should not be the fullest inquiry. The hon. member for Vancouver-Burrard has said that he is going to see that there is a full inquiry into the banking system of Canada. He is not the only member of this committee who is going to see to that. Speaking for myself, I can say that I am going to see that the fullest inquiry is made.

Mr. MCGEER: Hear, hear.

Mr. SLAGHT: Hear, hear.

Mr. MACDONALD (*Brantford City*): All we are discussing to-day is the method of procedure. A steering committee has been suggested. Is the steering committee going to have full powers to go where it wants to, or is the steering committee to be like a pilot of an airplane. The course is set for him by the observer and it is his job to steer the plane along that course. I think that is all Mr. Hanson's suggestion to-day is, that we set forth a course and then appoint a steering committee to see that the committee keeps on that course.

Hon. Mr. HANSON: And gets started.

Mr. TUCKER: As has already been pointed out by the Minister of Finance the idea when this motion was carried to appoint a steering committee was to accept the thought that there should be a general discussion on some particular section like clause 5. At least, that was what I had in mind when I voted for it, that there should be a preliminary general discussion of the whole situation on one particular clause. As I understood that was decided on by the committee. Now we have another suggestion made after that has been decided upon. If it is not clear already I would move an amendment that this general discussion take place on clause 5 of the bill, and that the general discussion take place before any other clauses are taken up whatsoever.

Hon. Mr. HANSON: I think we ought to accept that as a separate motion.

Mr. NOSEWORTHY: If you are going into a general discussion on clause 5 the next meeting of the committee is scheduled for to-morrow morning, and that raises the question whether we would be prepared to go into that discussion or not. In the meantime with Mr. Hanson's motion the committee could clear off the books a number of non-contentious clauses in the bill and probably give members of the committee ample time to prepare themselves for that general discussion. That is the advantage I see.

Hon. Mr. HANSON: That is not the function of the steering committee. It is the function of this committee to say what is non-contentious.

Mr. SLAGHT: I agree with the Minister of Finance that to consider the non-contentious clauses, so-called, first will throw us into confusion, and it is the wrong way to go about it. The principles should be established first under sections 5 and 59. Then the clauses will all follow along very rapidly. You are going to have a dispute every time as to whether a clause is contentious or non-contentious.

Hon. Mr. HANSON: Somebody says, "I want something to say about this", and it is dropped.

Mr. McGEER: I should like to make this suggestion. I suggested in the house that the report of the Bank of Canada should be referred to the committee. That was agreed to. Our committee made that recommendation. There is one general discussion we should have before we deal with the chartered banks, and that is in order of precedence. We make a recommendation to the house and the house has referred this matter to us. Before this legislation was recommended we had the report of the Bank of Canada. With all due deference to anybody who has not read that report I really believe that the Governor of the Bank of Canada has presented to this parliament in that report a warning that the adjustments that must be made have got to be of unprecedented magnitude. I for one want to know what that language means and why the Governor of the Bank of Canada recommended to this parliament through that annual report that adjustments of unprecedented magnitude must be made by the government, industry, and all those concerned—I presume, including the banking system. Are we going to ignore that warning and proceed to a consideration of a post-war era without ascertaining from the Governor of the Bank of Canada what are these adjustments that have got to be of unprecedented magnitude? In that general expression, what does he propose that parliament should do, because when the Governor of the Bank of Canada warns a nation that adjustments of unprecedented magnitude must come, and we have a program such as an Industrial Development Bank with a capital of $25,000,000 and a few minor amendments to the Bank Act, there is certainly nothing unprecedented or nothing of magnitude in those proposals.

Hon. Mr. HANSON: Or revolutionary.

Mr. McGEER: No, nor revolutionary. Surely we should have the Governor of the Bank of Canada before us to let us have the facts upon which that startling warning has been made to the people and to the parliament of this nation. I move, Mr. Chairman, that while the steering committee is dealing with the witnesses to be called we proceed with the examination of the last report of the Bank of Canada, and I hope that in that we will probably get some very valuable assistance from the Governor of the Bank of Canada and the men who were associated with him in the preparation of that report. I would so move.

May I say a word on the steering committee? My understanding of such a committee is that when we are calling witnesses arrangements must be made as to their convenience and their transportation here and what they are to be examined on. I understand that that is largely the work of a steering committee. Also, there would probably be a great many people anxious to appear as witnesses. Some of them will be allowed to appear and some may not. If I may make a reference to my humble self, when it was suggested that I appear as a witness the steering committee said: No, he has nothing to offer; but they said that if he comes to Ottawa at his own expense and insists on being heard we will hear him. I made such an impression on the committee that they actually paid my expenses. I move that the report of the Bank of Canada be considered.

Mr. McNEVIN: We have got about three motions before the chair.

Mr. TUCKER: I should like you to take mine as an amendment.

Mr. GRAHAM: I am going to appeal, I hope, to the common sense of the committee that this whole discussion illustrates the need of a steering committee to take Mr. Hanson's suggestion, Mr. McGeer's suggestion, Mr. Tucker's suggestion and my suggestion and then having these different suggestions work out how we should proceed. Let us do that first before we get involved.

Hon. Mr. HANSON: That is a good suggestion. Will the chairman name the steering committee?

The CHAIRMAN: Is it your pleasure to have the chairman name the steering committee?

Hon. Mr. HANSON: Certainly; I do not know how else you are going to do it.

The CHAIRMAN: Gentlemen, this is the suggestion I have to make, Mr. McGeer—

Mr. McGEER: I am going away to-morrow. Would you have Mr. Slaght take my place temporarily, and I will take it on as soon as I get back?

The CHAIRMAN: We will try and get along without you for a while.

Mr. SLAGHT: I do not want to act on the committee permanently.

The CHAIRMAN: Mr. Coldwell.

Mr. COLDWELL: Mr. Noseworthy will act for us, Mr. Chairman.

Mr. McGEER: I will take it with the understanding that Mr. Slaght can act for me. Is it agreeable that Mr. Slaght can act for me when I am away?

The CHAIRMAN: We will put Mr. Slaght on and then when you come back we can change. It is up to Mr. Blackmore to say he cannot act.

Mr. BLACKMORE: I will do my best.

The CHAIRMAN: Mr. Graham; Mr. Fontaine—we are trying to have representation from the different provinces.

Mr. JEAN: I wish to suggest Mr. Picard.

The CHAIRMAN: Mr. Ross Macdonald, Mr. Hanson, Mr. Kinley and the chairman. What is your pleasure?

(Motion agreed to).

The CHAIRMAN: Shall we adjourn and meet to-morrow morning?

The committee adjourned at 1.10 p.m. to meet again on Wednesday, May 17, 1944, at 11 o'clock a.m.

May 17, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: I will read the report of your subcommittee.

> Your subcommittee met at 4 o'clock p.m., the following members being present: Messrs. Blackmore, Fontaine, Graham, Hanson (*York-Sunbury*), Macdonald (*Brantford City*), Moore, Noseworthy and Slaght.
>
> Dr. Clark, Deputy Minister of Finance, and Mr. Tompkins, Inspector General of Banks, were in attendance.
>
> Mr. Tompkins was instructed to procure a breakdown of certain items contained in the statement tabled in the House by the Minister of Finance on May 2nd.
>
> The subcommittee recommends:
>
> 1. That the committee sit from 11 a.m. to 1 p.m. every Tuesday, Wednesday, Thursday and Friday, except that additional sittings may be held when it is desired to expedite examination of out-of-town witnesses;
>
> 2. That bill 91 be given precedence over other bills referred to the committee;
>
> 3. That the Governor of the Bank of Canada be called as a witness for Wednesday, May 17;
>
> May I just comment there that it was the opinion of the committee that the Governor, in making his statement, should be allowed to make it without interruption. When the statement is completed, then of course he will be called on, naturally, to answer questions. Continuing:
>
> 4. That all persons wishing to make representations to the committee be required to file a written brief before it is decided whether or not they shall be given an opportunity to appear before the committee;
>
> 5. That the clerk be instructed to procure copies of the annual statements of all the chartered banks for the fiscal year ended in 1943 for distribution to the members of the committee.
>
> All of which is respectfully submitted.

What is your pleasure, gentlemen?

Mr. MCGEER: I move concurrence in the report.

The CHAIRMAN: Is that carried?

Some Hon. MEMBERS: Yes.

Motion agreed to.

Mr. GRAHAM: Mr. Chairman, may I say a word on something arising out of that report. I notice it is thirteen or fourteen minutes past 11 o'clock. I know it is nobody's fault particularly, but I should like it if you, Mr. Chairman, would encourage all of us to be here promptly at two minutes to eleven so that we could get going at 11 o'clock rather than later. I think when we establish the rule of waiting for a few minutes, each of us gets in the habit of thinking if he turns up five or ten minutes late, it will be all right.

The CHAIRMAN: Gentlemen, you will please consider yourselves encouraged.

Mr. TUCKER: Arising also out of the report, is anything going to be made known as to the willingness of the committee to hear representations, for example, from representatives of farm organizations in western Canada and representatives of farm organizations in other parts of Canada? It seems to me that something should be done to make it known that we are ready to hear representations.

The CHAIRMAN: The matter of representations came up when we decided that first of all they should present a statement as to the nature of what they wished to say. I think that is highly desirable.

Mr. McGEER: I think it was the consensus of the committee that farm organizations and labour organizations would be heard if they had any desire to be heard.

The CHAIRMAN: Yes. But it is highly desirable that we have a statement of that kind, because we are having all kinds of representations; for instance, we have one from the Retailers' Association. I would say that the Retailers' Association is a tremendously important institution and it is going to be very, very difficult to draw the line.

Mr. MACDONALD (*Brantford City*): In connection with the communication from the Retail Credit Federation, I think that their letter should be read into the minutes of this meeting. As you stated, Mr. Chairman, the Retail Credit Federation represents business men from one side of Canada to the other. It is a very representative organization, and I would suggest that their letter, which was read yesterday in the steering committee, be either read now or in any event be read into the minutes of this committee.

The CHAIRMAN: Is it your pleasure to have it read into the minutes of the proceedings?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: I understand that is carried then. Now, gentlemen, while we are on the subject, I have a communication here from the Toronto Board of Trade. I might also say that the Toronto Board of Trade is rather an important institution.

Mr. McGEER: Where is that, please?

The CHAIRMAN: This side of Vancouver. I would suggest that their letter be printed also in our proceedings. Is that your pleasure?

Some Hon. MEMBERS: Carried.

Mr. GRAY: Are you going to read all those letters?

The CHAIRMAN: We are not going to read them. We are going to print them in the record.

Mr. GRAY: Are you going to put them on the record?

The CHAIRMAN: Yes, print them.

Mr. GRAY: You are going to have a very voluminous set of minutes.

The CHAIRMAN: I think we will have, yes.

Mr. McGEER: I think you should authorize the chairman to exercise his discretion.

Mr. GRAY: If it is the practice, it is all right with me.

Mr. McGEER: I would move that the chairman of the committee be authorized to use his discretion as to what is to be printed; then if there is any question about it, it may be dealt with in the committee. I think there will be a tremendous amount of correspondence sent in which it will not be necessary to print. But if there is anything that anybody wants printed at any time, it can be taken up. But surely the chairman could be left with discretion as to what should be printed and what should not.

The CHAIRMAN: What is your pleasure, gentlemen?

Mr. McNEVIN: I should like to suggest that the steering committee look over that. I think we are asking the chairman of the committee to assume greater responsibility than he would wish to assume.

The CHAIRMAN: We will do it between us.

Mr. TUCKER: In regard to that point, I think we should clear it up at the start. Is it the idea that the steering committee will decide who shall be called without any reference to the main committee?

Mr. SLAGHT: No.

Mr. TUCKER: I think it should be definitely decided whether the steering committee is going to decide these things on their own or whether they are going to refer to the main committee those who apply to be heard, recommending who should be heard and who should not be heard, but leaving it so the committee can decide.

The CHAIRMAN: Mr. Tucker, following up your point and what you have in mind, may I say that we changed the name from "steering committee" to "subcommittee", which illustrates the function that we intend to perform.

Mr. TUCKER: On whose authority?

The CHAIRMAN: We will consult the committee.

Mr. TUCKER: On whose authority did you change the name?

The CHAIRMAN: Mentally we did it, among ourselves. We did not want to be steered and I doubt if any one wants to be steered, so we called it a subcommittee.

Mr. SLAGHT: Mr. Chairman, if you and the committee approve, I suggest that as this discussion has been rather fragmentary, you might announce, so that the press could have it, that these bodies, associations or individuals who desire to make representations to this committee should first file a brief and concurrently apply to be heard. Then we will have some check as to those we want to hear orally as well. If that be known to the public, that a brief must precede an oral hearing, I think it would be well.

The CHAIRMAN: Gentlemen, is it your pleasure to hear the Governor of the Bank of Canada?

Some Hon. MEMBERS: Carried.

Mr. GRAHAM TOWERS, *Governor of the Bank of Canada,* called:

The WITNESS: Mr. Chairman, at an earlier meeting of the committee certain questions were asked by Mr. McGeer in regard to the twentieth century economic system and certain others by Mr. Hanson. I have the answers to those questions here. Is the pleasure of the committee that they should be tabled?

Mr. McGEER: Well, we should like to hear them. Are they too lengthy to be read?

The WITNESS: They are rather lengthy.

Mr. MACDONALD (*Brantford City*): Are they in connection with another bill?

The WITNESS: Mr. Hanson's questions do relate to that other question. Mr. McGeer's are in the field of monetary policy.

Mr. McGEER: I do not see any reason why they should not be read.

The WITNESS: Including the Industrial Development Bank ones?

Mr. MACDONALD (*Brantford City*): I think it was decided that we would proceed with the consideration of the Bank Act and at a later date we shall revert to the Industrial Development Bank.

Mr. McGEER: No. We did not decide that.

Mr. BLACKMORE: I believe we should hear those statements, Mr. Chairman, which are carefully prepared by Mr. Towers.

The CHAIRMAN: Gentlemen, the subcommittee reported that it would give priority to the Bank Act. The subcommittee has made its report and I understand that report has been approved by the general committee.

Mr. McNEVIN: Right.

Mr. BLACKMORE: Does that mean that we will hear this statement?

The WITNESS: I think perhaps under these circumstances I could just postpone the answers to Mr. Hanson's questions which relate to the Industrial Development Bank alone.

The CHAIRMAN: Yes.

The WITNESS: If I may, however, I should like to table a statement showing operating earnings and expenses of the Bank of Canada in some detail for the years since 1939. At the 1939 sessions of the committee information was made available in regard to the Bank of Canada earnings and expenses, and this brings that information up to date. Have I the permission of the committee to table that, Mr. Chairman?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Very well.

The WITNESS: I was advised last night that some form of statement was expected, but I have to admit to the committee that I am quite vague in regard to the type of statement which is expected. I have to assume that it relates to some remarks which were made at the meeting yesterday on the subject of the annual report of the Bank of Canada. The committee will recall that specific reference was made to the suggestions contained in that annual report that adjustments of unprecedented magnitude would be required in the post-war period. The view was expressed that some elaboration or explanation of those remarks was desirable. If I am right then in thinking that it is a statement which relates to that section of the anual report that the committee expects me to make, I could now proceed with it. But before doing so, I think that I should quote the whole paragraph in the annual report which contains the remarks to which reference was made. It reads:—

> "After the war, some of those who are now employed will voluntarily withdraw from the working force, and the armed services may be maintained at a level considerably above their pre-war strength. It seems likely, however, that at least 4,700,000 workers will be available for employment in civilian jobs, or at least 1,500,000 more than the number employed in that sector of the economy at the present time. A working force of this size, at present rates of efficiency, will be able to produce a vastly greater volume of civilian goods and services than Canada has ever known before. By the same token, a vastly increased volume of consumption and capital development will be necessary if this output is going to be fully absorbed and high employment maintained. The adjustments required will clearly be of unprecedented magnitude, and

bold planning on the part of labour, farm and business organizations, as well as governments, is urgently needed."

Let me say, first of all, something which I hope is obvious to the committee, and that is that the Bank of Canada does not pretend to be jack of all trades. It has neither the qualifications nor the authority to blueprint a program for post-war policy in the very many fields which have to be covered. Nevertheless, if our appraisal of the general situation leads us to believe that the task of achieving full employment is, in fact, one of great difficulty and magnitude, and if we also believe that there is some lack of general recognition of the size and urgency of the problem, then it seems to me there are good reasons for mentioning the subject in our annual report as one means of stimulating interest and discussion.

Mr. McGeer: Hear, hear.

The Witness: If the magnitude of that task before us is appreciated by Canadians in all walks of life, then those remarks in our annual report were quite superfluous. In fact, I doubt whether such a general appreciation exists. It seems to me that there is a tendency to talk too glibly about full employment and that too much reliance is placed on the hope that this desirable objective will be reached automatically through the release of pent-up demands after the war. It is often said that because it has been possible to attain full employment during the war, it should be just as possible and just as easy to do the same in peace time. This overlooks the fact that when we are at war our people are united in the pursuit of one objective and there is no question but that it is up to the federal government to produce the necessary war program. In peace time we find we have a number of objectives and that the initiative is divided between governments, labour, farm and business organizations as well as the general public. There is not the same over-riding impetus present in peace time. There is a much greater risk that because of divergent views as to what should be done, nothing is done. These factors obviously make it much more difficult to decide upon and execute a post-war program successfully.

While I have said that the Bank of Canada does not possess any ready-made program, the committee will at least expect me to indicate what I believe to be the salient factors which must be taken into consideration in framing any post-war program. It is obvious, of course, that the economic activities which *in toto* might produce high employment fall into three main classes—external trade, capital investment and domestic consumption.

Dealing first with external trade, I am aware that impatience is sometimes aroused when anyone stresses the fact that our dependence on foreign trade places certain limitations on what we can accomplish by ourselves without completely revamping our economy. Nevertheless, there is no avoiding the facts of life. We do depend on foreign trade for a large proportion, perhaps 30 per cent, of our national income. Let us not forget that our present state of full employment is due in no small part to the enormous increase in our exports during the war. No possible increase in domestic consumption will enable us to absorb our grain production, or the output of our forests and mines and various other industries. If we cannot find foreign markets for a sufficient quantity of our products, it may be suggested that the solution is to shift large numbers of our people from their present employment in export industries to some other form of employment. The agony involved in such a mass shift needs only to be mentioned to be appreciated. It follows that we must do everything possible to broaden the markets for our exports in the post-war period. One way in which we can help to achieve this result is by lending our encouragement to efforts to promote the wider international exchange of goods and services through appropriate measures in the fields of international monetary arrangements and commercial policy. For our own sakes, we shall most certainly, in one form or another, be faced with the necessity for extending credit to other countries in the post-war period. Neither we nor the countries to which we sell would consent to the indefinite piling up of international debt. The moral is that if we wish to maintain our exports at a level which will really help to achieve high national income and employment, we must be prepared to import on a corresponding scale.

It has been estimated that the maintenance of full employment after the war would require capital investment of $1½ billions per annum. There are inevitable qualifications to such estimates, but they are intended to and do serve the purpose of giving us a general idea of the magnitude of the problem. Because of the amount involved the question which immediately comes to mind is whether or not public and private investment taken together can reach the desired level.

The scale of private capital investment is impossible to predict. But we do know that it is contingent on the expectation of future profit. One of the factors in this situation is taxation. The task of government is to devise a system of taxation which will not have the effect of discouraging initiative and investment, thus tending to increase the problem it wishes to solve. This does not necessarily mean that taxes should be low, but that they should not be obstructive.

As to public works, it must be remembered that there has to be a long period between the initial decision relating to and the final execution of a large-scale program. Moreover, many problems of inter-government responsibility and jurisdiction are involved. I do not think anyone would deny that a well-chosen program of public works is highly desirable. I have mentioned the difficulties and limitations because I believe that it is easy to overestimate the practical scope of this type of activity and, therefore, the degree to which public works construction can be counted upon to solve the problem of achieving full employment.

Under any circumstances, great importance must be attached to raising the level of domestic consumption. That level, and through it the volume of employment, is greatly affected by the distribution of the national income, in which connection both taxation policy and social security measures are important.

I do not believe that there is a magic wand in the form of a financial policy that will cause all the real and physical problems to dissolve before our very eyes. Would that there were such an easy way out, because I cannot imagine why everyone would not benefit from its use. But the fact that there is no magic financial policy need not prevent us from reaching our objective.

The war program has required much greater financing than anything we ever attempted in the past, and probably greater than anything we shall need post-war. We found that we were able to get along with the machinery at hand. I have no doubt that if we try as hard on the physical side of the post-war program as we have during the war, we can handle the financial aspect equally well.

While I believe that the emphasis post-war should continue to be on a fair and direct apportionment over the public of the costs of government programs through taxation, I would not hesitate to suggest, if conditions warranted, that substantial use might be made of monetary expansion initiated through central bank action.

By Mr. McGeer:

Q. Mr. Towers, in view of the fact that this question is open now we will proceed with some remarks in the Bank of Canada report. Before we deal with the subject matter of your statement, as you know the annual report of the Bank of Canada has been referred by parliament to this committee. Now, if you have the report before you would you look at page 1, and will you just explain to me that statement which results in showing an increase in cash reserve of $82,000,000?—A. The figures above indicate the operations which resulted in that increase in the chartered banks' cash reserves of $82,000,000. The main figure to which attention should be paid is that which shows the increase in our dominion and provincial government security holdings, namely, $244,000,000. That means that we bought net during the year $244,000,000 of securities. If that had been the only thing which was taking place the cash reserves of the chartered banks would have increased $244,000,000, but in fact—

Q. When you say you have bought that means you have paid for those securities $244,000,000 of Bank of Canada bills?—A. The effect is the same. In fact it would be a credit on our banks.

Q. But it was the same as the issue—the money was issued to the government and put into circulation?—A. No, the money was not issued to the government. We bought those securities on the market in the main.

Q. The money was issued, and who sold them to you?—A. First, we paid for them by giving the sellers our own cheques.

Q. Whom did you buy them from?—A. From a multitude of people, banks, dealers, the market as a whole.

Q. Yes?—A. The increase in the active note circulation of $179,000,000, took that many of our notes from the tills of the chartered banks so that their cash reserves did not increase by $244,000,000, but by a lesser amount. There are certain other items such as decreasing dominion government deposits and a few other items.

Q. What do you mean by increase in rest fund? That increases the Bank of Canada cash?—A. Yes, and involves the retention of part of our protfis to be added to the rest fund in accordance with the Bank of Canada Act. An increase in our capital assets offsets to that extent the effect of a purchase of securities.

Q. Does that same principle apply when the banks put their profits to rest account in the same way—decrease the volume of money in circulation?—A. Yes, it would; at least, not the volume of money in circulation but the ownership.

Q. I mean that if it is in the rest account it is not circulated?—A. That is true.

Q. Now, the next is $179,000,000?—A. That represents the increase in active note circulation in the pockets of the people.

Q. That is that they are using more money and have more money in their pockets for available current transactions?—A. Yes.

Q. And that is due to what?—A. I believe it is due to a number of causes. First of all, there is increased employment and payrolls. As you will recall the majority of payrolls are met in cash. Secondly, there is the greatly increased volume of trade which tends to make retail merchants and others carry more cash in their tills. Thirdly, there is the pay of the armed forces to be met in cash. In addition to that I should say that with larger earnings there are a far larger number of people who are tending to carry around in their pockets more cash than they require for day to day purposes. They choose that method of keeping it. That applies to a certain extent to industrial workers, some of whom may find that they leave their factories at times when the banks are not open, and also to the farmers and fishermen. In fact, where there is considerable prosperity I think that a $50 bill may often appear on the outside of the roll even though the inside denomination is smaller.

Q. You say that they pay the armed forces in cash?—A. Yes.

Q. Are they not paid by cheque?—A. I think a certain number of officers are paid by cheque, but in general I believe the paymaster deals in cash.

Q. And that is Bank of Canada cash, I take it?—A. Yes.

Q. Now, there is the item decrease in other assets less other liabilities, $6,400,000, what is that?—A. Those are all the items afloat. Other assets represent cheques in transit and similar items of that kind. The other liabilities represent cheques of our own or drafts we have issued which have not yet been cashed.

Q. Would the net results to the chartered banks be an increase of their cash of $82,000,000?—A. Yes.

Q. That is correct. Now, how did the chartered banks acquire the cash?—A. They acquired it involuntarily through our action in purchasing securities.

Q. And other people depositing the Bank of Canada cash?—A. The Bank of Canada cheques.

Q. So that the banks, as you said, got it involuntarily. There was no cost to them up to the point of receiving it; I mean as far as printing it is concerned?—A. There is no cost of something that does not exist. Before the depositor arrived with the cheque they did not know he was on the way. Then he put in his cheque on the Bank of Canada which the bank credited to his account. From then on the costs start.

Q. The point I am getting at is that that cash came to them by a deposit by individuals. If they printed their own cash, of course, they would have had to pay for the printing, whatever it was. In this instance, they got $82,000,000 of Bank of Canada cash without any cost of printing similar to that of printing their own money.—A. Oh, it is an entirely different thing, because when banks print their money, that is a liability. When they receive a Bank of Canada cheque, it is an asset.

Q. And the cost of getting Bank of Canada cash is less than the creation of this liability of printing their own money, when it is secured in this involuntary way?—A. They are two completely different things.

Q. I quite agree. But I mean the cost is less in the one case than it is in the other.—A. No, not necessarily.

Q. Well, there is no cost of printing.—A. They never get cash for themselves by printing money.

Q. I understood this statement to say that the increase in the chartered banks cash reserve is $82,000,000.—A. You were speaking of the alternative of increasing their note issues. A bank does not obtain cash for itself by increasing its note issues.

Q. I am talking about the medium of exchange they use. They use either their own chartered bank bills or Bank of Canada bills. If I go to the bank and I ask the Bank of Toronto to cash a cheque for me, they will either pay me in Bank of Toronto bills or Bank of Canada bills.—A. Yes.

Q. And they can do either one or the other. I can insist upon them giving me Bank of Canada bills, but having confidence in the Bank of Toronto, I am willing to take Bank of Toronto bills.—A. Yes.

Q. So that in so far as the use of that kind of money is concerned—A. The Bank of Canada cash costs them more.

Q. It costs them more?—A. Yes.

Q. How do you figure that out?—A. Because in obtaining Bank of Canada cash one of two things happens. Either they have themselves sold securities to the Bank of Canada, in which case they forego the interest yield on the securities which may be anywhere from ½, ¾, 1½ or 3 per cent, or else they have received that cash, through some outside person having sold securities to us. They assume the cost and responsibility for operating a deposit account on which interest may be paid and which, in any event, involves cost of operation.

Q. Yes.—A. I would say that in either case the cost works out at a higher figure than that of printing notes.

Q. Yes. You assume that if somebody sells a bond to you and gets $82,000,000 in Bank of Canada cash, and then goes and deposits that cash in the bank, that that is a $82,000,000 increase to the bank's cash reserve.—A. And a $82,000,000 increase in the bank's liabilities to the public.

Q. In the liabilities?—A. Yes.

Q. Let us assume that I go to the bank and sell the bank a security. The bank can pay in chartered bank money, can it not?—A. If you keep your account with them, they can credit payment to your account with them.

Q. But I want the cash. Say I have $82,000,000 of bonds which I am going to sell.—A. You want to withdraw that by legal tender cash?

Q. No. I want Bank of Toronto money or Royal Bank money or any of the bank money.—A. Because of the limitation on the bank's note issues, they would not be able to pay you in that form.

Q. No, not in that amount.—A. No.

Q. Let us take a $1,000 bond. I take a $1,000 bond to the Bank of Canada and I get $1,000 worth of cash.—A. Yes.

Q. I take that and deposit it in one of the chartered banks.—A. Yes.

Q. That creates a deposit liability, but they have that money for two purposes. It can be used as a cash reserve to increase their deposits or it can be used as till money to meet current obligations to their customers, can it not?—A. Yes. It cannot obviously be used as both, because once it is taken out by customers, it is no longer a cash reserve.

Q. I grant you they cannot do the two at the same time.—A. Yes.

Q. But they can do either one of those transactions?—A. Dependent on the volition of their customers.

Q. Whatever the customer wants?—A. Yes.

Q. But it is available for till money as they say or for reserve money.—A. Yes.

Q. We will take this transaction. A $1,000 bond is sold to the Bank of Toronto, we will say, and the bank can pay for that bond with Bank of Canada cash or with Bank of Toronto bills, if the customer is willing to accept it.—A. And provided they have not reached their limit of note circulation.

Q. I quite agree. But I am talking about it as a going concern.—A. Yes.

Q. When that $1,000 is paid for that bond, the customer owns that money and he can re-deposit it in the bank and if he re-deposits it in the bank exactly the same liability of servicing the deposit exists as does exist when he deposits $1,000 of Bank of Canada cash.—A. That is true. In this case, as I understand it —

Q. That is all I want on that.—A. There is an important factor which is outstanding there. I have to go further than that.

Q. I do not want to interrupt your qualifications because I quite appreciate them.—A. Yes.

Q. And that this thing is not as simple as a lot of people think it is.—A. Yes.

Q. I do not want to shut out any explanation you have. But what we do want, Mr. Towers, is to get before parliament, if it can be done through this committee, and into the public mind the actual facts about our money system.—A. It would be enormously beneficial if that could be done.

Mr. Graham: I do not like to interrupt, but if Mr. McGeer would kindly agree to permit a diversion, I should like Mr. Towers to complete his answer or to make the answer he suggested he would like to make.

Mr. McGeer: I am perfectly willing that the witness should have every opportunity.

Mr. Graham: We should like to hear the answer. I think you were going to give an adequate explanation, Mr. Towers.

The WITNESS: Yes. In that last transaction, Mr. McGeer has mentioned, if the customer who had been paid, shall we say, Bank of Toronto bills, came back and deposited it in his account with the bank, Mr. McGeer mentioned that there would be the same charge of servicing that account as if the original transaction had taken place by the deposit of Bank of Canada cash. There is this important difference. In the first case, where the chartered bank has bought the security from the individual, they retain the security and the earnings on it. In the case where the individual deposits Bank of Canada cash the bank's asset, to correspond with the deposit liability, is Bank of Canada cash on which nothing is earned as distinct from a security on which interest is paid and is received by the bank.

By Mr. McGeer:

Q. Yes, I appreciate that. I want to state the proposition I have in mind to you so that there will not be any question about it, because I do not want to be here in conflict with you. This committee is representative of parliament, and as such is, I hope, co-operative and desirous of improving a situation which some of us believe can be improved. The proposition that I make to you is this. By the free issue, under the open market policy, of Bank of Canada cash by the banks, the Bank of Canada actually supplies the chartered banks with a cash medium of exchange in the form of one dollar bills and in the form of bills of other dominations up to, we will say, \$50.—A. They buy the cash from us.

Q. They buy the cash from you. How?—A. By selling us securities or by depositing the cheques of customers who have sold securities to us.

Q. Yes. Is depositing a cheque of a customer who has sold to the Bank of Canada a bond a purchase of cash?—A. Yes, in essence. The holder of the cheque has a claim on us. He chooses to take that in the form of cash.

Q. Yes. But how does the Bank of Canada or how does the chartered bank buy, with a cheque of the depositor, cash from the Canada? There is no purchase transaction there at all.—A. It has bought the cheque from the depositor in the sense of assuming a liability to him.

Q. I mean to say, when we use the word "buy" we surely mean buying in the ordinary sense of the term. However, you make that statement and I will let it go.—A. It does not matter in any event.

Q. Oh, it does matter.—A. I think the question we are getting at is one of cost rather than the definition of "purchase".

Q. No. The question that I am getting at is this, that the Bank of Canada is a filling station for the chartered banks and by its open market operations supplies the banks with cash more cheaply than the chartered banks can print their own cash. We may disagree on that, but that is my proposal.—A. We do disagree, Mr. McGeer.

Q. Well, all right.—A. You will forgive me if I thought that the "filling station" was coming up, because as you will remember, we spent a great many hours in 1939 covering the same ground. I hope that I am saying the same thing now as I did in 1939.

Q. I think you will agree with me. I am not going to go over what we all went over in 1939; I mean, we have that report, and you have no change to make in any of the statements you made at that time.—A. No. I am saying the same thing now as I said then.

Q. Then if I just give a short summary of what I think we agreed on in 1939, it might cover the situation. We agreed first that our medium of exchange was created under the laws of parliament and consisted of the following: (1) metal coins minted by the mint; (2) Bank of Canada bills issued by the Bank of Canada, and I think that we agreed that that was our national currency and represented about 12 per cent of the total amount of medium of exchange in use; (3) chartered bank bills issued by the chartered banks; and (4) credit entries constituting debt obligations of the chartered banks to customers of the chartered banks and called bank deposits. Those I think we agreed were the four types of media of exchange that constituted the money of Canada. I think you agreed to that.—A. Yes.

Q. I think we also agreed that the government were able to finance public enterprise by using (1) national currency; (2) by taxation; (3) by borrowing from the people; and (4) by borrowing from the chartered banks. Those four methods are, I think, the only four available to government as a means of financing. We agreed on that, I think. Is that right?—A. Yes.

Q. I think we also agreed that our paper money issued by the Bank of Canada for domestic purposes was just as good as gold.—A. Certainly.

Q. Yes.—A. Provided reasonable restraint was exercised.

Q. Oh, yes. Of course, gold has a bad habit of bouncing around. Somebody has suggested that it might go to $65 an ounce. It has already bounced from $20 to $35. I think we also agreed that, as the law is to-day, a chartered bank with $50,000 in Bank of Canada cash was able to purchase interest-bearing bonds from the government to the value of $1,000,000 by giving the government a credit of a million dollars in the bank's books. We agreed on that. We also agreed that under bank practice, the bankers hold 10 per cent of all cash reserves, so that under banking practice a banker with $100,000 in Bank of Canada bills can purchase $1,000,000 in interest-bearing bonds by writing into the books of the chartered banks a credit to the government of $1,000,000. We agreed on that, did we not?—A. Yes.

Q. And we also agreed that the chartered banks do not lend their depositors' savings. That is right?—A. They do not lend their liabilities.

Q. They do not lend their liabilities, and they do not lend their depositors' credits or savings?—A. That is right.

Mr. Slaght: Mr. Chairman, the reporter cannot get a nod of the head. If Mr. Towers does not mind saying yes, the record will be kept straight.

The Chairman: Mr. Towers, I wonder if you would sit over here. I think the reporter could hear you better.

The Witness: Very well, Mr. Chairman.

By Mr. McGeer:

Q. We also agreed that because they do not lend deposits the chartered banks finance their loans by the same practice as I mentioned with reference to the purchase of a bond, namely increasing their deposit liabilities ten times over their cash reserves?—A. Yes.

Q. That is right. When the banks make loans in that way, they increase the volume of medium of exchange in circulation?—A. Yes.

Q. And when they call their loans they decrease the volume of medium of exchange in circulation?—A. That is right.

Q. We have agreed on those general principles, and I think that that was the general result, among other things, of my own inquiry in 1939.—A. Yes. If I may add just this—

Q. There are many other things in there, of course.—A. I think that on this occasion we are perhaps going to make a considerable advance over 1939, because at that time while I made certain guesses in regard to bank operating costs, they were admittedly only guesses.

Q. I agree.—A. And on first description of how a bank operates, an impression is sometimes left that it does in fact create something out of nothing so far as the bank itself is concerned and therefore that banking must be an extraordinarily profitable business. I hope that the availability of the figures of bank earnings and expenses will tend to bring to us all a greater sense of reality in these discussions about banking practice.

Q. Just on that, may I say this. I am not quarreling with our banking system, and I want to be on the record very clearly as opposed to the nationalization of our commercial banks. I mean, there is a good deal of confusion about what I stand for in that regard. I want to go on record as saying that I think the credit system of supplying the community with exchange centres, such as our chartered banks provide, is probably the most efficient medium of exchange service that we have yet developed. I mean, I do not think the banks are suffering at all in the operation of their business from the profit angle, but I do not think they have gone crazy like the stock brokers did in 1929, and I think that they have kept the limit of their profit within the limitations of what might be called highly successful commercial business. But there are some other things that I think we might discuss to the advantage of the people of Canada, and among them is the segregation of public finance from private finance, the reduction of the cost of financing public enterprise and stabilizing an effective medium of exchange that can be equated through a rate of progress and can be employed as one of the factors in sustaining a higher and a more permanent form of employment. If I have made that clear, I think that probably we can get along in co-operation, working together and not against each other.—A. I am perfectly certain of that.

Q. There is just one other thing that I think we agreed upon, Mr. Towers, and it is this. This right of the banks to issue bank deposits as a medium of exchange on the basis of ten to one gave the banks holding charters greater buying power than the Bank of Canada have. For instance, let me put that to you in this way. If the Bank of Canada buys a bond, it pays $100 or 100 cents on the dollar in Bank of Canada cash. That is right, is it not?—A. Yes.

Q. When a banker who holds a charter under the Bank Act buys a bond, he can buy a $100 bond with a $10 Bank of Canada bill.—A. Oh, no.

Q. And pen and ink and a book plus his banking system.—A. No. There is a misunderstanding there as to the distinction between the two. When the Bank of Canada buys a $1,000 bond, I have agreed that we use Bank of Canada cash to make that purchase.

Q. At 100 cents on the dollar.—A. Because it is too awkward to keep on making the distinction between Bank of Canada notes and a credit on the books of the Bank of Canada. In fact, however, when we buy a $1,000 bond, we credit the purchaser on the books of the Bank of Canada with $1,000.

Q. Surely.—A. When the chartered bank buys a bond, it too, if the seller is a client of that bank, which we will assume—

By Mr. Graham:

Q. You mentioned the seller of the bond?—A. If the seller of the bond is a client of that bank, which we will assume for the purpose of discussion that he is, then the purchasing bank credits the seller on its books with $1,000 just in the same way as we do. It is true that the chartered banks have, in practice, to maintain a legal tender cash reserve of at least 10 per cent of their deposits—nowadays usually somewhat more. The Bank of Canada, on the other hand, since the war at least, does not have to maintain any reserves at all.

By Mr. McGeer:

Q. No. Because it does not deal in anything but reserves. It has no other medium of exchange than reserve.—A. Because it has within certain limitations the right to issue legal tender.

Q. But Mr. Towers, under your Bank of Canada Act you are authorized to issue Bank of Canada bills to purchase securities.—A. Yes.

Q. And when you exercise that power you must use Bank of Canada cash or create a liability for it, which is the same thing.—A. Yes.

Q. When a chartered bank buys securities under the Bank Act, all it requires in legal tender cash is $10 to buy a $100 bond and it purchases the balance by going into a debt obligation to the vendor of that bond to the extent of $90.—A. Yes.

Q. Now, let me follow that up. When it writes up that $90 as a credit in its books to the seller, it creates $90 of new money.—A. That is right.

Mr. TUCKER: Why $90? I do not follow that.

Mr. MCGEER: $10 purchasing a $100 bond. If you did not follow the thing, I was using $10 for a $100 bond. He uses $10 in legal tender cash reserves and creates $90 of new money in the banks.

Mr. TUCKER: That is not the transaction.

The WITNESS: Well, the transaction does not actually take place in that way, no.

Mr. TUCKER: It is a $100 obligation.

Mr. MCGEER: I mean to say, instead of being $90, Mr. Tucker says it is $100. I am not quarreling about that. I am quite agreeable to that. I mean, $10 is neither here nor there.

The WITNESS: The effect is the same because it creates the liability of $100 to the customer. But having done so—

By Mr. McGeer:

Q. But you have got $10 in cash.—A. But having done so it must immobolize $10 of legal tender cash as a reserve against that liability.

Q. And whether it is $100 or $90, it is one or the other?—A. Yes.

Q. I am quite willing that it should be $90, which I think is what the bankers' attitude is. But the banker, the chartered bank, does create $90 of new medium of exchange.—A. Yes, indeed.

Q. There is no question about that?—A. No.

Q. Can anybody else do that but a chartered bank?—A. Yes. In 1939 I cited the case of some one who got credit from the corner grocery and created a liability of that kind. In 1939 I think it was suggested that because of the low level of earnings, it was hard to run up much in that way. But that situation has improved in the last five years.

Q. Yes. But has anybody got the legal power to do that which the chartered banks do in regard to that transaction, that you know of?—A. The power of the individual is the same as the power of the chartered bank, but of course his credit standing is not the same.

Q. No.—A. The chartered bank has not, by itself the legal power to create that liability. It depends on the volition of the customer, just in the same way as my getting credit at the grocery depends on the volition of the grocer.

Q. Quite true.—A. But if you work with me, I can get credit. And if the customer works with the bank, the bank can get credit.

Q. But what I am dealing with is an entirely different thing. Under the Bank Act of Canada, our banks are authorized to make that kind of transaction.—A. If the customer is willing.

Q. But the parliament of Canada, by section 59, in fixing the reserve at 5 per cent, authorizes the banks to do that kind of thing.—A. If the customer is willing.

Q. If the customer is willing?—A. Yes. If the customer decides that he wants payment for his $100 bond entirely in legal tender Bank of Canada cash, he gets it.

Q. Yes. But I am now dealing with the legal authority which we have given to the banks. Do you know of any other Act where that power is given by the parliament of Canada to anybody else?—A. I would say that the power is not given by parliament. Parliament says that the banks can engage in the business of banking; and if, in the course of business of banking, the banks can persuade their customers to extend credit by leaving money on deposit, all right, it is the business of banking.

Q. Yes, but do you not realize that only those having charters can go into the business of banking?—A. Yes. Tom, Dick and Harry cannot go into the business of banking. That is true.

Q. That is quite true. So that we limit those who can do this to ten banks, and we give them this power. Do you know of any other institutions where that power is created as an exclusive privilege to a group of business organizations?—A. The business of banking is limited to banks. I think that is the only answer I can give.

Q. That is quite true. Then that is a monopoly, is it not?—A. Dependent upon the parliament of Canada.

Q. Yes. Let me read you the dictionary meaning of a monopoly and see if you agree with it. A monopoly is an exclusive licence from the government for buying, selling, making or using anything. We have given the banks an exclusive monopoly of that right to create the medium of exchange by writing up liabilities in their books and calling them deposits.—A. Within the limitations of the Bank of Canada monetary policy.

Q. Yes. But it is a monopoly within the sense of that term. Will you go a little bit further with me?

Mr. TUCKER: Mr. Chairman, there was no answer to that question.

Mr. MCGEER: There was an answer.

Mr. SLAGHT: The reporter cannot take a nod.

Mr. MCGEER: He nodded his head and I took it for granted that the answer was yes.

The WITNESS: The nod was incidental in that case.

Mr. MCGEER: All right. I do not want to hurry you.

Mr. TUCKER: But there was no answer.

The CHAIRMAN: Gentlemen, the reporter is having difficulty.

Mr. TUCKER: Mr. Chairman, Mr. McGeer was going on to assume that there was an answer. I knew there was no answer, and I thought it was important to point that out.

Mr. MCGEER: I want to thank Mr. Tucker for what he has said.

The CHAIRMAN: Mr. Tucker, I doubt if the reporter can hear you. All I am asking is that you speak just a little bit louder so that the reporter can discharge his duty.

Mr. SLAGHT: He cannot take a nod.

Mr. MCGEER: I want to thank Mr. Tucker for bringing that to my attention. I took it for granted that there was no dispute about it.

The WITNESS: I really, Mr. Chairman, am not qualified to appraise a legal definition of a monopoly. I really am not qualified. I know that under the law of Canada parliament can grant charters to ten banks, or twenty banks or one hundred banks. It so happens that they have given charters to ten banks, and that by the law only ten banks can engage in the banking business in Canada. As to the legal definition of whether it is a monopoly or not, I cannot pass on that.

By Mr. McGeer:

Q. All right. We in this committee can decide on what the meaning of a monopoly is from the facts we have before us.—A. Yes.

Q. And we may disagree about that. But as a banking expert, as a man thoroughly conversant with the banking situation in Canada, will you not agree with me that the present chartered banks are so organized as to constitute a monopoly of the right to issue liabilities, call them deposits, and increase or decrease the volume of medium of exchange in circulation in the Dominion of Canada?—A. I know that parliament will not allow anyone other than the ten banks to operate in the banking business. I know that the extent to which the medium of exchange varies in volume in Canada depends on the activities and policy of the Bank of Canada which, in turn, in the ultimate, depends on government policy.

Q. All right. Now I want to go a step further. In the maintenance of that monopoly under the present laws, the Bank of Canada bonuses that monopoly by an issue of Bank of Canada cash.—A. No.

Q. Well, we will take that answer just as it stands. Now, I want to get, Mr. Towers—

Mr. MACDONALD (*Brantford City*): Why not let Mr. Towers enlarge on that?

Mr. McGEER: I thought he gave me a clear, well defined answer and did not indicate that he wanted to go any further.

Mr. MACDONALD (*Brantford City*): I think for the benefit of the committee he should go further.

Mr. McGEER: I certainly do not want to interfere with Mr. Towers.

The WITNESS: Earlier in the meeting I did say that in order to secure Bank of Canada cash the banks had to sell securities or assume a liability. In other words, it costs them money to hold Bank of Canada cash, so that I would suggest that the word bonus is inappropriate.

By Mr. McGeer:

Q. Well, we disagree on that. I will have something to say on that later. Now, you were dealing with page 1—I think we finished with page 1, so let us go to page 2. Your dominion notes increased in 1939, $162,200,000; in 1940, $261,600,000; 1941, $379,600,000; 1942, $572,500,000; 1943, $751,500,000. And they are up considerably more in 1944?—A. Yes.

Q. The chartered banks decreased from $84,600,000 to $79,800,000, to $70,600,000, to $60,300,000, to $42,200,000. So that roughly we have a decrease in chartered bank bills in circulation of $42,000,000; is that right?—A. Yes.

Q. And we had an increase in Bank of Canada bills in circulation of $600,000,000 roughly?—A. Very closely, yes.

Q. And I put it to you that that money in circulation from the Bank of Canada serves the banks just as effectively as a medium of exchange as their own chartered bills?—A. These notes to which reference is made here are, of course, notes which are held by the public, not by the banks.

Q. But it may be deposited in the banks from time to time?—A. By definition, however, at this date at the end of 1943, all this $793,700,000 of notes, ours and the chartered banks, were in the hands of the public, not in the hands of the banks.

Q. Circulating through the banks. You cannot tell whether I have got $100 on the way to a deposit in a bank or $100 in my pocket. There is a volume of money going through the banks all the time?—A. I know that at this particular moment that the $793,000,000 was all in the tills or the pockets of the people. It may be that a few dollars was in the mail, but by and large it was in the tills or the pockets of the people.

Q. How much was in the hands of the bank over that same period of years?—A. Over the period of years? I have not got it here. But at the 1943 date there was $122,000,000 of our notes in the hands of the banks.

Q. Could you give me a statement of the increase in the Bank of Canada cash in the hands of the banks over those years?—A. Yes. I have not got it with me.

Q. We will get that? And with this money in the hands of the public there was a proportionate increase in the Bank of Canada cash in the possession of the chartered banks?—A. The two things are unrelated. There was an increase in the cash reserves of the chartered banks.

Q. And was it not somewhat proportionate to that increase?—A. Oh, no, they are quite unrelated.

Q. Quite unrelated; and if there was a proportionate increase it would be a mere coincidence?—A. Yes.

Q. I think I see a distinction there. There is a certain volume of money that the banks require to cash cheques and handle the public's requirements which remains fairly static, I take it?—A. Because of the increase in the volume of business.

Q. It would rise with the volume of business?

Mr. MACDONALD (*Brantford City*): I think the witness should be allowed to answer the question. I cannot follow the witness and follow the questions at the same time.

Mr. McGEER: I am very sorry. I shall try to accommodate you.

Mr. MACDONALD (*Brantford City*): It is not accommodating me, but I do not think the answers to the questions are going on the record, and it is important that the answers should be on the record.

Mr. McGEER: I quite agree, and I thank you for the interruption. I was probably trying to hurry along too fast, and I do not want to do that.

The WITNESS: As the volume of business increases it is necessary for the banks to keep somewhat more in their tills in the form of Bank of Canada notes. So when I do provide those figures you wish they will show that the chartered banks' holdings of Bank of Canada notes have increased over the last five years.

By Mr. McGeer:

Q. But I think the same influence would be the effect; the larger the volume of business, the greater the activity, the greater the number of people on payrolls and that kind of thing would reflect itself not only in the volume of cash that people handle themselves but in the volume of transactions that are handled through the banks. I may be wrong about that?—A. That is true, although it does not have the same effect on the volume of Bank of Canada notes which the banks need to hold.

Q. Yes, but what I am suggesting—I do not want to put any trick questions or anything like that—I suggest that as the result of your bank policy you have supplied the banks with Bank of Canada cash to a much greater extent than cash has been taken away from them by reducing the amount of their own bills that they are allowed to issue; and I go further and I suggest that you are supplying that Bank of Canada cash to the banks free, and that they are getting it cheaper than they could have got it had they printed their own bills, and that this talk of reducing the chartered banks' issue of bills as a limitation on their power is purely hokus pokus; that they have more cash from the Bank of Canada than they had when they printed their own cash, and they have got it cheaper. That is my proposition?—A. The misconception there, Mr. McGeer, and I give my own view, is so fundamental and has existed for so long, because we went over this in 1939, that I frankly despair of being able to—

Q. Convince me of that?—A. —to put the facts of the situation before you in such a way that our minds will meet. I do despair of that, and I attribute it to some fault in myself, because the facts are simple. There must be something wrong with me.

Q. I think it is purely a point of view?—A. It relates to facts.

Q. Yes. I may be viewing the matter—you see, after all, I have been in public life in Canada through a great many departments of it. I have been in the provincial legislature and I know the problems of finance there. I have had the privilege of sitting in the chief magistrate's chair in one of our largest cities and I know something of the problems of finance there. And I have sat in this parliament through a depression and through a war and I know something of the problems of finance here when we found ourselves unable to finance in Canada in 1936, 1937, 1938 and 1939, but we find that when a situation arises we are able to finance billions for the destructive enterprise of war. When men responsible to the public deal with finance they probably look at it from a different viewpoint than men whose whole lifetime has been spent in the profession of banking. Now, let us not think there is anything wrong with either one of us, but let us realize that we may be viewing this vital problem from different angles?—A. We are talking about two different subjects. I will take second place to no one in the last war or this one in regard to my desire for the good of the country.

Q. Nobody is questioning that.—A. But what we were speaking about earlier was my inability to explain some very simple things in a way which will be understandable.

The CHAIRMAN: Explain it.

The WITNESS: I have two or three times this morning and I have failed.

The CHAIRMAN: Try again—perhaps you have not failed with the committee.

By Mr. Tucker:

Q. Mr. Towers, in your February and March statistical summary there is an increase in chartered bank cash given there, and if we could have it on the record I think we might as well have it.—A. In the statistical summary? Yes, the only catch is that in one case it is an average and in the annual report I think it is the end of the year figure.

Q. Yes, but we can have it fairly close together with the figures for that period. Mr. McGeer made a statement, and I think we might as well have the facts?—A. Yes, it is close. I could mention this now if you wish.

Mr. McGEER: What is that?

The WITNESS: Figures in regard to the chartered banks' holdings of Bank of Canada notes.

Mr. McGEER: I was coming to that a little later on in my examination. I will cover it, if you do not mind.

Mr. MACDONALD (*Brantford City*): I think Mr. Towers should now give us his viewpoint if it is different from Mr. McGeer's.

Mr. McGEER: I have it on this record, and I have taken the position that I do not want to go over all the ground we covered in 1939. I think Mr. Towers will agree with me that he has nothing to add to his statement which was reiterated, I think, a dozen times in the 1939 inquiry; is that correct?

The WITNESS: I think so. The essence of the question relates to increases or decreases in the chartered banks' cash reserves. The figure of those reserves is important because the volume of deposit liabilities to the public bears a relation to the amount of the chartered banks' cash reserves. If the Bank of Canada believes that it is desirable that the door should be opened to an increase in the deposits of the public with the chartered banks it buys securities from the public or the banks, and in the way which has been mentioned earlier this morning that increases the chartered banks' cash reserves. The effect on the chartered banks is either that they have parted with some of their security holdings, sold them to the Bank of Canada and, therefore, lost such earning assets to the Bank of Canada and replaced them by a non-earning asset in the form of cash, or they have received cash as a result of one of their customers selling securities to the Bank of Canada. In the latter case the chartered banks have got additional legal tender cash at the cost of assuming a liability to the customer. Perhaps, they pay interest to the customer on the liability. In any event, they incur the cost of servicing it. So that the final point I would like to make is this: that the level of chartered bank cash reserves depends on the volition and activities of the Bank of Canada, not on those of the chartered banks, and the obtaining of Bank of Canada cash is an operation which costs the chartered banks money.

By Mr. Tucker:

Q. On that point, have you got the comparative figures as to the cost of running deposit accounts in other countries as well as Canada?—A. As to the cost of operations in other countries?

Q. Yes.—A. Yes, they are published in very considerable detail in respect of American banks, and it would be possible—it is a rather substantial volume of statistics—but it would be possible to make one or more copies available.

Q. You say that the cost of running these accounts was a figure of about 1½ per cent outside of interest, and I was rather surprised at that. That seems to be the crux of the whole situation about this cost, and if it could be definitely established that not only in Canada but elsewhere the cost of running deposit accounts was that high figure, it would have a great bearing upon public controversy in the matter. I think you might make available to this committee at some time or other not only the cost of running deposit accounts in Canada but in some of the leading countries of the world?—A. It is only possible to get the figures with regard to the United States; they are not published in the United Kingdom or anywhere else that I know. The segregation of costs in regard to the loaning business, and the deposit business is an estimate which we have made here. There may be similar estimates in the United States, but I am not aware of them. However figures with regard to earnings and operating costs in considerable detail for American banks are available. As a matter of fact, I noticed that the cost figures of banks in the United States with total liabilities of about $2,000,000 are almost exactly the same as the costs in Canada; but that is understandable because the Canadian banking business has a large number of small branches and its costs of operation are obviously considerably greater proportionately than those of, say, the big New York banks. Our costs of operation in Canada are about the same as those of a small country bank or a small town bank in the United States.

Q. What I had in mind was that Mr. Towers might at some time present a statement on that to the committee in a brief form, before we get through?—A. All right.

Hon. Mr. Hanson: Is there such a thing as costless credit?

The Witness: No.

Mr. Fraser (*Peterborough West*): Mr. Towers, in answer to Mr. McGeer you said that the credit of the banks is governed by the securities they sold to the Bank of Canada; would not the cheques that the Bank of Canada issue for interest on victory bonds help the chartered banks to get extra credit?

The Witness: That is a question which relates not only to interest on victory bonds but indeed to all government expenditures. The proceeds of a victory loan are deposited very largely in the ten chartered banks with whom the government conducts accounts, and only drawn out from those banks gradually, as the government spends money. The effect of payments made from the Bank of Canada towards increasing chartered banks' cash is offset by the government drawing money from its balances at the chartered banks.

Mr. MACDONALD (*Brantford City*): Mr. Hanson asked you a moment ago if there was any such thing as costless credit and you answered No. Could you amplify that answer and tell the committee why there is no such thing as costless credit?

The WITNESS: There are two parties to any credit transaction, the borrower and the lender. If I am the lender and I lend—say, $100 to an individual without interest it is costless so far as the borrower is concerned but it is costing me something to lend it.

By Mr. McGeer:

Q. It is costing you something you never had; costing you a profit you could have if you had lent it out at interest; is not that your proposition?—A. Perhaps I should not refer to myself. It is costing my effort and labour to earn the $100. Let us assume it is someone else who has earned $100. He has given up his time and labour to get that $100 and then passes it on to someone else free of charge.

Q. Of course, in as far as that borrower is concerned it is costless credit to the borrower?—A. Oh, there is such a thing as costless credit to the borrower; someone else pays the shot.

Q. Now, I would like to follow on to page 3 of the report where you make this statement: "The bank's holdings of dominion and provincial government securities were $1,260,375,252 on December 31st last, having risen by $243,-974,530 during 1943. Our security purchases during the year were undertaken in order to offset the effect upon the chartered banks' cash reserves of the increase in active note circulation, and also to bring about some increase in those cash reserves, for reasons which I shall refer to in a later section of this report." I take it that that reference to a later section of the report is to be found at page 6 which says: "During 1943, the Canadian deposit liabilities of the chartered banks increased by $748,000,000. In addition, total active note circulation (including Bank of Canada notes) rose by $161,000,000, making the total expansion in the volume of money, therefore, $909,000,000 during the year"?—A. That is correct.

Now, who decides the policy of increasing the volume of money in circulation in Canada?—A. In essence, the government, because it was the government borrowing operations which caused the increase in the deposits of the public. The government found it necessary to conduct those borrowing operations. The management of the Bank of Canada knowing that, knew also that their appropriate policy was to buy sufficient securities so that the cash reserves of the chartered banks would be sufficient to support the increased volume of deposits which was produced by the borrowing operations of the dominion government.

Q. Who decided the policy by which borrowing from the chartered banks was carried out?—A. I assume that the Minister of Finance and the government decided.

Q. Were you consulted with reference to that policy?—A. We are one of the government's advisers in matters of that kind, yes.

Q. And you participated in the conversations or discussion, I presume, which resulted in the decision?—A. Yes.

Q. To borrow from the chartered banks?—A. Yes.

Q. That is right?—A. That is right.

Q. And that was a decision by the Department of Finance of the government acting on the advice of its technical advisers?—A. A decision of the cabinet.

Q. A decision of the cabinet acting on the advice of the Department of Finance which acted in turn on the advice of its technical advisers?—A. Yes.

Q. Were there any orders in council to that effect?—A. There were orders in council covering all borrowings.

Q. General borrowings; but as to whether they borrow from the chartered banks or elsewhere.

Mr. CLARK (*Deputy Minister of Finance*): Not one laying down the general policy; but there is an order in council covering every loan to the government, and made to the Minister of Finance, and it recites that the borrowing is to be from the general public or from the Bank of Canada or from the chartered banks as the case may be.

By Mr. McGeer:

Q. So it is a matter of government policy, and it was decided that it was necessary, I take it, to borrow from the chartered banks and to authorize the chartered banks to increase the volume or medium of exchange necessary for them to finance their borrowing?—A. When the decision is taken to borrow from banks and banks agree to the purchase of securities the increase in deposits is then automatic.

Q. Was there a shortage of money at that time?—A. No, there was not. The policy which I understand to have been followed by the government since fairly soon after the commencement of the war was to obtain their requirements as far as they possibly could by taxation and by borrowing from the public. It is the residual amount which is then borrowed from the banks.

Q. Yes. Now, to work out that transaction it became necessary for you to put at the disposal of the banks $161,000,000 of Bank of Canada cash?—A. I would put it this way: it became necessary for the chartered banks to sell sufficient securities to obtain that additional amount of Bank of Canada cash.

Q. In any event, whether it was one way or the other, to support that increase in bank deposits which the bank used to purchase government bonds the Bank of Canada issued and made available the necessary cash reserves?—A. The Bank of Canada purchased securities which resulted in the necessary cash reserves becoming available and that, of course, is a very profitable operation for the Bank of Canada.

Q. You told us in your report at page 3 that it was necessary to offset the effect upon the chartered banks' cash reserves—that was a necessary part of the technique?—A. To offset the increase in active note circulation.

Q. At that time there was how much on deposit in the savings banks of Canada?—A. The savings banks as distinct from the chartered banks?

Q. The savings bank accounts of the chartered banks?—A. Shall we pick a date?

Q. In that year—roughly two billion dollars, was it not?—A. In 1943 it would probably average about $1,900,000,000.

Q. In round figures two billion dollars?—A. Yes.

Q. And notwithstanding the fact that there was two billion dollars in the possession of the public the policy was decided to increase the volume of money for loan purposes, for war purposes, by $909,000,000?—A. The $909,000,000 is perhaps not the best figure to take, because that includes the increase in active circulation respecting which the decisions, of course, are taken by the public The bank deposits increased by $748,000,000. The decision was taken, yes, but it was one of those decisions in which there is no element of choice. The government had certain receipts from taxation. It had to borrow the remainder of its cash requirements. It borrowed as much as it could from the public. Had the victory loans in 1943 been $800,000,000 larger than they were this increase of $748,000,000 of bank deposits would not have occurred.

Q. I am taking your own words from your own report on that. It says, and I am quoting from page 6, "making the total expansion in the volume of money, therefore, $909 millions during the year."—A. Yes.

Q. That is right, is it not?—A. Yes.

Q. Do you know of any instance when the public of Canada during this war have been asked to subscribe any amount by the government that they have not subscribed?—A. The government and the National War Finance Committee have set a certain goal at the time of each loan, a minimum goal, and then have done their best to go beyond that minimum by as much as they could.

Q. And in every instance the minimum set by the government has been over-subscribed?—A. That is right. The response has been perfectly splendid. I do not think that any criticism is due on the score of the public not having responded sufficiently. Nevertheless, it does remain true that subscriptions did not cover the total borrowing requirements of the government.

Q. Because they were not asked for it. Now I come to another point—

By Mr. Macdonald (Brantford City):

Q. Do you agree with that, "because they were not asked for it"?—A. There is a practical limit beyond which I think one cannot go, Mr. Macdonald. I would not like to be too dogmatic on that.

By Mr. Graham:

Q. As a matter of fact, indirectly they were asked, because the Minister of Finance has always pointed out that the amount mentioned was the minimum and our people were asked to subscribe as much over that as they could. So in a way our people were asked. That is true?—A. In a way, yes. It was known that no subscription would be refused.

Mr. McGeer: You would take all you could get.

By Mr. Kinley:

Q. Beyond that point, it was inflationary, was it?—A. To resort to bank financing?

Q. Yes.—A. Yes.

By Mr. McGeer:

Q. So that the $909 million was inflationary over and above your bank deposits?—A. The increase in bank deposits due to government financing is inflationary in character, yes.

Q. But it did not blow the lid off this time?—A. Due to price control.

Q. Quite agreed. There is just one thing that I think you will agree with me on and it is this. There is a propensity on the part of people to hold savings reserves.—A. Yes.

Q. And as a matter of fact, that has been steadily increasing during the last number of years.—A. It is due to the response of the public to the needs of the situation and to the understanding of the necessity for war savings.

Q. Yes. I think if we took the line from 1914 when our savings were roughly half a billion dollars—I am using a round figure—you will see they are steadily increasing up to the figure now of $1,900,000,000.—A. I am sorry to say that during the depression years, for reasons which you can well understand, savings did not show much increase.

Q. No. But I am taking the long term view. It recovered from that. It fell a little in 1932, 1933 and 1934?—A. Yes.

Q. But it gradually got back up and it is greater now than it ever was in our history?—A. Yes.

Q. So that the long term line is a steady increase in the fixed amount of savings held. They do not vary very much from month to month or year to year, do they?—A. If one wants to take the actual figures, they were about

$1,400 million at the beginning of 1935 and by the end of 1938 they had increased to about $1,600 million.

Q. Yes, and kept going up and have increased since to $1,900 million. So that in war and peace, outside of acute times of depression, the propensity to hold fixed amounts in saving reserves is indicated by the records of the savings banks deposits, is it not?—A. Yes. During the years mentioned they increased by about $50,000,000 a year.

Q. Yes. That money is potential spending power in the possession of the people, is it not?—A. Yes.

Q. And is available for financing government.—A. If—

Q. If the people are willing.—A. If the people are willing to lend it, yes.

Q. Can you see any reason why a government that will conscript men into the army has not the power to conscript the savings of the people into the service of the nation in war time?—A. I think that powers such as that should be used only when they are necessary.

Q. Only when they are necessary?—A. Yes. In the case under discussion: if the bank depositors preferred, to a certain extent, to leave their money on deposit rather than invest it in government bonds, then it is possible for the government to finance with the banks. It does not need to embark on the type of action which you suggest.

Q. No?—A. Involving, as it does, scrutiny of the affairs of every individual in Canada.

Q. Now, let me ask you this—

By Mr. Macdonald (Brantford City):

Q. Just a minute. Would you enlarge on that, Mr. Towers? Were you giving that just with regard to conscripting cash? What about conscripting the securities which individuals hold?—A. That would serve no purpose.

By Mr. Kinley:

Q. The whole idea would mean dictatorship. It could not be done otherwise. —A. And the examination of every individual's affairs would necessarily extend to the taking charge of his budget, because if some one were spending very little, had saved a lot, why go particularly to him? Why not go to the fellow whose budget is too large and say, "You come to us every day and we will tell you what you can spend"?

By Mr. Macdonald (Brantford City):

Q. But if you conscript the cash to the credit of the account of A, would it not be grossly unfair not to take the bonds which B has?—A. It depends on the form of conscription. If it was confiscation, yes. Then you should carry it through the piece.

Mr. McGeer: I quite agree.

The Witness: If it was forced borrowing, that is another story.

By Mr. McGeer:

Q. We are enforcing borrowing to-day on wages, dividends and that kind of thing, are we not?—A. Taxation?

Q. No. We are taking a portion and holding it until after the war?—A. Yes. That is true.

Q. I mean, we are forcing that right now. I mean to say, there is nothing new about that. What I want to get at is this— —A. I think I would put it this way in regard to the personal income tax. I think I would regard the whole thing as a tax in the first instance. Then the government, having in mind the height of that taxation, particularly on those of low incomes, said, "Well, we must ease this. We do not want this eventually to be a tax. We want to give some portion of it back, a particularly high proportion to those with low incomes and a smaller proportion to the others."

Q. And as I understood that policy, as explained to us in parliament and explained to us in the public, it was necessary to take that portion of the wage earners wages away from him to prevent inflation, that is by decreasing for the time being during the period of the war, the volume of his buying power in money?—A. As one of the many means of accomplishing that result, yes.

Q. I do not think we are in disagreement about that.—A. No.

Q. I believe that was the reason given.—A. Yes.

Q. By the Minister of Finance to parliament.—A. Yes.

Q. And it certainly was the explanation I made to my constituents as a member of parliament and I think was accepted in that spirit.—A. Yes.

Q. But it was an inflationary control.

Mr. MACDONALD (*Brantford City*): What the Governor of the Bank of Canada said was that it was just one of the reasons.

Mr. McGEER: I grant you it is one. I am only dealing with this one. I quite appreciate all the others.

By Mr. McGeer:

Q. Now what I want to put to you is this. Suppose the government had transferred these savings accounts to its credit, to the extent of one billion dollars and placed in the chartered banks a savings certificate payable in cash on demand. Do you think there would have been any greater demand on the part of the owners of savings accounts to call for the use of that money than there was when it was merely in the chartered banks?—A. Yes, I do.

Q. Why?—A. Because there is a saying which was common during the South African war—I shall have to paraphrase it—"I do not mind kitchen fatigue and I do not mind burial parties, but I won't be pushed about." If you push the depositors about the first thing they will do is walk off with their cash.

Q. That is theoretical; you have no proof of that, because it has never been tried?—A. I suppose all estimates of the actions of human beings are theoretical, but there is a lot to go on.

Q. You have no instances that where savings have been appropriated to the use of the government in war time that the public have refused to co-operate in that way?—A. They have not been appropriated by force majeure.

Q. Your wages have?—A. Yes, we have not been able to get wages back; that is, the savings portion.

Q. If that had been done, then the total volume of money in circulation would not have been increased, would it?—A. I think you suggested that it would be possible for an individual whose savings had been dealt with in that form to get cash if he so desired.

Q. If he so desired; but I say he would not have any desire at all.—A. It is an appraisal of human nature. My appraisal would be that the procedure suggested would give him an urgent desire to get his money back.

Q. Let me put this to you: he has to-day a promise of the chartered banks to pay his savings on demand?—A. Yes.

Q. That is all he has. He does not now desire his savings; he is leaving them, as I said, in rather a fixed amount increasing. He has, under the proposal that I offer, the additional security of a promise on the part of the national government, so that if the security for the man whose savings were appropriated to the use of the nation during the war under this plan is greater than it was before that course was adopted in that he has a savings certificate of the government which is payable in Bank of Canada cash?—A. Can he get the cash if he wants it?

Q. He can get it any time he wants it?—A. Then he will want it. Perhaps you will forgive me for telling the story of the Irishman who went into a bank because he had heard something and he was worried that he would not be able to get his money. As soon as the teller produced the money the Irishman said, "I do not want it. If I can get it I don't want it."

Q. That is exactly what caused runs on the banks in the past: people were afraid they might not be able to get their money, and as soon as we set up a system whereby the banks must be liquid through the aid of the Bank of Canada we had no danger of a run on a Canadian bank to-day, for the simple reason that everybody knows that he can get his money and that there is not any danger of the security of the banks. That is the confidence that the public have?—A. It is also necessary to have confidence in the government.

Q. In the government?—A. If the people think that the government is going to take any action along the lines you mentioned then they will not lose confidence in the banks but they will lose confidence in the government.

Q. What I am suggesting to you, Mr. Towers, is that by the course I propose the security of the savings banks' deposits holder will be greater than it is at the present time. Now, you put this question to me: can the savings deposit holder get his money any time under the plans which I propose, and I said yes, and you said that he will want it then. Let me put this question to you. Can the holder of a savings bank deposit in the chartered banks of Canada get his money now when he wants it?—A. Yes.

Q. And he does not take it? He holds two billion dollars there?—A. Because it is purely voluntary.

Q. And if he has an additional security behind that savings deposit of a promise on the part of the government as well as the banks to pay you say that he will want his money?—A. If he has been pushed into the security, he will.

Q. I do not think there is any pushing in the government asking a savings bank depositor to place his savings at the service of the nation during this war?—A. They do ask them to do so and they respond very adequately.

Q. In the control of inflation, the policy adopted by the government and the chartered banks and the Bank of Canada has resulted in 1943 in an increase in the volume of money to the extent of $909,000,000, notwithstanding the fact that there was already in the savings bank deposits two billion dollars of idle cash; is that correct?—A. It is a question, Mr. McGeer, of extending the education which National War Finance Committee are endeavouring to do over a period of years. The other day on a train the conductor came to me. I am sorry to take up the time of the committee with this but it is an illustration. He was due to retire very soon, and he was one of the best types of our citizens—I think I need hardly mention that—but he was having a little trouble in making up his income tax return. So we got together and I hope I gave him the right answers. He started to talk about victory bonds and he said that he bought some; in fact he had used some of the money he had in a savings account for that purpose. He said that he used to have $1,700 in his savings account and now he had only $500 and it worried him because if he or his wife should become sick there was just $500 for an emergency, and not $1,700. I told him that if he needed the money he could sell his victory bonds at once. He said, "I suppose that is true, but it worries me to have only $500 instead of $1,700."

Q. If he knew he had a savings certificate in the savings bank and that the government would meet that emergency any time he wanted that money he would be just as well off; would he not?—A. If our educational processes were carried far enough I think that man—I should not say that man, because he had brought his account down from $1,700 to $500—but others who have not bought bonds would buy more at the time of the loans. It would be a voluntary process as the result of education, a voluntary action on the part of Canadian citizens.

Q. Let me put another angle to you: if we transfer those savings from the banks to the use of the government the chartered banks would cease paying interest on the savings banks' deposits which runs what?—A. $1\frac{1}{2}$ per cent.

Q. So that would be taken away as a cost to the chartered banks, would it not?—A. Yes.

Q. And if the government paid the same amount to the savings bank depositors they would be getting the money for $1\frac{1}{2}$ per cent?—A. Yes.

Q. So that there would be no increase in the total volume of interest paid; there would be a transfer of the payments from the chartered banks, which are a substantial part of the whole community, to the whole community; but there would be no increase there in the volume of money in issue or in the interest actually paid to the holders of savings deposits?—A. But there will be an increase in the amount of interest paid by the government.

Q. Yes, but I mean to say that the transfer would be from a portion of the community represented by the chartered banks and all their shareholders and other ramifications to the community as a whole, but the government would be getting money at $1\frac{1}{2}$ per cent instead of 3 per cent as for victory bonds?—A. Oh no, the bank financing done by the government does not cost us on the average $1\frac{1}{2}$ per cent.

Q. It does not cost you $1\frac{1}{2}$ per cent?—A. No.

Q. But your victory bonds cost you 3 per cent. I am suggesting to substitute this for victory bonds, not by increasing bank loans?—A. The same effect would be produced if in the case of one of our victory loans the government offered to pay $1\frac{1}{2}$ per cent.

Q. Very well. On page 3 you gave us a profit and loss statement. You say: "The net profit from our operations in 1943, after providing for contingencies and reserves, was $15,911,478.79."

An HON. MEMBER: Mr. Chairman, it is 1 o'clock.

Mr. MACDONALD (*Brantford City*): Mr. Chairman, if you are going to close the discussion now I would like to say that I think Mr. McGeer has brought out a lot of information with is very valuable to the committee, and that Mr. Towers has given a lot of information which is also very valuable to the committee. Mr. McGeer has suggested, Mr. Chairman—I do not know whether he intended to or not—that the government should take over the savings accounts in the banks throughout the country. I would not want that suggestion to go out from this committee. I do not think it is the consensus of opinion of the members of this committee that the government should take over all the savings accounts in the chartered banks in Canada. I do not think this committee agrees with that suggestion. I am afraid that if that suggestion were to go out there would be a terrific run on the banks. I should like to make it perfectly clear, so far as I am concerned—and I think I speak for most of the members of the committee—that we are not in accord with Mr. McGeer's suggestion that the savings accounts should be taken over.

Mr. MCNEVIN: And you can add a lot of others.

Mr. MCGEER: That is a matter of discussion that we can come to later on. We will deal with that then.

The CHAIRMAN: Gentlemen, is it your pleasure to continue with the examination of the Governor of the Bank of Canada to-morrow?

Mr. MCGEER: I am going away. I will be back on Monday. I thought I had made that plain.

The CHAIRMAN: Other members may want to say something.

Mr. MCGEER: Oh, yes.

The CHAIRMAN: By the way, Mr. Tompkins has some statements which he requires permission to file and have printed so that they may be made available to members of the committee. Is that your pleasure, gentlemen?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Shall we adjourn?

Mr. TUCKER: Just before we adjourn, there is one question I should like Mr. Towers to fetch us some particulars on, if he can. He suggested that 30 per cent of our national income was based upon export trade. It seems to me a greater proportion of it is really based upon export trade than that. I wish we could have some figures on that to-morrow, if possible.

The CHAIRMAN: Gentlemen, I presume there is no need for a meeting of the subcommittee, then.

Some hon. MEMBERS: No.

Mr. SLAGHT: When do we adjourn to?

The CHAIRMAN: We adjourn until to-morrow morning at 11 o'clock.

The committee adjourned at 1.05 p.m. to meet again on Thursday, May 18, at 11 o'clock a.m.

May 18, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: We shall proceed with the business of the day, gentlemen.

(Mr. Towers filed the following answers to questions asked at a previous sitting):

ANSWERS TO QUESTIONS BY MR. TUCKER

1. Mr. Tucker inquired regarding the availability of statistics of operating costs of banks in other countries comparable to those which have been given for the chartered banks by the Minister of Finance. The only country which I know to be making such information public is the United States and the latest figures available are for the year 1942. In making a comparison between Canadian and American bank earnings and expenses, it is only proper, as I mentioned yesterday to exclude from the American statistics the banks in the large financial centres. I believe that the group of banks called "country member banks", comes closest to being comparable with the chartered banks. This group of "country" banks includes most American banks which are members of the Federal Reserve System; in 1942, 6,275 out of 6,679 member banks were classed as "country" banks.

Total operating expenses of "country member banks" in 1942 were 1·94 per cent of total assets. Excluding interest on deposits, general operating expenses were 1·59 per cent compared with 1·79 per cent in Canada. Another way in which the operating expenses of American banks may be compared with those of chartered banks is on the basis of banks with assets between one million and two million dollars—i.e. banks about the size of the average Canadian banking office. The figures for this group of banks show that in 1942 total operating expenses were 1·92 per cent of total assets. Excluding interest on deposits general operating expenses were 1·51 per cent compared with 1·79 per cent in Canada.

There are many reasons why the two figures do not agree. For one thing, taxes paid by the United States banks were relatively lower than in Canada. For another, I believe that on the average the "country member banks" are able to do a somewhat larger volume of business under one roof than are the chartered banks operating in a much less densely populated area, which tends to reduce costs.

I am not aware of any available figures for the American banks which divide general operating costs between the cost of administering assets and the cost of doing a general deposit banking business. But since the totals of these two types of expense are quite similar in the two countries, I assume that the breakdown if available would also show a close degree of similarity.

2. Mr. Tucker also inquired yesterday if the proportion of our national income derived from external trade was not higher than 30 per cent. When I appeared before the Committee in 1939 I presented certain comparisons between exports and national income in the years 1926-37. These figures were based on the only statistics of national income available at that time which were those of *net* national income. Since that time estimates have been made of the gross value of our national product which naturally are larger than the net income figures. I believe that it is more accurate to relate exports to the gross national product statistics producing a somewhat lower ratio which bounces around from year to year but has averaged about 30 per cent in the period 1939-43.

ANSWER TO QUESTION BY MR. MCGEER

Mr. McGeer asked for the amount of Bank of Canada notes held by the chartered banks at December 31st each year from 1938 to 1943. These figures are as follows:—1938, \$56·8 millions; 1939, \$70·6 millions; 1940, \$98·3 millions; 1941, \$116·3 millions; 1942, \$121·1 millions; 1943, \$122·9 millions.

Mr. GRAHAM F. TOWERS, Governor of the Bank of Canada, recalled.

Mr. FRASER (*Northumberland*): Mr. Chairman, I wonder if I could ask a few questions for the purpose of clearing the record?

The CHAIRMAN: Yes.

By Mr. Fraser (Northumberland):

Q. Yesterday the Governor of the Bank of Canada, if I understood him correctly, made a statement that the chartered banks do not lend their depositors' money. Is that correct?—A. That the chartered banks do not lend deposits, their deposits being a liability. Their assets are, in a sense, administered on behalf of the depositors. Their assets consist of securities and loans. If depositors withdraw deposits, it is true that the lending capacity of the banks would be *pari passu* reduced.

Q. I can see the point that you bring out, Mr. Towers; but it seems to me that, after all is said and done, the banks are the repositories of customers' credits.—A. Yes.

Q. The implication is that the customer has deposited for future use the value of his production or his labour?—A. Yes.

Q. And that deposit is a credit on the bank's ledger in his favour available for withdrawal?—A. Yes.

Q. As he requires it?—A. Yes.

Q. But in the meantime, the bank is paid in some cases for the storage of the money and in other cases he pays for the privilege of storing that money?—A. Yes.

Q. So on the debit side of his ledger he loans the money as a broker?—A. Yes.

Q. To some other individual who wishes to use it?—A. Yes.

Q. So notwithstanding what you have said—and I interpret what you said as an explanation of the loaning of the reserves of a bank—it does not seem to me to eliminate the fact that the bank does loan depositors' credit.—A. I think with that, put in the way that you have put it, I would agree.

Q. May I direct another question, Mr. Chairman, to the Governor of the Bank of Canada. If he agrees with that, is it not true that banks are dealers or brokers in credit?—A. Yes.

Q. And is it not true that if they did not constitute the repository of the aggregate of individual credits, they would not be able to loan in excess of their reserve?—A. In excess of their capital and reserve.

Q. Their capital and reserve?—A. That is right.

Q. So consequently, to clarify the record, you now agree that banks do loan their depositors' money?—A. Yes.

Q. Thank you.

By Mr. Macdonald (Brantford):

Q. Just one question along that same line. Yesterday it was suggested that the government should take over, conscript or seize—I do not recall the word used—all the moneys in the savings deposits in the commercial banks. What effect, if any, would that have on the lending powers of the banks?—A. It need not have any effect any more than the flotation of victory loans affects the bank's position, because when a loan is sold substantial amounts are withdrawn from the current and savings accounts of corporations and individuals and are put into the government's accounts with the chartered banks, so that the sum total of their assets and liabilities does not change in that process. There is a shift from the deposit accounts of individuals and corporations into the deposit accounts which the government maintains with the chartered banks. Then as the government spends those funds, it withdraws them from the government's accounts with the banks and pays them out to contractors, suppliers and so forth, who re-deposit the money in their own individual accounts with the banks. There is first of all the movement from the accounts of the public with the banks into the government's accounts and then out of the government's accounts into the individual accounts again.

By Mr. Graham:

Q. May I follow that up a little bit further? It seems to me that section 59, which is the section which, as you properly pointed out to Mr. McGeer yesterday, merely provides that "the bank shall maintain a reserve which shall, as provided in the Bank Act of Canada, be not less than 5 per centum of such of its deposit liabilities as are payable in Canadian dollars", and so on. It is that particular provision in the Bank Act which has given support to a great many arguments that are appearing in this committee and elsewhere with regard to the ability of the banks to pyramid their loans on the securing of legal tender in the shape of Bank of Canada notes or securities provided by the Bank of Canada Act, which would constitute a legal reserve. Is not that true? That is the section that gives rise to this argument we are listening to here, is it not?—A. Yes.

Q. Mr. Macdonald has asked you if the taking of the actual cash in the savings deposits of the chartered banks by the dominion government and the substitution therefor of dominion securities would or would not affect the loaning capacity of the banks. I agree with the answer given by you, provided those securities stayed in the chartered banks. But suppose that the process of taking the moneys from the savings, the deposits and the replacement by securities resulted in a loss of confidence in the depository of the people's money. Then you would seriously affect the loaning capacity of that bank.—A. Yes, indeed.

Q. That is the point I want to make clear. It is only because the depositing public have implicit confidence in our banking institutions that the banks are permitted to pyramid their loans from nine to one, or ten to one or twenty to one. Is that not true?—A. That is correct.

Q. Once you destroy confidence, they are reduced immediately to a one to one basis?—A. That is right. It then becomes impossible, practically speaking, to carry on business.

Q. Exactly. And secondly, when you speak—quite properly, I realize—of the collective banks' situation, which number ten. But if one single bank among those ten lost the confidence of its depositors, it would no longer be in the position the collective ten banks are in at all. Is that not true?—A. That is true.

Q. And it would be faced with the necessity of reducing constantly the ratio of its reserves to its loans, until, if that lack of confidence kept up, it would be reduced to the position of only being able to loan its actual available capital and rest funds?—A. That is true.

By Mr. Jaques:

Q. Would you agree that every bank loan creates a deposit?—A. Oh, yes.

Q. And when you were a witness before this committee in 1939—

Mr. Graham: May I interrupt you, Mr. Jaques in order to ask one question there on the basis of that answer?

Mr. Jaques: Yes.

By Mr. Graham:

Q. You say—and I have often heard it said—that every bank loan creates a deposit. But that is not literally true if the moneys that were borrowed were taken to pay a debt in the United States or a foreign country.—A. It remains true in Canada, yes. Let us suppose that a corporation gets a loan of $500,000. As it gets that loan, the bank credits its account with $500,000. If the corporation then proceeds to use that money as it will, because that is the reason for borrowing—it does not borrow money to leave it idle—it pays out that $500,000, shall we say, to some one who sells United States' exchange to that corporation. It nevertheless remains true that the sum total of deposits in the country has been increased by $500,000.

Q. What if it were paid to somebody in the United States?—A. It can only be paid to some one in the United States by buying United States' funds from some Canadian who has them available. Then the $500,000 deposit created by the loan is paid over to the Canadian seller of the exchange and by him deposited in his bank.

Q. Thank you.

By Mr. Jaques:

Q. When you were a witness before this committee in 1939, Mr. Towers—

Mr. Blair: Louder, Mr. Jaques.

By Mr. Jaques:

Q. When you were a witness before this committee in 1939 you were asked on page 285 of the report. "Q. Then we authorize the banks to issue a substitute for money?" You said, "Yes, I think that is a very fair statement of banking." Then on page 456 I asked you this question, "Q. You will agree with the statement that has been made that banks lend by creating the means of payment?" Your answer was, "Yes, I think that is right." Then on page 455 I asked you if the banks lend the money of their depositors and your answer was, "The banks cannot, of course, loan the money of their depositors." That was at page 455. You went on to say, "What the banks have done is to make loans and investments which result in a certain sum total of deposits. In respect to savings that amount is $1,600,000,000 odd. Now what the depositors do with these savings is something quite beyond the control of the banks." Then there is one more question I asked you: "Q. You have agreed that banks do create money?" You said, "They, by their activities in making loans and investments create liabilities for themselves. They create liabilities in the form of deposits." You would of course agree with that to-day.—A. Yes, as I would have five years ago, ten years ago or any time in the past.

Mr. Slaght: Mr. Chairman, I have two problems that I should like to discuss very briefly with Mr. Towers. If you will permit me to do so, I should like to make my position clear in just a word, and it will enable the witness, I think, to better understand the help I want to get from him. I am absolutely opposed to the socialization or the nationalization of our chartered banks, and that is not an issue here now, as Mr. Coldwell was good enough to say that he regards the house as having disposed of it. I want to say that I think it would be a calamity. If you will permit, because there is some impression that I am an enemy of the chartered banks or the bankers, I want to say, as I said in the house, that I have no fight with the banks. The banks render good service—some of my friends of the banking fraternity are here—and they are entitled to a fair profit. The bankers are doing a splendid patriotic job in our war effort, and I say with great earnestness to these banking gentlemen sitting here in this room that they are amongst the finest and best citizens in the country. Having said that, I hope I shall not be misunderstood because I am going to quarrel with one element of the present banking situation.

By Mr. Slaght:

Q. Then, Mr. Towers, I am going to direct some questions to you on two points. The first is that the right to issue currency and credit should be re-vested in the Canadian people through parliament and not permitted to remain in the chartered banks where it at present rests in part. The second is that the Minister of Finance and the government should not borrow for government needs from the private banks by creating debt-bearing securities sold to them, but they should borrow from the Bank of Canada for strictly government needs, if you cannot secure sufficient money from the public by taxation and victory bond methods. Those are the two points. I just want to state them to you so you will be aware of what I want to know. I assume that you would agree with me that under our British North America Act, our constitution, section 91, the control of banking, the public debt—I am reading from the statute—currency and coinage, banking, the incorporation of banks and the issue of paper money are all subjects placed within the exclusive jurisdiction of the federal government?—A. Yes.

Q. That is common ground. I suggest to you that by issuing banking charters and then setting up our requirements under section 59, we have delegated or given to the chartered banks the right to create the medium of exchange or in other words the right to create money, using money in that sense.—A. Yes. In order to do so, however, you will agree that the banks have to maintain the confidence of their customers.

Q. Well, that goes without saying.—A. Yes.

Q. With anybody in any business.—A. Yes.

Q. I am not going to raise the issue about whether that is a monopoly or not. But I should like to settle with you what is the capital of the ten chartered banks. I have taken the figure of $145,500,000 from the last *Canada Year Book* published by the government, at page 815. They set out the capital in 1941 at $145,500,000. On the same page they set out the rest or reserve fund at $133,000,000. Would you agree with those figures as accurate?—A. Yes.

Q. Yes. I am not overlooking the fact that bank shares have gone up and down, and some people may hold them now and may have paid more than the rate at which the original capital was subscribed. But am I correct in saying that the capital of the banks to-day is $145,500,000?—A. Yes.

Q. Yes. My friend Mr. Hanson was in doubt about that. Now, Mr. Towers, our Minister of Finance has put the matter of what is standard banking business in language with which I entirely agree. If you do not mind, I am going to quote his description of orthodox banking which will be found in *Hansard* of July 15, 1942. It is very concise. May I read it to you:—

> Everyone familiar with the working of the banking system knows that the moment the banks get their hands on additional cash—I mean by that Bank of Canada notes, or deposits by the Bank of Canada which are convertible into Bank of Canada notes—when the banks get those reserves

> in their hands powerful forces are set in motion to get the banks to buy securities themselves, to make loans themselves, so that the deposits of the chartered banks will be seven, eight, nine or ten times as great as their cash reserves. That lies at the base of their whole profit-making activities; the way they make money is by lending more money than they have. What they have is their cash reserves; and unless a bank has out several times—six, seven, eight, nine or ten times—its cash reserves, it is not being profitably, or from a banking point of view, properly conducted.

Do you agree with the minister and with me that that is, in short, a summary of the business of banking in that aspect?—A. Yes.

Q. So that we find they may lend, as there put, nineteen times more money than they have, but to be safer, in practice they lend up to nine or ten times more money than they have?—A. That is one way of putting it. They lend an amount or purchase securities—the two things go together—to an extent which involves them in a certain volume of deposit liabilities to the public. They feel that those deposit liabilities cannot go beyond a figure of ten times the amount of their legal tender cash, approximately.

Q. Quite so; and that has been the practice for years. I have traced it back. They have maintained that ten to one ratio pretty consistently. May I try to illustrate my point by putting this to you, Mr. Towers. Assume, if you will, that our friend the chairman secured a new bank charter starting from scratch, and that he persuaded his friends around Whitby to join him by putting in $100,000 in real money to start a bank. Suppose he got a charter, making the number of banks eleven instead of ten. Would it be possible for my friend's bank, with $100,000 in the vault and no other assets except their building perhaps, to start with that $100,000 in the vault and lend to Mr. A $100,000 if Mr. A handed in his note through the wicket? They, of course, could do that, lend customer No. 1 $100,000, could they not?—A. Yes.

Q. And they would then have a note of Mr. A lying in the vault along with $100,000 real money, and they would enter in the pass book a credit to Mr. A ordinarily which would justify him in believing that he could demand from that bank the next day $100,000 in cash if he wanted it?—A. Yes.

Q. Now, Mr. B comes in next day and Mr. C, and so on, nine other gentlemen, they come along to that bank and the banker has, under the present practice, loaned each of the other nine $100,000 and made a credit entry in the bank's books showing that each of the other nine could come along the following day day and if he wished also demand from the bank $100,000?—A. No. It cannot operate that way.

Q. I suggest that they do operate that way.

The CHAIRMAN: Please allow the governor to answer.

Mr. SLAGHT: I am sorry.

The WITNESS: Now, we are speaking about the chairman's hypothetical bank in Whitby. That bank can take the first step you mention. At that stage it has $100,000 in legal tender cash which is received from those who subscribed to the capital. It makes a loan of $100,000 to Mr. A, the first arrival on the scene, and credits his account as you outlined. That borrower, however, proceeds to spend the money. He will be paying out that money to a number of individuals who do not do business, I am afraid, with Mr. Moore's bank. They have not quite understood how good a bank it was, and they have other connections. Therefore, through the clearing, the chairman's bank will have to pay out to other banks a large proportion of the $100,000 of legal tender cash that you mentioned a moment ago.

Mr. SLAGHT: Possibly all.

The WITNESS: Yes, possibly all, unless the chairman is fortunate enough to include amongst his clients those who are receiving payments from Mr. A.

The CHAIRMAN: Just a moment. Where does Mr. Tompkins come in?

The WITNESS: He is not there that day.

The CHAIRMAN: But he comes around, does he not? Tell us about Mr. Tompkins.

The WITNESS: His duty is to satisfy himself that Mr. A is a good risk.

By Mr. Slaght:

Q. I thank you for that. But will you assume with me for a moment that the people around Whitby who borrow would not be disloyal and that a good many of them would come back and deposit their cheques in this bank?—A. It would not be only the people around Whitby; it would be the people in Vancouver and Halifax as well.

Q. Now, Mr. A has had his transaction to the extent of handing in his promissory note and having a credit in the bank of $100,000, and for ten days he does nothing. Then along come Messrs. B, C and D, in that ten-day period and they have a similar transaction but up to date it has not suited any of them for ten days, or five days, if you like, to do any checking against the promise of that bank that each of them may have $100,000. Can you conceive of that?—A. Yes, I can. In that case the chairman's bank has a ten day lease of life, but a terrible time on the eleventh day.

Q. That is what I am afraid of. On the eleventh day all the ten gentlemen present themselves at the bank door and say to this bank: "We would like our money." That means $1,000,000—ten times $100,000?—A. Yes.

Q. All that is in the vault is the $100,000 of Bank of Canada notes that he started with, or money, and nine promissory notes on which he has loaned $1,000,000. Now, why should he have the privilege of lending $900,000 that he has not got security for and would be unable to pay if payment was demanded of him?—A. He has got security, because we will assume that the ten borrowers are good risks and that in due course the amounts will be repaid; but he has not got sufficient cash immediately to pay the claims of the depositors. In other words, the chairman's bank has to close its doors. At this stage I think we should make it someone else's bank—

Mr. MACDONALD (*Brantford*): Are not the notes worth something?

The WITNESS: Yes. The bank has closed its doors because it is unable to meet the the claims made against it in cash. Under the Bank Act the liquidator takes over and assuming that the loans are good the depositors will be paid off in due course.

Mr. FRASER (*Northumberland*): At this point it seems to me to be necessary to interject what I have found in my experience with bankers. When Mr. Slaght's customer, A, went in to the bank to borrow $100,000 the banker probably, through the usual channels, would say, "We want $100,000 of Canadian victory bonds to support that loan"; and even following Mr. Slaght's argument in its entirety, when the bank ended up with a loan of $1,000,000 to ten people they would have $1,000,000 of equally liquidatable securities in their vaults, and as I understand the evidence given heretofore, at that point they could take those securities to your bank, Mr. Governor, and get Bank of Canada notes on the borrower's hypothecations to the chartered bank, or Mr. Moore's bank. Is not that the way it would work?

The WITNESS: They could do that for a temporary emergency, but they could not do it as a continuing thing. In other words, the central bank is really the lender of last resort. Always they are willing to lend in the case of an emergency, or for temporary purposes, but not willing to make loans to banks which are outstanding year in and year out. The banks will stand on their own feet as a steady diet.

Mr. FRASER (*Northumberland*): I agree with that but I still come back to my point; they will know that they are going to stand on their own feet.

The WITNESS: Exactly.

The CHAIRMAN: Do I understand that the Whitby bank loans without any security?

Mr. SLAGHT: Oh, no, you would have securities in your bank.

The CHAIRMAN: Are they realizable securities?

Mr. SLAGHT: I thought you would be in Parry Sound, not Whitby, because up there we are very thrifty and careful about the way we lend the money. But, let me come back to this—

Mr. MCNEVIN: Is it not true that in giving security to banks for loans in a good many cases those securities are not as readily negotiable as victory bonds?

The WITNESS: Undoubtedly. In any event, if I may add one thing here, the banks, even if they have victory bonds cannot sell those securities because they hold them as collateral; they might borrow against them.

By Mr. Slaght:

Q. Instead of contemplating the eleventh day raid, permit me to suggest that those ten customers, having borrowed only $1,000,000 at $100,000, that they carry their loans and that the money was lent to them at 6 per cent, so that at the end of a year that bank will have received 6 per cent on $1,000,000 outstanding in ten loans; is that clear?—A. If such an imaginary bank would do the things that no bank can do. I do not find it possible to go along with you there because it is a bank which never was on sea or land.

The CHAIRMAN: Cannot we have practical illustrations?

Mr. SLAGHT: Let us have them.

By Mr. Slaght:

Q. I will put this to you, and you can say no if I am wrong: a bank, as has been said, lends nine or ten times more money than they have, and that is the way they make their money. If, in the instance I have suggested, they lend ten customers at 6 per cent, at the end of a year, they have received $60,000 in interest, or gross profit on a capital that they started with of $100,000. In other words, a gross profit of 60 per cent on their investments. Do you say no?—A. I do say no, because I say such a thing does not exist and cannot exist.

By Mr. Macdonald (Brantford):

Q. Why can it not exist?—A. Because the bank will find that the amount of its loans cannot be nine times the amount of its cash. If its total assets are $1,000,000 you will find that, perhaps, $300,000 of that is in the form of loans, $400,000 or $500,000 is in the form of securities, most of which are short term, some of which are treasury bills $100,000 or $200,000 is tied up in cash or is afloat in cheques or is in balances in other banks on which nothing is earned; so that the average earned on the assets of $1,000,000 which are mentioned will be far from 6 per cent; it will be something of the order of 3 per cent, I suppose.

Mr. FRASER (*Northumberland*): Would you say till money or vault money that is tied up?

The WITNESS: I was referring to the earnings on the assets of $1,100,000 which includes cash.

Mr. MACDONALD (*Brantford*): That would still be a substantial profit if it were 3 per cent.

Mr. SLAGHT: The 3 per cent would work out at $30,000.

The WITNESS: Gross earnings.

By Mr. Slaght:

Q. Would the gentlemen who got together and put in $100,000 have as gross earnings $30,000 at the end of the year?—A. No; because during the course of the year they have to pay the expenses.

Q. I said gross earnings; we will come to taking off the expense of banking in a moment?—A. Yes.

Q. Now, is there any other business in Canada—perhaps you answered this question yesterday—

By Mr. Graham:

Q. May I ask this qestion? In the light of Canadian banking experience, if this theoretical bank were established at a single point with all the rights and privileges given under the Bank Act and only operated at one single branch, in the light of our banking experience would not there be a likelihood that the bank would sooner or later go broke?—A. Not necessarily go broke, but I do not think it could do the amount of business you could put in a thimble.

Q. Is there any such type of bank operating a single branch and attempting to do what Mr. Slaght suggests in Canada—operating within the powers it has under the Bank Act?—A. There is one bank which has only one or two branches and it has been established quite a long time, but of course the volume of its business is modest.

Q. The great majority of them have passed out of business or have been consolidated under the chartered banks?—A. Yes.

By Mr. Slaght:

Q. Very properly you point out that on this transaction of $30,000—I put it at $60,000 as the gross—we will have to see what it costs the bank to operate?—A. Yes.

Q. I am going to give you what you will like better, perhaps, the factual experience of the ten chartered banks in 1943. The minister was kind enough to put it on *Hansard* at page 2620 and he showed that undoubtedly he got this data from the banks. There were three sources of gross revenue: first, interest and discount on loans, $60,000,000; interest, dividends and trading profits on securities, $48,000,000—I am using round figures—and then exchange, commissions, service charges and other current operating earnings $35,000,000; total gross operating revenue $144,500,000. It does seem odd that that is just within $1,000,000 of their total capital of $145,500,000. That is a coincidence.

(Statement referred to by Mr. Slaght is made part of the record on instruction by the committee.)

Statement of Current Operating Earnings and Expenses and Other Information
For the Ten Chartered Banks
(Millions of Dollars)

	Average of financial years 1929-43	Financial year 1943
Current Operating Earnings:		
(1) Interest and Discount on Loans	77·5	60·6
(2) Interest, dividends and trading profits on securities	35·0	48·7
(3) Exchange, commissions, service charges and other current operating earnings	26·2	35·2
(4) Total Current Operating Earnings	138·7	144·5
Current Operating Expenses:		
(5) Interest on deposits	36·0	24·5
(6) Remuneration to employees	42·5	49·7
(7) Provision for taxes	10·5	15·9
(8) Contributions to pension fund	1·5	2·1
(9) Provision for depreciation of bank premises	1·8	2·3
(10) All other current operating expenses	20·0	20·4
(11) Total current operating expenses	112·3	114·9
Supplementary Information:		
(12) Dividends to shareholders	13·6	9·6
(13) Net amount of current operating earnings available for losses on loans, investments and other assets and for other contingencies	12·8	20·0
(14) Net amount of capital profits, including non-recurring profits	2·5	2·0
(15) Average annual amount required for losses or specific provision for losses on loans, investments and other assets, *less* recoveries during the fifteen financial years ending the year to which this return relates	13·8	13·8
Ratios to Total Assets [1]		
Total current operating earnings	4·02%	2·86%
Total current operating expenses	3·26%	2·28%
Average annual amount required for losses or specific provision for losses on loans, investments and other assets, *less* recoveries	0·40%	
Shareholders net income [2]	0·44%	0·35%
Ratio of Shareholders' Net Income [2] to Total Published Shareholders' Equity	5·09%	6·03%
Ratio of Deposit Interest to Total Deposits	1·25%	0·53%
Ratio of Interest on Loans to Total Loans	5·29%	4·55%
Ratio of Interest, dividends, etc., on Securities to Total Securities	2·80%	1·85%
Total Published Assets [1]	$3,446·8 mm.	$5,047·0 mm.
Total Loans [1]	1,465·9 "	1,330·4 "
Total Securities [1]	1,248·0 "	2,634·0 "
Total Deposits [1]	2,936·9 "	4,606·9 "
Total Shareholders' Equity [1]	294·9 "	291·9 "

[1] Averages based on published month-end returns.
[2] Shareholders' Net Income has been taken as the sum of dividends, net capital or non-recurring profits and net current earnings available for losses *less* average, annual net amount required for losses in 1929-43.

Now, as I said that is their gross operating profit of last year, and we find that the total current operating expenses last year were $114,900,000?—A. That too is not very far from their capital, but that is a coincidence also.

Q. That is also a coincidence. Now, let us carry our simple arithmetic further. I would point out to you that included in expense operation very properly is provision for taxes, $15,900,000. So that the $29,500,000 difference between the $114,900,000 on the $144,000,000, plus $2,000,000 more that is in there for profit, plus the $15,000,000 which has been set aside for taxes indicates to my mind that last year on a capital of $145,000,000—an original capital of $145,500,000—the banks made net, except for taxes, $47,000,000. Will you assent to that?—A. I cannot say that anyone makes anything with the proviso "except for taxes".

Q. I will come to them.—A. I think that nowadays everyone realizes that very poignantly.

Q. Don't we all? I am pointing out that in making their money by lending to the needy borrowers—because you must be needy before you borrow—that with a capital of $145,500,000, in order to enable them to pay their taxes and have a profit for themselves, they made a profit of $47,000,000, and then they pay the government $15,500,000 for taxes, and that $29,500,000 on which they only paid out some $9,000,000 last year in dividends—I would not suggest that because this inquiry was approaching that the dividends were less sweet than heretofore—is it not a fact that out of the business of lending to the people of Canada they made a gross profit of $47,000,000?—A. I do not think that reflects the situation.

Q. Is that a true statement or a false statement?—A. It is a statement which to my mind conveys a wrong impression.

Q. Oh, you will not say it is a false statement—

The CHAIRMAN: Let the governor continue, Mr. Slaght.

The WITNESS: One has to allow for operating losses on loans as a part of the ordinary course of doing business because they do take place every now and then, and taxes, because the dominion government insists upon collecting them, and it is only after having paid all such charges, such as losses on loans and taxes, that what I would call a profit remains in so far as the shareholders are concerned.

By Mr. Slaght:

Q. Then may I point out to you that we have from the minister, furnished to him undoubtedly by the chartered banks or rather furnished to his official, statements that the banks themselves have handed him, that they took in a gross profit of $144,500,000 and it only cost them $114,900,000.

Mr. MACDONALD *(Brantford):* That is not profit, that is earnings.

Mr. SLAGHT: Earnings. Gross earnings is the proper phrase.

The WITNESS: Yes.

By Mr. Slaght:

Q. And after earning those earnings it costs them, including $15,000,000 paid out in taxes, $114,900,000?—A. And on the average $13,800,000 for losses.

Q. Now, I want to deal with that. They do not put in this statement the $13,800,000. Let me read you item 13: "Net amount of current operating earnings available for losses on loans, investments and other assets and for other contingencies, $20,000,000." There is not a suggestion that they lost a dollar last year, because if they had it must go into the cost of operating, so they simply tab the balance of $29,500,000 as setting it aside for possible losses. Can you tell me what was lost last year by the ten banks?—A. I can tell you what their average losses over this period of fifteen years are.

Q. Would you answer the first question? Can you tell me—I do not think it is possible unless you have the information with you—but I should like to know what the banks lost last year, because in their statement they do not make any item for lost money; they have told the people that their profit is $29,500,000?—A. It was not in fact; and if the making up of the statement in this form conveys that impression then I would say that that is not the fault of the banks, because they were asked to provide a statement in this form. One must include in any estimate of operating costs the figures for losses, so that if this $13,800,000 which represents the average losses over a period of years turns out to be actually the losses for 1943 I would say that their operating costs in that year were not approximately $115,000,000, but $129,000,000.

Q. Now, we are going to have, I hope, from the bankers what their actual losses were last year, and when they come with that information we will know how much of the $29,500,000 in profit, net profits, they lost last year. I will pass from that. Now, I want to take up another matter. You will agree that in the stress of war we have to borrow from somebody other than the people the added sum that we have needed for our war effort. In other words, we tax and get, perhaps, half of it; we then try to borrow in victory loans—and we have had a very successful one—but the story shows, on top of that, that the finance minister has had to go to the chartered banks, and at the end of last year this government of Canada owed the chartered banks $2,500,000,000 in round figures. You appreciate that?—A. I do not recall the figure.

Q. I can give you the reference. I am stating it to you?—A. You are referring to the banks holding Dominion of Canada securities?

Q. Yes, I am saying that the ten chartered banks have locked up in their vaults holdings of dominion and provincial securities in excess of $2,500,000,000.

Mr. MACDONALD *(Brantford City)*: That is including the victory loans you mentioned originally.

Mr. SLAGHT: No, it is not.

Mr. MACDONALD *(Brantford City)*: The two billion dollars does not include any Dominion of Canada bonds?

Mr. SLAGHT: Of course it does; it includes about $800,000,000 of Dominion of Canada securities.

The WITNESS: I do not know how many provincial securities are in that total.

By Mr. Slaght:

Q. May I suggest this to you: the banks ought to be made to disclose to you so that you can review it how much of that $2,500,000,000 consists of provincial securities and how much of dominion securities, because they had to know that themselves when they handed you the total figure. May I say it will be fair to say that only a small part of that $2,500,000,000 is in provincial securities and the overwhelming sum is in dominion securities?—A. I think a substantial proportion was dominion, yes.

Q. I go further and I suggest that there is not 10 per cent in provincial securities. Mr. Tompkins is here and he can get it for you?—A. I do not know.

Q. You do not know. He will have to get that. And the trouble is that this is a composite picture so that when one banker comes here we have got only a tenth of the story. I had hoped you could tell me. Assuming that 90 per cent of the debts in the vaults making up the $2,500,000,000 consists in obligations of the Dominion of Canada to pay to the chartered banks, then the rate on long term securities, from 2½ per cent perhaps, or 3 per cent, and on the short term ¾ of 1 per cent, would give me a figure of about $20,000,000. That is what the taxpayers are paying this year to the chartered banks by way of interest on government debts.

Mr. MACDONALD *(Brantford City)*: Mr. Chairman, let us try to get the record straight. I want to get it cleared up in my mind. I understood Mr. Slaght to say that the government obtains this money by taxation which is not sufficient to pay the government accounts from year to year, therefore, in addition to that they borrow money from the public in the form of victory loans, and in addition to that they borrow certain moneys from the commercial banks—

Mr. SLAGHT: And you can add some from the Bank of Canada, as Mr. Towers will tell you.

Mr. MACDONALD *(Brantford City)*: —from the commercial banks and the Bank of Canada. Now, is the $2,500,000,000 which the government owes the commercial banks in addition to that amount which it owes on outstanding victory bonds?

The WITNESS: On victory bonds in the hands of the public?

Mr. MACDONALD *(Brantford City)*: No, the total.

The WITNESS: No, the overall dominion debt is such and such a figure. Of that a portion, say, two billion dollars odd is held by the chartered banks, another portion is held by the insurance companies and corporations and a large amount by the general public.

Mr. MACDONALD *(Brantford City)*: Yes, say that the indebtedness of the government to the banks is in a certain amount on victory bonds and a certain amount in treasury notes.

The WITNESS: And all other types of securities, because there are many pre-war securities, of course, in those portfolios.

Mr. MACDONALD *(Brantford City)*: So it is not correct to say that the dominion government owes the banks $2,500,000,000 in addition to what moneys are owing on all the victory bonds that are outstanding?

The WITNESS: No. It is part of the total government debt.

Mr. NOSEWORTHY: I think, Mr. Chairman, the question we are trying to get at is as to total borrowing from the banks; does that include the money that the banks have invested in the victory loans or is it apart from the money that the banks have put into the purchase—

Mr. SLAGHT: Of course, it does.

The WITNESS: In fact, it is represented by dominion government securities which the banks have purchased.

Mr. FRASER *(Northumberland)*: Just to keep the record clear again, assuming that Mr. Slaght's total is correct, around two billion dollars that the government has borrowed from the chartered banks—is that money that was loaned against the government securities for customers' deposits in the savings bank and probably might be determined at 1½ per cent—is that correct?

The WITNESS: I think I understand the meaning of your question. I think it relates to this: assuming for the sake of argument that the banks' holdings of dominion government securities are two billion dollars—

Mr. SLAGHT: May I give you the figure. On the 31st of December, 1943, the chartered banks held $2,627,000,000 of dominion and provincial securities.

The WITNESS: Yes, showing the combined figure of dominion and provincial securities, $2,600,000,000, which they held I think one gets a clearer view of the picture if you say that the dominion and provincial governments are not borrowing that much from the banks, considering the banks as the owner of the securities; they are borrowing it from the savings and current accounts of the depositors, and the banks are acting as an intermediary.

Mr. FRASER *(Northumberland)*: In other words, the banks are servicing the stored-up savings of the people of Canada?

The WITNESS: Right.

By Mr. Fraser (Northumberland):

Q. And in that servicing they provide a protection and on their savings accounts pay the people of Canada on the money loaned against the $2,000,000,000 or $2,500,000,000, 1½ per cent?—A. Yes.

Q. So that it boils down to the fact, as I said a little while ago, that the banks are the custodians and the brokers and the bookkeepers— —A. And the agents.

Q. —and the agents of the people of Canada; and they, in that capacity, lend those savings to the government against government securities at 1½ per cent or up to 3 per cent; is that correct?—A. Or as low as three-eighths.

Q. On call loans?—A. On treasury bills.

Q. On treasury bills or call loans?—A. Yes.

By Mr. Jaques:

Q. Is it not a fact, Mr. Towers, that every bank loan and every bank purchase of securities creates a deposit?—A. Yes, a liability to the customer.

Q. Then apparently in one statement you say the banks lend their deposits and in another statement you say that every time they lend money they create a deposit?—A. It is a question as to which comes first, the hen or the egg. That is our difficulty.

Q. I do not think it is quite that. You made a straight-forward statement that every time a bank lends money it creates a deposit.—A. Perhaps this may help. A bank makes a loan. Other things being equal, that creates a deposit. The deposit finds its way into the hands of people other than the borrower—that is, into the hands of third parties—and is a liability of the banking system. The bank, in order to carry on, in order to be able to continue to hold its loans or securities, must gain the cooperation of the depositor in leaving his deposit with the bank; so that in that case you may say the depositor, who is not the borrower—he is the third party and he has a claim against the bank—so to speak says, "I will leave that with you and you can administer it for me. You can hold that loan or you can hold dominion government securities on my behalf." But if that depositor said, "No, I will not cooperate with you in this way. I want my money in cash," then the bank would have to sell a dominion government security or call a loan in order to provide the cash for the customer.

The CHAIRMAN: Mr. Tucker has an interruption.

Mr. TUCKER: I wish to ask a question to clear up something.

Mr. JAQUES: I have not finished yet, Mr. Chairman.

The CHAIRMAN: Very well.

By Mr. Jaques:

Q. You made a statement, Mr. Towers. You agreed this morning that banks lend money by creating the means of payment. That has nothing to do with lending money which is already in existence. They lend by creating the means of payment; and if they did not do that, could you explain how it is that the amount of deposits increases? If they only lend what is already in existence, how could the deposits in the chartered banks increase?—A. I did not say that they lent only what was already in existence, because it is possible for a bank, by increasing its loans and investments, provided it does not get out of step with other banks, to enlarge the volume of deposits.

By Mr. Slaght:

Q. And they create money, as you told me a few minutes ago.—A. Yes. But it remains true that at any given moment the bank or the banking system can only continue to have loans outstanding or to hold securities provided that the depositors are willing to leave their deposits with the banking system.

Mr. FRASER *(Northumberland)*: Mr. Governor—

The CHAIRMAN: Just a minute please. Mr. Tucker is the next interrupter.

Mr. FRASER *(Northumberland)*: I should like to clear up this point of Mr. Jaques.

Mr. MACDONALD (*Brantford City*): I do not think Mr. Towers was through giving his answer.

The WITNESS: There is one thing I should like to mention. I think Mr. Jaques' difficulty is that he believes that, if a bank is faced with the need for making payments to customers, it can itself create the means of making those payments. I think that is the trouble; and, of course, that is not the case. For example, if a bank or if the banking system is faced with demands from depositors who wish to withdraw $500,000,000 in cash, I think Mr. Jaques believes that the bank can create the means of payment to meet that demand in that amount.

By Mr. Jaques:

Q. That is not the idea at all. That is one reason why it has been suggested that the banks needed 100 per cent reserves. It is because we know that, as a consequence of their lending more money than there is in existence, they may be called upon to meet an unexpected demand for cash payments and it may cause a bank failure.—A. No, not if they are solvent.

Q. Well, they are solvent as long as there is not a general demand for cash on the part of the depositors.—A. There will not be a general demand for cash except as a result of a panic or fright.

Q. Quite so.—A. If there is such a panic or fright, the Bank of Canada is there; and under those circumstances, no bank would have any difficulty in getting all the funds it wanted to pay up the frightened depositors.

By Mr. Slaght:

Q. May I suggest that that would be at the expense of the taxpayers of the country through the Bank of Canada who would go to the rescue of the bank which was smashed?—A. On the contrary, it would be a very profitable operation to the Bank of Canada and the taxpayer. However, I do not wish that that operation should take place, of course.

Q. No, and none of us do.—A. It would be a bad thing for the people of the country.

Mr. SLAGHT: If Mr. Tucker wishes to ask a question or so, I have no objection.

By Mr. Tucker:

Q. I should like to get the figures right. I did not follow them very well. In the statistical summary of the Bank of Canada it shows securities held by the chartered banks, and I understand the figures taken by Mr. Slaght are for the end of December, 1943. Those figures, as I find them here, are: Dominion and provincial securities under two years, $1,664,000,000?—A. Yes.

Q. And over two years, $963,000,000?—A. Yes.

Q. As I understand it, those include deposit certificates and treasury bills?—A. Yes.

Q. And the $963,000,000 are over two years?—A. Yes.

Q. Those do not include securities left by customers of the bank to secure their own borrowings?—A. No, they do not.

The CHAIRMAN: Mr. Fraser has an interruption.

Mr. FRASER *(Northumberland)*: There is just one point I should like to get cleared up at this particular time.

An Hon. MEMBER: Louder, please.

The CHAIRMAN: Will you stand up, Mr. Fraser?

By Mr. Fraser (Northumberland):

Q. The point I should like to get cleared up is this. You have agreed that the banks loan their depositors' funds?—A. Yes.

Q. That is correct. We have also agreed in this committee—and I think you have agreed—that a loan creates a deposit?—A. That is right.

Q. Now the point I want to get on the record is this: it does not matter from whose farm the wheat comes to the elevator, the function of the elevator continues, the cost of that function continues; and if in the process of one to ten or ten to one, the velocity and flow of money continues or increases through the services by the banks, the cost of these services continues. Is that correct?—A. I am sorry. I do not quite follow that.

Q. Not being a banker, perhaps I cannot get it across. My point is this: as the currency or the credit increases, the function of the banks must be there to take care of it, to service it.—A. As the volume of deposits and transactions increases?

Q. Or the volume of currency that comes through your bank?—A. Yes, that is right.

Q. The function of the bank increases and the cost of service increases? —A. That is right.

Q. Is that correct?—A. Yes.

Q. So that regardless of the fact that, through the operating of your banking system, you expand one to ten or ten to one, the servicing of that turnover takes place and the cost is there?—A. That is right.

Q. In other words, the banks act as bookkeepers of the nation and supply the service in the expansion of the credit and the currency?—A. That is correct.

Q. So they are entitled to a fee for keeping the books of the people of Canada?—A. That is right.

Q. That is my point.

Mr. MACDONALD *(Brantford)*: Just a reasonable fee, though.

Mr. FRASER *(Northumberland)*: A reasonable fee.

Mr. MCILRAITH: There is just one point I should like to make. A few minutes ago in a question put by Mr. Slaght he made reference to Mr. Ilsley's remarks in the house on Tuesday, May 2; he made reference to a statement of current operating earnings and expenses and other information for the ten chartered banks which is found at page 2620 of *Hansard*. He then framed his questions on that statement. I wonder if we could not have that statement shown in the evidence today at that point? It would be very helpful in following the questions and answers.

Mr. SLAGHT: Yes. It only takes up a page.

Mr. MCILRAITH: Yes. It would be very helpful in understanding fully the import of the questions and answers.

Mr. SLAGHT: Yes.

The CHAIRMAN: What is the pleasure of the committee? Is it the pleasure of the committee it be put on the record?

Some Hon. MEMBERS: Carried.

Mr. MACDONALD *(Brantford City)*: I think Mr. Towers said that he thought the information was put in an unfortunate manner, that it was not clearly set forth.

Mr. SLAGHT: We will have the bankers here who will clear that up, because it is essentially the business of the banks that Mr. Ilsley has collected the data on. Mr. Tompkins, I think, could tell us in a word that it is absolutely correct.

Mr. TUCKER: Mr. Chairman, that will appear, will it? I am concerned about it because there will be copies of these proceedings going out to many people who have not got *Hansard*.

The CHAIRMAN: So the committee decided.

Mr. TUCKER: I seconded the motion.

The CHAIRMAN: We have voted on it, and the committee decided that it would be included.

Mr. SLAGHT: It has been decided to include it.

Mr. MACDONALD *(Brantford City)*: If Mr. Towers thinks it should be amended or put forth more clearly, I believe we ought to have a clearer statement.

The WITNESS: I would say I made that statement only because the form in which this is furnished seems to have led to a misunderstanding. I think it is just a question of how the table is printed. If item No. 15 was put immediately under item 11, perhaps that would be an improvement.

The CHAIRMAN: The explanation will also be recorded in *Hansard.*

Mr. SLAGHT: Yes.

By Mr. Slaght:

Q. Then, Mr. Towers, I suggest that you succumbed to the sweet tones of my friend Mr. Fraser when you told him a few minutes ago that the banks are the agents of the people. I suggest that is not true, but rather that the banks are independent contractors who contract with any citizen who goes in their doors to do business with them, that they are the agents and servants of their shareholders and not of the people of Canada. What do you say to that?—A. I say their first duty is to the people of Canada.

Q. You say their first duty is to the people of Canada?—A. Yes.

Q. That is what you say.—A. Of course I realize that in using the word "agent" I was doing so as a layman and not in the legal sense.

Q. No. I think you were seduced into using the word by my friend Mr. Fraser.—A. Speaking again as a layman—

Q. As a layman, yes.—A. —I regard the bank as my agent.

Q. My friend is a dangerous man. You must keep your eye on him. May I put it this way to you: their primary duty is not to their shareholders, you are asserting?—A. No. Their primary duty is to the public.

Q. You say their primary duty is to the public?—A. Yes.

Q. May I suggest to you that the shareholders of the chartered banks in number—and this is a figure I think of two years ago; Mr. Weld will have it—were 51,071, which is less than one-quarter of 1 per cent of the people of Canada?

The CHAIRMAN: Just a minute, Mr. Slaght. Are you not making a false comparison there? You are comparing the number of shareholders with the children in cradles?

Mr. SLAGHT: Quite so.

The CHAIRMAN: And those at high school and so on?

Mr. SLAGHT: Yes. How would you do it, sir?

The CHAIRMAN: I think I would make a breakdown before I made that statement. First of all, I would have information as to who are the shareholders. Do I understand you to say that there are no companies that are shareholders, having 50,000 or 60,000 shareholders? I would have that broken down.

Mr. SLAGHT: I have not purported to make any such statement, Mr. Chairman.

The CHAIRMAN: You took a statement of the number of shareholders and compared it with the total population of Canada.

Mr. SLAGHT: Certainly. You can do only one thing at a time, Mr. Chairman. I did not want to get bulky questions here that involved four or five answers.

The CHAIRMAN: Oh, well.

By Mr. Slaght:

Q. Do you assent that, approximately, that is your understanding of the number of shareholders who own shares in the chartered banks?—A. I have not got the number before me, but let us assume that is correct.

Mr. MACDONALD (*Brantford City*): Can we keep the record straight? Does that number of 51,071 include incorporated companies?

Mr. SLAGHT: Certainly.

The WITNESS: Yes.

Mr. MACDONALD (*Brantford City*): And each incorporated company is just regarded as one shareholder in the bank?

The WITNESS: Yes.

Mr. MACDONALD (*Brantford City*): Although that incorporated Company may have hundreds of shareholders?

The WITNESS: Quite so.

Mr. SLAGHT: Quite so. I was coming to that, Mr. Macdonald. The chairman, I hope, will not accuse me of wanting to conceal the position there. You can only do things one at a time, Mr. Chairman.

The CHAIRMAN: The only thing is this, Mr. Slaght, if you will pardon me for saying so. I heard you make a statement in the House of Commons, and I did not hear you come to the other part of it.

Mr. SLAGHT: You may recall that my forty minutes expired before I was through. There were many things that I should like to have mentioned.

The CHAIRMAN: All right.

By Mr. Slaght:

Q. Let us have no misunderstanding about it now. As I view it, Mr. Towers, an insurance company might be a shareholder of the chartered bank, and that insurance company might have tens of thousands of policy holders who would be interested in that investment?—A. Yes.

Q. Yes. That is all clear now, I hope.

Mr. MACDONALD (*Brantford City*): Yes.

Mr. SLAGHT: I want to conclude as soon as possible, and I also want to make way for any other gentleman who might want to interrupt.

Mr. MACDONALD (*Brantford City*): I do not think you should hurry. It is very enlightening.

The CHAIRMAN: Take your time.

By Mr. Slaght:

Q. Mr. Towers, let us assume for a moment that the taxes have not been sufficient, along with our victory loan borrowed money, to service the needs of the nation. Mr. Ilsley told us a year ago that he had to go to the chartered banks to borrow some more money. Now I want to put this to you. Suppose this morning the minister wants to borrow $2,000,000. I suppose he has this alternative. He can go down to the Bank of Montreal with a bond and sell it to the bank. Let us say it is a twenty-year bond bearing 3 per cent coupons.—A. No, it would not be.

Q. You say it would not be. I say it has been.—A. No, it has not been.

Q. I suggest to you that it has been.—A. I am not aware of any cases.

Q. Do they not include in that $963,000,000 which you told Mr. Tucker was secured by purchase from the government, any bonds bearing 3 per cent interest? —A. There probably are a few which they bought in the market, but very few.

Q. What would you like to reduce my 3 per cent to?—A. When the Minister of Finance goes to the banks to undertake a borrowing operation, he will either do so on the basis of deposit certicates which have six months to run and bear interest at the rate of $\frac{3}{4}$ of 1 per cent per annum, or the longest he will go would be, or has been in the past, a security of approximately two years bearing $1\frac{1}{2}$ per cent interest.

Q. Could you ascertain for us how much 3 per cent debt there is due by Canada to the banks included in that $93,000,000 of over two years?—A. I should think that is a question which should be addressed to the Minister.

Q. You say it should be addressed to the Minister? Perhaps we might have Mr. Tompkins make a note of it.

By Mr. Fraser (Northumberland):

Q. That $1\frac{1}{2}$ per cent is the savings rate?—A. Yes.

By Mr. Graham:

Q. Mr. Towers, in the longer-term loan that the Minister theoretically might go to the banks on, what type of acknowledgment is there given? Is it a treasury note or a promissory note or what? You mentioned in one case deposit certificates?—A. Yes.

Q. What type of security is given in the longer-term loan?—A. It has been a two-year or approximately two-year bond, bearing interest at $1\frac{1}{2}$ per cent. In other words, the form of the piece of paper is approximately the same as those which are used for the general public, only the denominations are larger and they are probably registered instead of bearing coupons.

By Mr. Slaght:

Q. All right. If I may, I should like to finish my trip with the minister to get the $2,000,000 that he wants. Before we leave that, would you like to reduce my 3 per cent to 2·69 per cent? I have seen that figure mentioned.—A. No. I should like to reduce it to $\frac{3}{4}$ of 1 per cent.

Q. Oh, you cannot do that, sir, because on securities over two years, I suggest to you that is not the rate of interest. What do you say to that?—A. Yes. But we were talking about borrowings being arranged by the minister.

Q. Yes. I will come back to that, if you do not want to give me a figure although you quarrel with my 3 per cent. He has now gone to the chartered bank with a bond, as you have told us, maturing some time in two years or more. He puts that through the wicket and the bank lock it in the vault and they credit him on their books with $1,000,000.—A. It was a $1,000,000 bond?

Q. Yes, start with that.—A. Yes.

Q. Then he checks against that account to the John Inglis Company or any other company, for the needs of the government. That money, as you pointed out, when he checks it out of there, trickles back in by way of deposits or otherwise into the ten chartered banks?—A. Yes.

Q. Now, Mr. Ilsley goes, let us say, with the other $1,000,000 bond to you at the Bank of Canada and you lock it up in your vault, you credit him with $1,000,000 in your books.—A. Yes.

Q. And he checks that out and it gets into the chartered banks ultimately. Now the Bank of Canada in that sense is the same as all the people of Canada. If you put the bond away with interest on it in your vault, you are doing it for all the taxpayers of Canada?—A. Yes.

Q. So that he gets debt-free money when he goes to you to borrow?—A. He gets it, yes.

Q. Debt-free money?—A. It is debt-free so far as the minister is concerned.

Q. Quite so.—A. Minus our cost of operation.

Q. We will come to the cost of operation later. So far as the Minister is concerned it is debt-free. A. It is not debt-free so far as the recipient of the money is concerned.

The CHAIRMAN: Order, please.

By Mr. Slaght:

Q. What debt is attached to it so far as the Minister is concerned, representing the people of Canada? The people of Canada pay no interest on that $1,000,000 at all, do they? A. But the people of Canada hold the cash.

Q. They hold the cash? A. Yes, which the Minister has spent.

Q. Well, be it so. Do you agree that in borrowing that $1,000,000 he gets it free of debt? He borrows it free of debt?

Mr. FRASER (Northumberland): He is taking in his own laundry.

The WITNESS: It is interest-free but not debt-free.

By Mr. Slaght:

Q. All right. That suits me. It is interest-free money. A. So far as the dominion budget is concerned.

Q. Yes. A. But of course, assuming the Minister is acting on behalf of the Canadian people, then it is the Canadian people who suffer such disability as there may be in lending to the Minister without interest.

Q. Yes. Well, let that be so. He has got the $2,000,000 by different routes. In the one case the people of Canada are paying interest on the bond they take to the chartered bank, are they not? A. Yes.

Q. Yes. If I suggest that is a more desirable way to finance the nation's needs—that is, through the Bank of Canada—than to pile up two billion and a half of debt-bearing securities in the chartered banks, may I put it to you that there are just three stock answers or objections. Perhaps you would like to hear them. The first is that it would not be fair to the chartered banks. You have heard that put forward by the bankers, have you not?

The CHAIRMAN: I never did.

The WITNESS: No. I have heard that it would not be fair to their customers.

By Mr. Slaght:

Q. Well, to their customers. All right. Then the second is that it might cause inflation, if we leave the Bank Act as it is, to borrow from the Bank of Canada and release that Bank of Canada money, which in turn would let the chartered banks have that much more to pyramid ten times on. A. Yes.

Q. That is what that means? A. Yes.

Q. Mr. Ilsley was good enough to tell us in an article published in Maclean's magazine, which I have, that it is no more inflationary to brrow from the Bank of Canada without any interest burden—as you have admitted—than it is to borrow from the chartered banks. He predicated that, of course, on the basis of our depriving the chartered banks of what Mr. McGeer calls a "monopoly", namely the power to lend nine times more money than they ever had. You would agree that, if we change this section 59 and insert 100 per cent in place of 5 per cent, then the inflationary creation of that new money would have the same effect whether you borrowed it from the Bank of Canada or from the chartered banks? A. It would have this peculiar effect, that parliament would be passing a Bank Act which purported to authorize the conduct of the banking business in Canada and at the same time would be forbidding the conduct of the banking business in Canada.

Q. Oh, Mr. Towers! Forbidding? A. Yes.

Q. Let me point this out to you—

Mr. GRAHAM: Make impossible.

By Mr. Slaght:

Q. "Make impossible," says my friend. A. That is right.

Q. The assets these people started out with years ago were $145,500,000? A. Yes.

Q. And their reserve was $133,000,000? A. Yes.

Q. Their bank buildings, free of debt, were valued at $70,000,000. A. Those are on two different sides of the balance sheet.

Q. I do not care whether they are or not. I am showing there what they give their bank buildings to be, free of debt. That is what they say they are worth. A. That is part of the $278,000,000.

Q. Quite so. That is part of the $278,000,000. I was including that. A. Yes.

Q. $145,500,000, $133,000,000, $70,000,000 worth of buildings. A. No, Mr. Slaght. $278,000,000 is their liability to the shareholders. Of that $278,000,000, $70,000,000 is in bank premises.

Q. Well, I cannot agree with you.

The CHAIRMAN: What is the point of disagreement?

By Mr. Slaght:

Q. The point of disagreement is this. They put $145,000,000 in the pot of the bank to start with as capital. A. Yes.

Q. They have earned enough profits over and above what they paid out in dividends, sometimes at 14 per cent and 16 per cent, to set aside in rest account $133,000,000 more. A. Part of that rest account represents payment by the shareholders from their own funds.

Q. I do not care what it is. They have set it aside as a rest account which accrued to the bank out of profits. A. No. A large portion of that came from shareholders' subscriptions and did not accrue from profits. However, the sum total of the capital and rest is $278,000,000.

By Mr. MacDonald (Brantford City):

Q. Where does the $70,000,000 buildings come in? A. Part of the $278,000,000 provided by the shareholders has been invested in bank premises..

By Mr. Coldwell:

Q. How much, apart from the capital, was put up by the shareholders? A. There are figures for that.

Mr. TOMPKINS: They were filed yesterday.

The CHAIRMAN: They will be in the record.

Mr. SLAGHT: Something like $60,000,000?

Mr. TOMPKINS: Very roughly, yes.

Mr. SLAGHT: Very roughly, that figure is $60,000,000, Mr. Coldwell.

By Mr. Slaght:

Q. And the banks have another asset, I suggest, Mr. Towers. We have reduced them now to $40,000,000 of their own bank bills; that is, the printing press bills that the banks have had. That is down to $40,000,000, is it not?—A. Yes.

Q. May we add that as another asset?—A. No. That is a liability.

Q. You say that is a liability?—Who in the world is that a liability to? They took some paper and ink and printed a $10 bill and then they loaned it to somebody. Where is the liability about that?—A. The man who holds the note has a claim against the bank.

Q. The man who which?—A. The man who holds that note in his pocket has a claim against the bank.

Q. He would only get a claim for two fives or five twos.—A. He has got a claim for Bank of Canada cash.

Q. Bank of Canada cash?—A. Yes.

Q. All right. You would not hesitate to furnish Bank of Canada cash if I presented a $10 Bank of Commerce bill to you (exhibiting)?

The CHAIRMAN: Will you file that as an exhibit?

The WITNESS: I think that is a Bank of Canada bill.

Mr. SLAGHT: If it is a liability, you do not want it filed Mr. Chairman. I think you are asking for it because you realize it is an asset.

The WITNESS: It is your asset.

By Mr. Slaght:

Q. Yes, my asset, of course.—A. But it is the bank's liability.

Q. Now, Mr. Towers, are you serious? Because we have repented of our sinfulness in permitting the banks fifteen years ago to print money to the extent of $150,000,000 and we are compelling them each year to reduce that by some $10,000,000; and we have got them down to $40.000,00, have we not?—A. Yes.

Q. And do you tell us that that $40,000,000 which they created with paper and ink, and have been lending for twenty years, is a liability of the banks?—A. Indeed I do.

By Mr. Fraser (Peterborough West):

Q. Is not that their I.O.U.?—A. Yes; and here we do get to the core of the situation. If it is thought it is anything else but a liability, the whole discussion becomes fantastic.

By Mr. Slaght:

Q. Well, it is not fantastic to me.—A. I mean, we must walk before we can run; and if that is not understood, then how can we discuss the broader aspects of banking, when we have gone astray on the simplest thing?

Q. Let us get back on the track, then, if we have got off it. I piled up there $278,000,000, and then did you put something on top of it?—A. No.

Q. No?—A. I took the buildings off from the top.

Q. You took the buildings off that, yes. That is $278,000,000 that these bankers put up originally plus some earnings they made and set aside as a rest and reserve; and that, of course, is their money and no one will want to interfere with them, certainly not I. That being so, let me ask you if they have roughly, on time deposits, called savings bank accounts, about $1,600,000,000?—A. Oh, two billion, we will say.

Q. Two billion?—A. About two billion.

Q. It has gone up, then, to two billion savings. Now, if in clipping their wings by changing section 59 we still evolve that the Bank Act which permits them to lend to customers at 6 or 7 per cent, what they like, first from $145,000,000 and next the $133,000,000 which by thrift they pile up as good business men, and to lend the equivalent—and I use that word advisedly—of the two billion dollars that has been loaned to them at $1\frac{1}{2}$ per cent, that is a total of $2,300,000,000, and let them go on lending that to the people—is not that enough for the banking business to jog along with?—A. I do not quite follow what happens to the remainder?

Q. The remainder is this—the remainder is $2,500,000,000 worth of securities that they hold against the taxpayers through Mr. Ilsley for which they did nothing but enter a scratch of the pen until we come to the service business; but leaving the servicing out—A. How can you?

Q. I am going to leave it out for the moment. In other words, let me say this: this is something I cannot see the fairness of—to permit the bankers to pay the service charge that they render to certain customers only out of the taxpayers' money when the taxpayer pays the interest on those loans. You are paying the interest and the banks lend it and they can go on lending to Mr. Ilsley when he needs it, and the taxpayers must go on and pay the interest on those borrowings. We should have that in order that we may determine the expense of servicing.—A. And pay the interest and operating expenses.

Q. All right. I understand that that view has been made clear by others as well as you. I suggest that those who have the benefit of service charges should pay for the service charges rather than the taxpayer. Is that bad business philosophy?—A. I think this is really a taxation question and not a monetary question.

Q. Would you answer that question? Is that bad business philosophy, that the people who receive these services from the banks should be the people to pay for it and that it should not be paid by the poor people who never had a bank account in their lives?—A. Well, I think if we go a little further—

Q. Go as far as you like.—A. I think question No. 1 is: is it desirable that people who have money in savings accounts should receive $1\frac{1}{2}$ per cent interest—

Q. I do not want to argue that with you.—A. Now, that is one of the costs of operation of the chartered banks.

Q. That is true. It does not work out at $1\frac{1}{2}$ per cent really when you take it over a three month period?—A. It works out a little over 1 per cent.

Q. Let us call it about 1 per cent?—A. Yes, as far as the banks are concerned.

Q. And the customer also.—A. If the customer has left the money in he gets $1\frac{1}{2}$ per cent.

Q. When we talk about $1\frac{1}{2}$ per cent, the customer does not get it; he gets about 1 per cent?—A. On the average. Then there is the cost of salaries and so on.

Q. Yes, I think that bankers earn the large salaries they receive. I approve of that?—A. Now, if it was desired to reduce the amount of interest, the amount of interest paid by the government on the securities which are owend by the banks, you would have, first of all, to see what expenses it would be possible and desirable for the banks to reduce. If, for example, it was the view of parliament that no interest should be allowed on savngs accounts, then there would be a substantial reduction in the costs of the banks, and it might then be—in fact I think it would then be possible to say to the banks, "pass on that benefit to the government by lowering the interest rates on government bonds which the banks own"; or it would be possible for the government to express the view that greatly increased service charges should be applied on the operation of current accounts or savings accounts where there are many cheques issued. The government could express the view that the banks should collect from their customers, shall we say, $20,000,000 more a year in that way, and that again the banks should reduce the interest rates on the dominion government securities which they hold. That is the factual way of approaching it—to approach it in any other way I think gets us lost in generalities—but if the government were taking steps along the lines you have in mind they should accept the responsibility of saying just how it should be made possible; either by cutting out the interest on savings deposits or greatly increasing charges on the operation of accounts or in some other form.

Q. I am going to make a suggestion—in the first place you have not answered my question at all as to whether it is sound business economy and philosophy that those who receive the benefits should be the ones to pay for them and not these others; now, is that so?—A. Yes; but I think that under the operation of the existing system they are doing so.

Q. Do you?—A. Yes, except for this, that if a person has, shall we say, $10,000 in a bank—we will say it is in a current account—and practically no cheques are issued no service charge is applied; but hundreds of years ago, in the days of the goldsmiths, if a person had money on deposit with the goldsmiths he actually was charged for that. If you wanted to set up a system by which a person who had $10,000 on deposit and did not receive any other service was charged $50 a year for the privilege that would be possible, but not popular.

Q. Do you wish me to pass from the question I put three times; as to the soundness of that as economic philosophy in general; is it sound?—A. I say it is sound, and that is what is taking place now.

Q. Now, we are getting to another ground.—A. Yes.

Q. I suggest to you that millions of people in Canada have no bank accounts at all; what do you say to that?

Mr. McNevin: How many millions?

The Witness: It is possible. I do not think there are.

Mr. McNevin: I have the totals of the number of deposit accounts in Canadian banks, and the total is 5,400,446 in current and savings banks together. There are duplications. I take 10 per cent off that, and if you do you still have over 5,000,000 accounts in a population of 11,500,000 people.

The CHAIRMAN: Including the women and children.

Mr. MCNEVIN: Yes. I think that is a very substantial ration.

Mr. SLAGHT: It is nice to have my friend's view of ratios, but my point for the moment is that only half of the people of Canada are accounted for, and there are those who have no accounts at all—

Mr. MCNEVIN: I wish to answer that in addition to that we have a very large number of accounts in provincial savings offices, we have our post office departments which the hon. member spoke very well about, and we have a very large number of trust and loan savings companies and I think we will greatly increase the figure of five million people.

Mr. SLAGHT: My friend may add that for some purpose other than I am getting at, because the post office accounts have nothing to do with the services rendered by the chartered banks. I think it is right for me to reject my friend's added suggestions and I will say why in a moment. If half the people have bank accounts and the other half have not bank accounts I suggest to you that there are 950,000 taxpayers in Canada who are having deducted at source something from their wages every day—people who earn less than $150 a month. Are you familiar with that figure, Mr. Towers?

The WITNESS: I am not, but I accept it.

By Mr. Slaght:

Q. And that those taxpayers and those who have not any bank accounts at all are paying part of the interest as taxpayers on this $2,500,000,000 that we are paying interest to the banks on. That would follow, would it not?—A. Along with all other forms of government expense, yes.

Q. Now, we hope to have, with Mr. Tompkins courtesy, a break-down shortly of this whole department, but I do not want it to be said that I did not put it to you. We are going to have a break-down of this interesting item of exchange, commissions, service charges and other current operating earnings $35,000,000. You cannot tell me how much the service charge is?—A. No. I think it is a small portion.

Q. I know of an instance of a civil servant in Ottawa who has a small bank account but who when he issues a cheque for $1.25 or $4.50 puts on a 3-cent stamp or a 4-cent stamp as it is now—

An Hon. MEMBER: No, it is 3 cents.

Mr. SLAGHT: Three cents, is it? And the bank charges that person 7 cents a cheque for running a little account. Are you familiar with the fact that they make a charge of that kind?

The WITNESS: I did not know it was 7 cents; I thought it was more likely 5 cents.

Mr. SLAGHT: It happens to be 7 cents in this instance. I looked at the book.

Mr. FRASER *(Peterborough)*: How many cheques did that man issue in a month?

Mr. SLAGHT: I think ten in one month that I checked; it was 70 cents.

Mr. FRASER *(Peterborough)*: I understand that if you have a deposit of $200 you are allowed to issue five cheques in a month under the savings account.

Mr. SLAGHT: That may be so; but I am endeavouring to show that the banks are making substantial service charges against poor people. I suggest that a large firm like the John Inglis Company or the T. Eaton Company—in mentioning any firms I do not intend any discredit to them—issue six thousand or eight thousand cheques a month and the banks do not charge them a cent for servicing their account.

The WITNESS: It depends on the size of the company's balance.

Mr. SLAGHT: Who can give us the figures?

The WITNESS: I do not know.

Mr. SLAGHT: Perhaps Mr. Tompkins will have that for us.

Mr. TOMPKINS: You are expecting a great deal from me.

Mr. SLAGHT: No, I have great faith in you.

By Mr. Slaght:

Q. Now, if that be so, would you regard that as an equitable banking system where the little fellow pays in proportion—take 5 cents, if you like, instead of 7 cents—take that suggestion my friend was good enough to make—and yet these large concerns, these large businesses with millions of capital go scot-free on service charge?—A. I think the same test is applied on both cases.

Q. Does it apply?—A. I think so. In other words, if we take for one moment the figures you mentioned where a person has $200 on deposit, that person can issue, say five or ten cheques a month—I do not know how many. Then, I assume that a firm that has a million dollars on deposit can issue five thousand times as many cheques as the small fellow.

Q. That is following that scriptural injunction that to those who have shall be given. If that is the way it works you give the big fellow free service and the little fellow with $48 pays. Is that clear?

The CHAIRMAN: That is hardly fair.

The WITNESS: I say one might agree to the proposition that people who receive services should pay for the services they receive.

Mr. SLAGHT: I agree, quite; but I think they should all pay, and you agree with me; but if we find when we get the information from the banks that the picture I have outlined is true, then I suggest you would approve of an amendment which would compel the banks to act otherwise in the matter of service charges.

The WITNESS: I think they apply the same tests on small and large.

By Mr. Slaght:

Q. Now, would you approve if you are wrong about that, and I am right—would you approve of our legislating in such a manner as to equalize that?—A. I think it is a difficult subject for legislation, but I certainly agree with the principle.

Q. Do you mean to say that this sovereign parliament cannot take away an unequal practice from the banks, if that be the practice as I suggest?—A. I admit it will be possible to draw that legislation but it would be rather complicated.

Q. I have faith in you. I think you could draw it in twenty lines.

Mr. FRASER *(Peterborough)*: The larger account is a revenue producing account. There was mention of five million people having bank accounts by my friend.

Mr. SLAGHT: I got that from my friend Mr. McNevin.

Mr. FRASER *(Peterborough)*: And you said that the rest of the people were paying for the service which those other people had.

Mr. SLAGHT: Yes.

Mr. FRASER *(Peterborough)*: In taxes?

An Hon. MEMBER: It would be the people who had savings accounts that would be paying the taxes. The working girls in the factories have their savings accounts to pay their taxes.

Mr. SLAGHT: That being so they are charged service charges, because they are small accounts, as we have heard.

Mr. FRASER *(Peterborough)*: Not unless they make out more cheques than they have money deposited.

Mr. SLAGHT: I do not know how much the working girls have, but I do not think many of them would have $200 lying in cash in the savings accounts.

Mr. FRASER *(Peterborough)*: Yes, they have.

By Mr. Graham:

Q. May I ask a question with regard to this matter which has been dealt with by Mr. Slaght. He has at last, in my opinion, got down to something that is particularly important in the consideration of bill 91, and I shall take advantage of your wide experience. The service charge is a comparatively new institution in banking, is it not?—A. Yes, it is mostly seen over the course of the last ten or twelve years.

Q. And I assume that it has been inaugurated to replace other avenues of earnings that were formerly in the possession of the bank?—A. That is largely right.

Q. Now, in our Bank Act we have, of course, seen fit to make certain provision covering interest charges. In your opinion will it be necessary for parliament to consider and to deal with this new form of charge made by the banks to their customers so that that particular imposition—not imposition—but that particular source of revenue of the banks will be governed by the Bank Act so that it shall not be abused, if you get my point—that is, the general principle?—A. I find it very hard to answer that question. I wonder if it is not a question which should be directed to the government?

By Mr. Macdonald (Brantford):

Q. The government of Canada does regulate the rates of interest which the banks can charge?—A. Yes.

Q. Why should they not also regulate the service charges?—A. I think it is conceivable. I mean that I do not suggest it is impossible, but it is a question of policy really; it is not a question of monetary policy, it is a question of another type of policy.

Q. But both interest and services are charges?—A. Yes.

By Mr. Graham:

Q. Would you tell us if the banks have the same method of application of service charges? Are there certain rules that govern when a charge will be imposed and to what extent it will be imposed?—A. I think that each bank has its own ideas. Those ideas may be close together, but I do not know. I do not think there is a uniform arrangement operating in all the ten banks.

Q. Your advice would be to explore the bank officials when they come before us?

By Mr. Macdonald (Brantford):

Q. It has been stated in this committee that a bank can refuse to accept a deposit, to open an account for a customer, is that correct?—A. I am not sure whether it is legally correct or not.

Mr. SLAGHT: Certainly it is.

The WITNESS: Let us assume it is legally correct, I cannot imagine a bank doing it unless its opinion of the character or the business of the customer was pretty bad.

Mr. MACDONALD *(Brantford)*: All he is doing is leaving his money with the bank.

The WITNESS: Yes.

Mr. MACDONALD *(Brantford)*: Why should they refuse to take the account?

The WITNESS: I have never heard of anyone being refused.

Mr. MACDONALD *(Brantford)*: I have never heard of anyone being refused either.

By Mr. Slaght:

Q. With regard to the matter of savings accounts which has been mentioned here, I think it is appropriate to clear this up absolutely. The government of Canada operates a savings bank business?—A. Yes.

Q. Through the Post Office Department?—A. Yes.

Q. You have told me that the customer who deals with a chartered bank receives something in excess of one per cent on his money?—A. The average for all customers.

Q. The average for all customers, yes. Now, in the postal savings bank—and I have no brief for Mr. Mulock—I opened an account the day before yesterday and I learned that the government paid to the customers 2 per cent computed on a monthly basis and payable only once a year. Are you aware of that fact?—A. I was not aware of the method of computation, but let us assume that is the case.

Q. Yes. If we borrow from the Bank of Canada we are going to flood the chartered banks, you say, with money that will cost them a lot to service. If these people desired to take their deposits to the post office savings bank, and if that was publicized, they would receive 2 per cent, I suggest, instead of the close to 1 per cent they get from the chartered banks?—A. Yes. It would be costly for the government, I admit.

Q. I beg your pardon, Mr. Towers?—A. It would be costly for the government, I admit.

Q. I suggest to you it would not be costly to the government. Let me understand what that answer means. The government for years have maintained these postal savings banks and invited people mildly to use them?—A. Yes.

Q. And they have—I think I will not be far wrong if I make this statement to you—$26,000,000 on deposit there?—A. Yes.

Q. For the use of which they pay 2 per cent?—A. Yes.

Q. And have been for years?—A. Yes.

Q. Whereas we have had the government borrowing at as high a rate as $4\frac{1}{2}$ per cent, 5 per cent, 4 per cent and 3 per cent. Is that costly or is that a saving?—A. I do not think we should be comparing the 2 per cent rate with something which was paid on public borrowings in the last war.

Q. Well, I am.—A. Well, it is an interesting thought, but it relates to the past.

Mr. McNEVIN: Was not the post office paying 3 per cent at that time?

Mr. TOMPKINS: Yes; at least 3 per cent.

The WITNESS: The present is such a busy time that my mind naturally tends to rest on it. At present the government pays 2 per cent. If a very large additional amount was deposited by the people in the post office savings bank, I certainly would recommend that the government should lower that rate.

By Mr. Slaght:

Q. Lower that down to perhaps the same as the chartered banks?—A. Yes, probably.

By Mr. Macdonald (Brantford):

Q. Why would you recommend that it should be lowered?—A. Because it is accepted that $1\frac{1}{2}$ per cent under existing conditions is not an unfair rate to pay to savings depositors in the chartered banks. I do not see why a different test should be applied in the case of the post office savings bank. In view of the small amounts involved, no change has been made.

Mr. McNEVIN: Mr. Chairman, when making a comparison of interest rates as between the post office savings bank and the chartered banks, I think the gentleman examining the witness said they are comparing 1 per cent with 2 per cent. After all, the post office bank account is a savings account and on savings accounts the rate is 1½ per cent. The reason that it goes down to 1 per cent or below is because you put the current accounts which bear no interest and the savings accounts all together.

Mr. SLAGHT: No, no. That is not the reason at all. The reason is that—if my friend will permit me, and Mr. Towers will correct me if I am wrong—in computing the amounts payable to their saving account customers, the chartered banks take the minimum balance, the quarterly minimum balance over a three-month period. The man who has any fluctuation might have $150 in there for two and a half months, but if he has only $50 in there at any time in that three-month period, they only pay him interest on $50.

Mr. McNEVIN: You are approaching it from a different angle than I was. I was approaching it from the point of view of the depositor's rate of interest. I was not taking the other into consideration.

Mr. TUCKER: Is it not being overlooked, when the Governor of the Bank of Canada said he would recommend a reduction in the post office savings bank rates, that trust and loan companies, on practically similar deposits, where there is not the right to check and that sort of thing, actually allow 2 per cent or more? The accounts are not comparable at all as between a bank account and an account with the post office or an account with a loan or trust company. I am satisfied that the trust and loan companies pay 2 per cent or more on their money.

The WITNESS: Yes.

Mr. TUCKER: I am sorry it is suggested here that there would be a recommendation to cut down the amount of interest paid on post office savings. I regret that very much, as far as I am concerned.

Mr. SLAGHT: So do I.

The WITNESS: I am glad you brought that up, because I should have explained what was in the back of my mind, namely, that if there were a very substantial increase in the post office savings banks, it could only be by reason of their providing many more banking services than they do now; in other words, it would become a different type of account, an account which is more costly to operate. If one thinks of the form of service now provided, which is all right for the saver who very seldom counts on having to make use of savings, who does not find it inconvenient to go and withdraw them personally, then the cost of the operation of that type of bank is very low and a somewhat higher rate of interest is warranted than in the case of an account where more servicing is rendered.

Mr. COLDWELL: May I ask Mr. Towers a question—

The WITNESS: By the same token the volume of money will not be large, because most people will want the other services.

By Mr. Coldwell:

Q. When you said that you would discourage—or that is what you implied—the placing of any very large volume of savings in the post office, because I understood you to say it was more costly or might be more costly, did you have in mind that the rate of interest of 2 per cent might be higher than on short-term borrowings that we are making?—A. Yes, that is so.

Q. I was just wondering if that was the point. I did not get it quite clearly.—A. That is the point.

By Mr. Graham:

Q. There is one added reason, Mr. Towers, which justifies the continuance of the post office savings bank. It seems to me that as a nation we desire to encourage thrift, and that there are some people who, from their own experience or from some other cause fear or distrust banking institutions. I think that was one thought at least in the minds of our legislators in making the post office the depository of the people's savings.—A. I quite agree; and nothing I have said should be interpreted as being critical in any sense. The proof of the pudding is in the eating. The amount is not very large, and I think it has hardly increased at all over a considerable period of years. If one wanted to build these deposits up to really large figures, then it would be necessary to give additional forms of service.

Mr. CLDWELL: I was hoping you would develop that point further. I think we should encourage the post office savings bank.

Mr. SLAGHT: So do I.

By Mr. Coldwell:

Q. It is true that perhaps for very short-term loans the interest rate is low. But this money is left on deposit very often in the post office savings bank for long periods of time?—A. Yes.

Q. Therefore, would there not be an advantage to the government in having access to the post office savings?—A. It is a question of how far the government wants to go in providing some more banking service in order to attract larger sums there.

Q. That is right.

Mr. SLAGHT: I was nearly finished, Mr. Chairman, but not quite. I observe that it is 1 o'clock. Are you adjourning at 1 o'clock?

The CHAIRMAN: Is it the pleasure of the committee to adjourn until to-morrow at 11 o'clock?

Some Hon. MEMBERS: Carried.

Mr. MAYHEW: Before we adjourn, might I ask the chairman of this committee and the chairman of the social security committee to get together and try to arrange it so that their meetings do not clash. On both days there have been quite a number of members in here who would like to be at the meeting of the social security committee and would also like to be here.

Mr. PICARD: I am in the same position.

The CHAIRMAN: Mr. Mayhew, we have arranged to meet on Tuesday, Wednesday, Thursday and Friday at 11 o'clock.

The committee adjourned at 1 p.m. to meet again on Friday, May 19, at 11 a.m.

May 19, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, we are ready to proceed.

Mr. SLAGHT: Mr. Chairman, I wish to clear up a few remaining points with regard to information that I want from Mr. Towers, and I appreciate the tolerance of yourself and the committee with me yesterday. Mr. Tucker has to leave for the west to-day by train and he desires to follow me; otherwise he would not have an opportunity of discussing certain points with Mr. Towers, and I would bespeak for him that privilege if it meets with the committee's viewpoint.

Mr. GRAHAM F. TOWERS, Governor of the Bank of Canada, recalled.

By Mr. Slaght:

Q. Then, Mr. Towers, we learned yesterday, I think, that in making returns to you the chartered banks lump their holdings of dominion and provincial securities as one item?—A. In making their returns to the government, yes.

Q. To the government. And, of course, that come under your eye as well. In March last I asked for a breakdown of that and was told by the department that they could not get it. Would you approve of our committee making a recommendation that the chartered banks should be required to return to the department separately their provincial and federal securities?—A. So far as I can see—I am speaking from the viewpoint of the Bank of Canada—the information would not serve any purpose; so I say that I have no opinion at all on the matter.

Q. Then you would not oppose it at all? I think it serves a purpose, if I may suggest to you, in this way, that we then know, and we cannot otherwise find out, how much in dominion securities the chartered banks are carrying, and some of us think that is desirable. At all events, you see no harm in asking for that?—A. If the committee and the government think it is desirable to have it then I assume they will proceed accordingly.

Mr. MACDONALD (*Brantford*): What about the municipal bonds? Are they not included in that total?

Mr. SLAGHT: No.

The WITNESS: They are separate.

Mr. SLAGHT: The return is in a lump sum headed dominion and provincial securities held, they do not split them; and there is no return of municipal securities as such.

The WITNESS: There is a heading in the statement which shows municipal securities.

Mr. SLAGHT: Mr. Ilsley's statement at page 2620, referred to yesterday, has this lump item, "Interest, dividends and trading profits on securities, $48,000-000." Now, wrapped in that will be dominion, provincial and municipal securities, and Mr. Tompkins has been asked by our steering committee, and has kindly assented, to break that down for us later, so we will have that, and we will have the muncipal set-up.

By Mr. Slaght:

Q. Mr. Towers, another topic I want to get out of the way as fast as possible is the present position of the Bank of Canada as to its outstanding currency and credit as of the latest date I can find, March 1, 1944, and I have your published statement from the press, published on March 11, as of March 1st. Could you check with me on that? I can show this to you?—A. Yes.

Q. I want to make this of record, that your published statement shows currency and credit as follows: Notes in circulation $876,000,000; is that checked?—A. I have not got the figures here.

Q. I am giving it to you and you can verify it.—A. Exactly.

Q. And the other item is: Total deposits $427,000,000; which added together make $1,303,000,000, and I suggest that is, as of March 1st this year, your Bank of Canada outstanding medium of credit. Is that correct if the figures are correct?—A. Yes.

Q. There has been a vast increase in your issue of both Bank of Canada currency and Bank of Canada credit, I suggest?—A. Yes.

Q. Now, I will deal with one year in your report, 1936, unless you wish to direct me to others: back in 1936 the total outstanding of your bank was $343,000,000, of which notes in circulation were $135,000,000 and deposits $208,000,000; does that check?—A. Yes.

Q. So that in 1936 you had Bank of Canada medium of currency in those two forms of $342,000,000. Now the bank has a total of $1,308,000,000, so that roughly speaking in that interval you have put out practically a billion dollars?—A. That is right.

Q. I pass for a moment to the debt situation, and I shall be very short with this. In your own report you refer to it very clearly at page 10. This is the Bank of Canada report dated 10th February, 1944, and I hope all members have a copy of it. May I summarize that year our debt situation so far as the dominion government debt is concerned? Looking at that figure of yours, the total outstanding owing by the dominion, including federal and C.N.R. obligations, on the 31st December last, $11,302,000,000?—A. Yes.

Q. Will you look ahead to the end of this year with me, and would it be fair for me to suggest that we will have an added $2,500,000,000?—A. Probably.

Q. Under our program?—A. Probably.

Q. That added to the $13,300,000,000 would give us a total debt obligation, federal debt, at the end of the year of $13,802,000,000?—A. Yes.

Q. I suggest to you that at the end of the year—I doubt if they increased much—that our provincial and municipal obligations can be said to be conservatively $2,200,000,000, and adding the two together—.—A. I do not remember those figures.

Q. I haven't got them accurately either?—A. I do not think that will be far out.

Q. You do not think $2,200,000,000 of municipal and provincial obligation will be much wide of the mark?—A. From my recollection.

Q. And we are looking ahead now to the 31st December, 1944?—A. Yes.

Q. And adding this to the $13,802,000,000 we get the startling total of $16,000,000,000 odd which Canada will owe in these three types of debt bearing obligation at the end of the current year?—A. Yes.

Q. That is a tremendous load to carry, I take it?—A. It depends on the national income.

Q. Which we may expect to decrease after the war? But I suggest that your view is that it will inevitably decrease, slightly at first?—A. I think that the best we could expect would be a slight decrease.

Q. That is the best, and it might be quite a decrease?—A. Yes.

Q. What are we now, eight or nine billions?—A. There are so many definitions of national income. Gross national income, I think is something over ten billion dollars, net national income is about eight billions.

Q. I will not detain the committee with that.

By Mr. Ryan:

Q. National income means national output, does it not?—A. The gross national income is the gross value of the total output, and that is estimated to be around ten billion dollars.

Q. And the net national income is the expendable income?—A. Paid out. That is gross national income after deducting depreciation and other items. I confess to the committee that this subject of the various definitions of national income, and the exact differences between one and another is one that I have to be coached on every time I speak about it.

By Mr. Slaght:

Q. For my purpose I am not going to go into that. Now, starting with a prospective debt of sixteen billion at the end of this year of debt bearing obligation, may I put it to you that if, as we hope, the war ends before or shortly after that period and we come to peace time that we shall still not be able in your opinion to tax our people for our full requirements for some years?—A. I think that is probably the case.

Q. Which means that we shall have to do some more borrowing?—A. No doubt.

Q. And, as someone asked me in the house the other day, have you any expectation that we will be able to pay any of the principal back in the next few years of this 16 billion that is owed? Or may I put it that instead of that your expectation would be that we will increase our debts?—A. I think so.

Q. You think we will increase them?—A. Yes.

Q. Now, a word about the interest. On page 10 your report shows that at the end of 1943 our interest load for the year was $304,000,000?—A. Yes, that is government and national railways.

Q. Canadian National Railways?—A. Yes.

Q. And the government are liable for the Canadian National obligations?—A. The railway, of course, is earning its interest as things now stand.

Q. And we are getting a little ease on that?—A. Yes.

Q. Now, the interest debt for next year, or rather the taxes we must collect to pay it, I suggest, we may expect to be heavier because you have just told me that we are likely to add $2,500,000,000 new debt this year; is that correct?—A. Yes.

Q. And would it be fair to take as an approximate added load of interest from the $2,500,000,000 new debt, 3 per cent, or is that too high?—A. It is somewhat too high. Call it $60,000,000.

Q. $60,000,00 more. So next year we shall have to collect in taxes to pay our federal debt, $364,000,000 as a rough estimate?—A. No. A little later on in the report I mention that the net interest burden, as far as the dominion is concerned, was running at about $220,000,000 a year. It is on top of that $220,000,000 that one should add, say $60,000,000.

Q. I am looking at your statement here where you show the amount outstanding at December 31, 1943: Total annual interest payable, $304,000,000?—A. Then I immediately proceed to mention that that is the gross interest burden of government and Canadian National Railway and mention deductions which should be made in arriving at the net burden so far as the dominion government is concerned.

Q. There is something coming in and this is what is going out?—A. Yes.

Q. Some revenue producing item?—A. Of that $304,000,000, a portion is borne by the Canadian National Railways themselves out of their earnings. There are certain interest receipts of government which serve to offset payments, so that the net interest burden was $220,000,000 a year as compared with $145,000,000 a year at the outbreak of the war.

Q. And then you suggest that to get a proper picture we should add the $60,000,000 extra burden to the $220,000,000 which would give us $280,000,000 a year?—A. Yes.

Q. Of course, the Canadian National has had a splendid time financially since the war started; their revenues are greatly increased; but when peace comes would you expect some possible depletion in the annual revenue from the Canadian National Railways?—A. I should think that would be inevitable. Of course, right now they are not only earning their full interest charges but a substantial amount in excess of that.

Q. We are happy about that. Now, let me put this to you: I think you told me that you would not expect us to be able to repay any of the principal of the $16 billion in the years immediately ahead of us?—A. That, of course, is what you might call a general statement. So far as individuals are concerned, they can, if they wish, receive the payement of principal or they can at any time sell their bonds on the market.

Q. I am not speaking of that, I am speaking of the— —A. From a governmental point of view I think it would be. In fact, as we have said, there is an expectation that the debt will increase. Maturities would presumably be refunded.

Q. Besides that it does not touch principal money?—A. Refunding of the maturities is refunding of the principal.

Q. By the issue of new bonds. So that new debt is not increased by refunding?—A. Refunding is a form of renewing.

Q. Yes, that is a good word.—A. As distinct from paying off in cash.

Q. Having put it to me that you expect to have to borrow money beyond our taxation in the next few years, surely you will agree with me we will not, by borrowing and repaying, reduce our net total debt?—A. No.

Q. We are agreed. Now, will you look with me—and this will conclude my items with respect to the position of Canada as a debtor to the chartered banks—have you had a chance to check the figure I suggested that at the 31st December we owed—at least the chartered banks held dominion and provincial securities jumbled together for $2,600,000,000?—A. Yes.

Q. I am going to take a round figure, and I am going to take $2,500,000,000 as what we owe to-day on interest bearing securities—rather, not what we owe but that joint item, and I am going to suggest that 10 per cent of that, and not more, is provincial obligation. Can you help me?—A. I cannot help you, but I think for the purpose of discussion it is perfectly all right to go on that basis.

Q. Mr. Tompkins will be able to help us later, I think. That being so, I would like to reduce the $2,500,000,000 so far as the federal debt is concerned by 10 per cent deducting $250,000,000 and say that federally we are going to go on owing the chartered banks $2¼ billions?—A. Yes.

Q. You told us yesterday that the practice of the chartered banks for many years back—and I have checked it—is to lend ten times more money than they have?—A. As regards the remark made yesterday, as a matter of fact I intended to come back to it to-day if I had an opportunity. I may say that what I have been trying to do is not to raise objections, if I can possibly avoid it, to phraseology so long as the meaning which is apparently intended to be conveyed seems to be right. However, I see that that is a risky procedure, and having in mind the remark on two or three occasions yesterday that the banks lend ten times more than they have I think, if you do not mind, I ought to take that up. The banks do not do that. It is impossible for the banks to loan and invest more money than they have. The depositors lend the money to the banks and the banks in turn use that money which is lent by depositors for the purpose of making loans, investments and holding cash. Their legal tender cash reserves run about 10 per cent or 11 per cent of deposits.

Q. You told us yesterday that the banks create money. When the finance minister takes a bond for $1,000,000 to a chartered bank and they receive the bond and credit him with a million dollars, you told us that in doing so they were creating money; is that correct?—A. That is true. The moment it is credited, however, it becomes a loan from the depositors of the bank.

Q. I appreciate that—the reason being that instead of turning a crank and making billions of credit, they make it by a bookkeeping entry?—A. Yes. Which entry, of course, can be translated by the depositor into a demand for legal tender at his volition.

Q. Yes, but they have locked up in their vaults the bond bearing interest each six months?—A. Yes.

Q. I suggest to you, therefore, the language, which was not mine, but to which you assented yesterday—it was the language of our much respected Minister of Finance when he was speaking of the way of doing business by the chartered banks, he said, "that lies at the base of their whole profit making activities; the way they make money is by lending more money than they have. What they have in their cash reserves; and unless a bank has out several times—6, 7, 8, 9 or 10 times—its cash reserves, it is not being profitably, or from a banking point of view, properly conducted." Now, are you going to quarrel with that as a frank and sound statement in the English language of what the charter bank system is?—A. It requires, in order to be precise, the addition of two words. After the word "have"—

Q. Let us put it on the record.—A. "In legal tender".

Q. Oh, in legal tender? They only started with a capital of $145,000,000 and they are lending three or four billion; surely they are lending what they have not got?—A. No, because the three or four billion represents amounts lent to the banks by their depositors.

Q. I am not going to pursue that, but I am going to conclude by completing my picture. We have done the arithmetic where we find that Canada is paying interest on a debt she owes to the chartered banks now of approximately $2\frac{1}{4}$ billion of debt?—A. Interest on that much.

Q. Interest on that much?—A. Yes.

Q. Would you venture to tell me what that would be roughly, or did we refer to it yesterday?—A. You mean the amount of interest?

Q. Yes, roughly. I will give you a leeway of $5,000,000 either way.—A. Probably between $35,000,000 and $40,000,000 a year.

Q. Between $35,000,000 and $40,000,000 a year; and that, of course, comes from the taxpayers?—A. Yes.

Q. And now if I should be right by any chance and Mr. Ilsley should have been right in saying that that is to the extent of nine times at least more money than they have, and we are paying $35,000,000 or $40,000,000 a year to-day on $2\frac{1}{4}$ billions of debt. I make this suggestion to you that this committee might suggest and report that we redeem from the chartered banks that $2\frac{1}{4}$ billion dollars of debt bearing securities before they mature, and to pay them and take them back. Would you dislike us to report that? I will put it this way; that would not meet with your approval?—A. I think before one could comment on a proposal of that kind it would be necessary to ask those who are in favour of it to follow through on the facts. I think that has never——

Q. We did that yesterday. I understand what you mean.

Mr. GRAHAM: I think it is very important that we get this answer, please.

The WITNESS: I do not think any proposition should be criticized or negatived before it has been made. That initial proposition of paying them off is not in effect the full story at all. One would then have to say who would bear the cost.

By Mr. Slaght:

Q. I agree.—A. In order to see whether the final results of the transaction would be in the public interest.

Q. In the public interest, and on whose shoulders....

The CHAIRMAN: Please, Mr. Slaght.

Mr. SLAGHT: He had concluded, Mr. Chairman. I did not sin that time.

The WITNESS: Yes, I had concluded.

By Mr. Slaght:

Q. Now then, I should have put to you that in order to go safely to the chartered banks and pay off the 2¼ billion dollars we would first need to amend 59 of the Act by providing that instead of 5 per cent reserve they must have 100 per cent? That would be necessary if we are going to carry out my plan, would it not?—A. Yes.

Q. The reason being if we hand them Bank of Canada currency for 2¼ billions we start them off with ten times that, with a 22 billion dollars lending opportunity. That is the real reason, is it not?—A. Yes—well, I will come to that.

Q. Add if you like.—A. No.

Mr. FRASER (*Northumberland*): May I just say one word? You would be returning to the banks not the banks' money but the depositors' money?

The WITNESS: That is correct.

Mr. BLACKMORE: Louder, please.

Mr. FRASER (*Northumberland*): I suggest to the Governor that in paying the banks the 2¼ billion dollars you would not be returning the banks' money but you would be returning the savings of the depositors?

The WITNESS: That is correct.

Mr. FRASER (*Northumberland*): So in analyzing the situation and thinking through on it we surely must take into consideration the second step, and that step would be what would the banks do with 2¼ billion dollars in cash? Is that correct?

The WITNESS: That is really why I suggested that the proposition to be understood must be followed through. If one does not follow through, it is a half-baked thing that really cannot be given consideration.

Mr. FRASER (*Northumberland*): Mr. Governor, may I suggest that not only from the point of view of the importance of your statement in connection with following it through, we should also follow it through and form some conclusion based on actual facts as to what would the customer do if the banks, as they surely would, did return the deposits of the savings to the customers? Then, the question arises, what is the customer going to do with the cash?

The WITNESS: In that case in the public interest it would be necessary to give the depositor some place in which to have his funds safeguarded. I think Mr. Slaght suggested yesterday, if I understood him rightly, that possibly that might be done by expanding the services of the post office savings bank. That would require, of course, the development of a much greater organization across the country, and the giving of service of a type which the post office savings bank does not give now. In fact, I think that although Mr. Slaght says he is not in favour of nationalization the proposition really involves the creation of a national bank in order to provide that service.

Mr. COLDWELL: May I ask Mr. Slaght a question? Is that not the logical conclusion? If you take over the banks you pay them the capital they have invested plus what is in their buildings, and so on, which they have acquired, say $200,000,000, and once you have the banks' deposits you have also the securities and bonds, now in the hands of the banks. Is that not the logical conclusion?

Mr. SLAGHT: With your permission I will be glad to answer Mr. Coldwell. It is not in any sense parallel to your proposed nationalization plan for this reason. The banks, as we heard, started with a capital of only $145,000,000. That is all the money they ever put in plus some $60,000,000 possibly. They have got a reserve of $133,000,000, and they have got their buildings. You are going to take all these things over if you nationalize. I am only suggesting that we take back from them, and give them money for it, 90 per cent of what we owe them on bonds because 90 per cent of what they put in in order to get into that favoured position is wind, or bookkeeping entries, or money they have not got. I am not nationalizing banks if I take back the 2 billion of bonds and give them cash for it when they never had the money to loan on these bonds. You are not doing them any harm at all. If you go after them you will take away their savings deposits; you will take away their capital; you will expropriate their assets, their earnings and everything else and put them out of business. I do not put them out of business. I pay them off in good money 2¼ billion dollars they never had to loan.

Mr. FRASER (*Northumberland*): Mr. Chairman, I think again we should keep this record clear. You are not returning to the banks their money. You are returning to the banks your money and my money and Jones' money and Smith's money.

Mr. SLAGHT: How do you pay it?

Mr. FRASER (*Northumberland*): You are returning to the banks only what the depositors have entrusted to them through their confidence in our banking system.

Mr. SLAGHT: Are you suggesting that the banks loan savings bank deposits?

Mr. FRASER (*Northumberland*): Yes.

Mr. SLAGHT: Mr. Towers told us definitely in 1939 that the banks do not loan their savings bank deposits.

The CHAIRMAN: Mr. Slaght, may I interject a statement? The essential feature of banking is the negotiation of credit. That is what a bank is, as I understand it. It is a negotiator of credit.

Mr. FRASER (*Northumberland*): A broker.

The CHAIRMAN: It seems to me you have missed that point.

Mr. SLAGHT: I think generally speaking that is a pretty fair definition, a negotiator of credit, but I was amazed when we were told yesterday they were doing business for the public generally when they have a list of shareholders to whom the directors owe their duty, and for whom last year they made $47,000,000 before taxes. I am taking Mr. Ilsley's definition of the business of a bank as recognized by the bankers. That is what I am taking, Mr. Chairman, and I would be glad to have you add as far as I am concerned they are negotiators of credit, but what do they do? They borrow money at 1½ per cent, and it goes into the general pool of monies. Then, when they lend money—I do not care whether they call it depositors' funds or not—they lend it at 5, 6 and 7 per cent. That is a business in itself. I do not want to interfere with their carrying on of that, but if I am right we have learned of this 2¼ billion dollars Canada owes them to-day 90 per cent of it was lending money that they never had.

The WITNESS: No, most definitely not.

Mr. SLAGHT: All right, chorus.

The WITNESS: Reference was made yesterday to the question of banks and their deposits. Again I come to the fact I have tried not to impede the proceedings of the committee by being too technical about phraseology. As I said in 1939 the truly correct technical statement is that banks do not lend their deposits, but—

Mr. SLAGHT: I recall you did say that—their savings deposits, I think.

The CHAIRMAN: There is a "but"; let us get the "but".

The WITNESS: Depositors lend their money to the banks, and the banks lend the proceeds of those deposits, or put them into investments.

By Mr. Slaght:

Q. Would you fairly call it the equivalent instead of proceeds?—A. No, I think I would sooner say proceeds.

Q. All right.—A. I can quite see that if you believe that 90 per cent of the banks' deposits are wind that you have serious misgivings about the banking system, but unless and until we can get nearer to the real facts of the case a discussion of the banking system loses all sense of reality.

Q. You made a remark about a half-baked theory a moment ago. I want to bake it entirely with you if I can. Let me put this to you. Just following your own statement the present holdings of savings deposits or obligations of the savings customers are roughly $1,600,000,000?—A. Two billion, shall we say?

Q. And their original capital $145,500,000, their reserves $133,000,000, and their buildings $90,000,000, roughly $300,000,000 more on top of the two billion dollars?—A. I am sorry, I cannot add together assets and liabilities.

Q. You want me to keep that $90,000,000 out of there for the buildings?—A. Because it is in the wrong place.

Q. Let us eliminate the $90,000,000 and take the $145,500,000——A. They have capital and reserves of $278,000,000.

Q. Capital and reserves of $278,000,000, and just add that on top of the savings deposits they have of 2 billion dollars and we have got $2,278,000,000.

Mr. McNevin: Who owns the deposits?

Mr. Slaght: The banker owns the deposits.

The Witness: Oh, no.

Mr. McNevin: Nonsense.

Mr. Slaght: Absolutely, for this reason, Mr. Towers; he gives the savings bank customer a little book which is his promise to pay, and if he fails and he goes into bankruptcy what happens to those deposits? They are lost forever unless the country goes to the rescue. The customer does not own the deposit; he has got nothing but the promise of somebody to pay him something when he walks in or presents the proper slip of paper for it. Is that not true?

Mr. Fraser (*Northumberland*): Somebody whose business it is to put through transactions of that nature.

Mr. McNevin: I want to say this, that I am still absolutely convinced that the deposit is an asset of the depositor and the liability of the bank.

Mr. Slaght: Of course it is. That statement is absolutely accurate. It is an asset of the depositor, but it is no more an asset of the depositor than if he had his neighbour's note for $100 in his strong box. His neighbour has agreed to pay him $100 and it is an asset. So is his actual book showing that the bank owes him $100, but it is the money of the bank, and the bank only gives him a promise to pay. Is that not correct?

The Witness: It is a liability of the bank to the depositor, of course.

Mr. Macdonald (*Brantford City*): Is that not a receipt back instead of a promise to pay? It is a book in which the bank acknowledges it has this amount of money of this particular customer. It is merely a receipt for it.

Mr. Slaght: They have not got that amount of money of that customer. Mr. Towers has just got through telling you they have loaned it out to somebody else. Do not get down that lane; it will not go.

Mr. Macdonald (*Brantford City*): They still have control of it. They never lose control of that money. They may be using it for other purposes.

Mr. Slaght: What happens to it if they loan it to you or me and we cannot pay? Do they not lose control of it? They not only lose control; they lose it all.

Mr. Macdonald (*Brantford City*): But they never lose control.

Mr. Slaght: Of course they do. You deposit your money in the bank and it is bank money and not yours. All you have got is you have traded your money for a promise to pay some day. That is all.

Mr. MACDONALD (*Brantford City*): I have entrusted my money to the bank and they have given me a receipt for it. They have it and I can look to them for it at any time.

Mr. SLAGHT: Suppose a day later you woke up and found that the bank had failed; is it your money?

Mr. MACDONALD (*Brantford City*): It was my money. They have used my money.

Mr. SLAGHT: They have used your money, but after you authorized them to use it in the way we have heard and have loaned it out to some people. You have authorized them to use your money and you have agreed with them to take their promise to pay. Their promise to pay you is not your money. It is an asset which may be good or may turn out to be bad. I hope it never will. That is all there is to it. There is so much nonsense about whose money it is once you put it in the coffers of the bank that I feel a little heated in explaining that.

Mr. MACDONALD (*Brantford City*): I still think it is my money and they are looking after it for me.

Mr. TUCKER: I have some questions which I should like to ask, and I think this discussion could be carried on at a later time.

Mr. SLAGHT: I apologize to Mr. Tucker, but I did not involve this. I do not want to wake my friend up but just let him try and spend that little book.

The CHAIRMAN: Mr. Tucker's point is well taken.

Mr. SLAGHT: Then, may I just conclude in a word or two with Mr. Towers by asking Mr. Towers whether he understands my proposal, although not agreeing with it, that I am going to suggest to the committee that we recommend that the Bank of Canada, having first altered 59, should retake from the chartered banks the 2 billions, let us say, only retake the 90 per cent that they got in the way we have heard, leave them with the 10 per cent against which they did have reserves and retake 90 per cent of our obligation to the banks, paying them off in currency or in Bank of Canada credits. My proposal is clear to you, is it?

The WITNESS: Unless, of course, the proposal carries further and indicates what further consequential steps should be taken, it cannot be intelligently considered. I hope you will not think I am being rude but I must say that the proposal as it now stands is an irresponsible one because it does not follow through and accept the responsibility of suggesting the consequential subsequent steps which are necessary.

Mr. SLAGHT: May I be equally polite to you and suggest that your system is a monopolistic one.

The CHAIRMAN: Are you through, Mr. Slaght?

Mr. SLAGHT: I have just one more question.

Mr. BLACKMORE: Would it not be well to let Mr. Slaght go on on Tuesday?

Mr. SLAGHT: I do not want to go further with Mr. Towers except when he comes back on the industrial bank. He is coming back for all of us on that.

The CHAIRMAN: We arranged to allow Mr. Tucker to go on because he has to go to Saskatchewan.

Mr. SLAGHT: I have just one more question.

By Mr. Slaght:

Q. If these further matters are investigated by the committee—and you referred to the savings accounts and how the banks are to pay interest on them, and the servicing charges—if we review those too, and should reach the conclusion that the people who ought to pay the service charges are those who get the benefit of them, and then find that instead of perpetuating the right to lend money they have not got, we will confine them to lending on 100 per cent reserves that, at least, is understandable, but I take it that you still disagree with it?—A. I think I could add to what I said before by reminding the committee that the idea which has just been put forward is not in essence a monetary idea, which is perhaps fortunate because new monetary ideas are not supposed to appeal to bankers.

Mr. SLAGHT: There is no change in banking, I suppose.

The CHAIRMAN: Order, please.

The WITNESS: It is a form of taxation. The sole effect of the proposal is to reduce the interest payments of the government by, shall we say, $35,000,000 a year and reduce the earnings of the banks by $35,000,000 a year. I think it then becomes necessary to suggest what steps the banks must take in order to offset the effect of a reduction of $35,000,000 a year in their earnings.

Q. May I ask you how they got along twenty years ago when they did not have this privilege at all and did not enjoy this method of making money?

The CHAIRMAN: Do we need to go back over that again?

The WITNESS: That has always been the business of a bank for hundreds of years, and we are not discovering it just now in 1944 in the Banking and Commerce Committee, I hope.

The CHAIRMAN: Mr. Tucker, I wonder if you would take your stand near the reporter?

Mr. TUCKER: I will be able to make myself heard. If he does not hear me he can tell me.

Mr. FRASER (*Northumberland*): I asked Mr. Tucker's permission to direct one question to the Governor while we are on this subject. It is tributary to some of the statements which were made yesterday and is not quite clear to me nor in the minds of some of the members of the committee.

By Mr. Fraser (Northumberland):

Q. My question is, when the Dominion of Canada borrows money from the Bank of Canada does the Bank of Canada receive from the government an interest-bearing bond or an interest-bearing note?—A. Yes, it does.

Mr. FRASER (*Northumberland*): Thank you.

By Mr. Tucker:

Q. Mr. Towers, arising out of the answers which you gave to the question asked as to the cost of operation of American banks I wonder if you have also got this figure namely that the total operating expenses of country member banks in 1942 was 1·9% of total assets but excluding interest on deposits, and general operating expenses were 1·59% compared with 1·79% in Canada. Have you got similar figures in regard to the average earnings of country member banks in the United States?—A. Yes, 2·67 per cent of total assets in 1942.

Q. As compared with what in Canada? 2·87, was it not?—A. 2·86 in Canada.

Q. Do the banks there loan to the government in the manner they do in this country?—A. Yes, they hold very large amounts of government securities.

Q. That would indicate to you so far as the United States is concerned that on the whole our banking system, having in mind the heavier taxation and the smaller volume of business, is carrying on fairly satisfactorily?—A. Yes.

Q. Have you any figures in regard to the Scandinavian countries at all?—A. No—you mean in regard to operating costs?

Q. Yes.—A. No, they do not publish them.

Q. Have you figures in regard to the costs of credit in Scandinavian countries, say to farmers?—A. I think I can get them but I have not got them here.

Q. I have heard that the cost, particularly of intermediate credits, in Scandinavian countries is under 3 per cent. I think it would be of great interest to this committee to know what benefits the farmers in Scandinavian countries are having compared to ours in regard to the cost of credit to them.

The CHAIRMAN: Are you speaking now of the co-operative credit associations?

Mr. TUCKER: No.

Mr. COLDWELL: Would Mr. Tucker raise his voice a bit? We are behind him and we cannot hear what he says.

Mr. TUCKER: I should like it if the Bank of Canada would place at the disposal of the committee some time before the time comes for considering the Farm Loans Improvement Act the cost of intermediate credit in such countries as the Scandinavian countries, and any other countries with which our farmers have to compete, because I am very strongly of the opinion that we have got to give as fair a break to our farmers as they do for these other farmers in other countries in regard to credit.

The WITNESS: I will do what I can to get such information.

By Mr. Fraser (Peterborough):

Q. Mr. Towers, you mentioned that the American banks lend to the United States government. That is not all American banks, is it, but just a certain class of American banks?—A. I think all American banks would hold a certain amount of United States government federal securities. It is a loan of that class we are talking about, that is, ownership of government securities.

Q. I thought there was only one class of loans to the government?—A. No. I think there would hardly be one of their 14,000 banks which would not hold some United States government securities.

By Mr. Tucker:

Q. I wonder, Mr. Towers, if you would place at the disposal of the committee as soon as you can the cost of ordinary credit in the Scandinavian countries and in Russia, the cost of credit to the co-operative farms of Russia provided by the Russian banking system. If we have not got that it is time we did get it when we have got an ambassador in Russia and Russia has an ambassador here. As far as I am concerned I should like to know what credit under a state operated system costs the people. As I understand it they have got a nationalized banking system in Russia?—A. Yes.

Q. The same as the C.C.F. party is advocating in this country, and if you can I should like you to give us the exact figures of the cost of providing credit and give us your critical analysis of it, because I realize in Russia the cost of providing that credit may be absorbed in part of their administration cost of government, but I would rely on you to be able to give us a very good appraisal of that situation. I think we should have it before we pass this Bank Act. That should be available to us, should it not, Mr. Towers?—A. I think so. It is, of course very much of an internal arrangement in Russia. When a certain industry or a certain Soviet organization is being given its instructions and program in regard to the year ahead, or whatever period of time is involved, my understanding is that in peace time at least they were told that they could have a certain line of credit with the appropriate bank—the industrial bank or whichever one was concerned—and I believe that they were charged a certain rate of interest. Very recent announcements would lead one to gather that so far as possible each show is going to be made to stand on its own feet. So that I would assume they were charged a rate of interest which would be something they should be expected to pay. If they could not bear the cost, then it would be assumed that there was something wrong with the efficiency of their operations. I think that is the idea or the intention. Whether it is possible always to find out what a collective farm or what an industry would be paying under the terms of its annual program, I cannot say. I think possibly one might find out.

By Mr. Coldwell:

Q. But the interest paid in Russia to the state-owned organization goes right back to the state; it does not go into the hands of private people. So, in effect, it might be regarded as a tax for certain services in Russia and therefore not as a profit to any group or individual but rather a revenue of the state. Therefore it does not matter very much.—A. Well, it goes to one of the state banks; and presumably if the state bank is expected to stand on its own feet and cover its operating costs, that interest goes to cover operating costs and perhaps leaves over a profit for the government.

By Mr. Macdonald (Brantford City):

Q. Or a loss?—A. Or a loss. I think that so far as possible—and perhaps more now than in the past—they are trying there to make each one of their shows stand on its own feet, with the same interest charges and other expenses which would apply in a private system, so that they can avoid as much as possible, kidding themselves. In other words, if an organization is operating at a loss, they want to know it.

Mr. COLDWELL: But the interest accrues to the state itself.

By Mr. Tucker:

Q. They had that idea in mind, that they would try to charge the cost of the service in their interest charge. That is why I think if you could get the figures, they would be very valuable to this committee.—A. I will try to get the figures, although the reasons underlying the charging of a certain rate may be so diverse that I would hate to say that they did represent the estimate of the cost of operation. They might be higher. They might be lower. One would have to know what was in the mind of the government in deciding upon a given rate.

Q. The reason I am asking that is this. In your study which you present to this committee, you could actually cover all those points.—A. Yes.

Q. Whereas if we got the bare figures, as we are liable to get them any day, where the state may be absorbing part of the cost of providing the credit—as it might be by paying part of the salaries of its bank officials, for example—we might have very misleading figures on that.—A. Yes.

Q. It seems to me that Russia is the great example of state socialism as advocated by the C.C.F. party. I think we should get authoritative figures on that point before the committee, and it seems to me we have a right to look to you for those figures.

Mr. GRAHAM: May I interrupt—

The CHAIRMAN: Order, please. May I suggest that we allow Mr. Tucker to continue without interruption so far as possible.

Mr. GRAHAM: This is germane to his question with regard to Russia. I am in agreement with Mr. Tucker.

The CHAIRMAN: Well, Mr. Tucker, it is up to you.

Mr. GRAHAM: It strikes me that there would be this difference. Any loans or advances made to socialized farming would be in the hands of government agencies. In their case there would be the difference that the control or use of the moneys loaned would be in the hands of the very agency that loaned it; whereas in our case we give it to an individual or a corporation, and they go out into the field they are operating in. They are entrusted with the management of the money completely until the due date.

The CHAIRMAN: I know it might be interesting to discuss things that are coming up before the Saskatchewan electors shortly, but I would suggest that we leave party politics out of this discussion for the moment.

Mr. GRAHAM: Mr. Chairman, are you suggesting that I had any party politics in mind in asking that question?

The CHAIRMAN: I would not think so, no.

Mr. COLDWELL: Mr. Chairman, I do not want to interrupt Mr. Tucker, but when he says that we are advocating the system as it is in Russia, then I must take exception to that statement. I do not want to argue that with him just now, but I shall have something to say about it later on. I do not want to interrupt him.

The CHAIRMAN: Now, Mr. Graham, you see why I did not want you to interrupt.

Mr. COLDWELL: I understand. I am going to Saskatchewan too, I may say.

Mr. TUCKER: It is just a matter of opinion as to what the C.C.F. are advocating. I have the opinion that they are advocating the same system as in Russia.

Mr. COLDWELL: No.

The CHAIRMAN: Order, please.

By Mr. Tucker:

Q. What I want, Mr. Chairman, and what I point out in regard to this whole matter is this. I realize that there are many considerations, such as that brought up by Mr. Graham. I expect you can deal with those much better in a study of the thing which you will submit to the committee than there is any possibility of your doing by questions and answers. That is why I put it as I did, so that you could cover all the points. Obviously the one mentioned by Mr. Graham is one of the factors in the situation. The other thing I wish to ask arises out of the answer which you made in regard to the effect of exports on our national income. I just wanted to clean that up. As I understood it, you said that the average part of our national income which was due to exports was 30 per cent?—A. Yes.

Q. That does not tell the whole story, does it? By that I mean that the people who get that 30 per cent of income buy, in turn, from people within the country and provide them again with a substantial part of their income. Is that not right?—A. Or putting it in another way, you would suggest that if exports were completely eliminated there would likely be more than 30 per cent reduction in the national income?

Q. Yes.—A. Due to subsequent disorganization. I think that is true.

Q. More than subsequent disorganization: subsequent lack of purchasing power on the part of those who depend upon exports for their purchasing power. —A. And the disruptive effect of that lack of purchasing power through the rest of the community. That is what I meant.

Q. Leaving that disruptive effect out of mind altogether, what I wanted was the actual share, as it is at present, of our national income that depends upon export markets, and I submit that it is more than 30 per cent.

The CHAIRMAN: For what period?

Mr. TUCKER: Any period in the past. I do not care what period is taken.

The CHARMAN: We ought to have that period.

The WITNESS: I do not think one can calculate that indirect effect. One knows it is there. But how much, I could not say.

By Mr. Tucker:

Q. It would be far more than 30 per cent?—A. It would certainly be somewhat more. How much, I would not know.

Q. If you take away 30 per cent of the purchasing power of our population, its effect upon the internal purchases is going to practically reduce them by 50 per cent again, is it not?—A. I think it is very difficult to say. I cannot give a figure there. If those whose livelihood had been taken away due to the cutting off of the exports remained just as charges on the public, I would certainly be willing to agree that the national income would go down by more than 30 per cent, but I do not know how much more. I assume that efforts would be made to transfer them to other vocations and employment, a terrible mass change in our economy. The degree of agony which we would go through in that process, I cannot put a figure on. I know it would be acute.

Q. That is what I wanted to make clear in regard to your answer. That 30 per cent is just the actual share of our national income which arises out of exports?—A. The direct.

Q. The direct?—A. Yes.

Q. Another point which I should like to cover is this. You probably remember, Mr. Towers, that it was my contention during the period of depression that, due to the fact there were savings and those savings were not being re-invested in capital enterprises, there was as a result a deficiency in purchasing power and that our government, either directly or through some agency of government such as the Bank of Canada, should have endeavoured to balance the purchasing power, to a certain extent anyway, with the internal productive power of the nation. That was the argument that was used in the United States by such persons as Stuart Chase and other economists down there. You remember that, of course?—A. Yes, I do.

Q. Now the argument is being used again to-day that, if our hopes are not realized in regard to foreign trade and export markets, we once again are going to enter a period where there will be an unwillingness to invest savings in capital enterprise, and that we will ultimately enter again a period such as we experienced when there was a deficiency of purchasing power as compared with the goods that were produced by the national economy. You know that there is that fear?—A. Yes.

Q. Now the argument is used, "Do you want to return to that sort of a state of affairs?" You know that argument is being used?—A. Yes.

Q. It is the most potent attack upon the present set-up, as I see it, because those who are risking their lives in order to preserve the country do not want to go back to the situation as it prevailed in 1930 to 1939.—A. Exactly.

Q. I should like you to present to the committee a study as to what the difference is going to be in the attitude of those in authority in regard to that situation if it should develop again. You are, as I understand it, one of the main advisers of the government in financial matters; and if your advice, subject to whatever limits are proper, is going to be asked on that, I think that to a certain extent it should be available to this committee.—A. The problem, of course, goes far beyond the financial. It certainly is not financial in the narrow sense. I felt I went just about as far as I could in that initial statement to the committee. Discussion of the subject gets bang into the field of government policy in respect of public works, in respect of taxation, in respect of social security, dominion-provincial relations and many other fields of that kind. For many reasons, including the fact, as I mentioned in that initial statement, that we do not pretend to be jacks of all trades, or to know it all, I went just about as far as I could in that first statement by mentioning some of the main fields in which I thought the solutions to our problems had to be sought.

Q. Would it be correct to say, Mr. Towers, that to the extent that may be necessitated by anything foreseeable in the realm of interruption of foreign trade, we have the machinery today to balance a high level of national income as against our productive power if we see fit to use it?—A. Would you repeat that, Mr. Tucker?

Q. I say, taking what might be regarded as foreseeable in regard to our export market in the future after the war, we have now financial machinery that is quite adequate to balance our consuming powers, our national income, with a reasonable productive of this country, if we see fit to use that machinery?—A. I think my answer must be that the initiative does not lie on the financial side. In other words, an expansive monetary policy just taken by itself will not provide the solution. One could, under the circumstances that you fear, have an expansive monetary policy which would very considerably increase the volume of bank deposits, but still not cure the trouble that you mentioned. You will recall that during the war, when I think the financial machinery has operated satisfactorily, it has operated as the hand-maiden, so to speak, of the positive activities which have been undertaken. That situation is just as true in peace time as it is in war. It is the positive activities in the way of exports, in the way of capital investment, in the way of redistribution of income amongst the people, with all the effects which that redistribution may have on consumption, which count; it is all those positive things which will count in providing employment. With certain positive things taking place in those various fields, the way in which finance fits in is very important indeed. But finance is not the initiator.

Mr. BLACKMORE: Mr. Chairman, may I ask who is the initiator or who should be the initiator?

The CHAIRMAN: The people.

The WITNESS: The people and the government.

By Mr. Tucker:

Q. The question which I asked was this. It is based upon the suggestion that if you get a state-owned banking system, you have more control over the providing of purchasing power to your people than you have under our present system. That is the argument that is being used continuously by the advocates of a socialized banking system. It is contended that if we had such a system as that, we would not have had the banks trying so hard to collect from people who could not pay in the depression from 1930 to 1937, we will say, and we would not have them pressing out money to the extent of encouraging people to expand their operations perhaps when, in the long run, they should not be expanded, if a long-run view were taken. That is the argument used. My question to you is this: Do you think that our present system is better than a socialized banking system? After all, regardless of what Mr. Coldwell may say before this committee, the fight is going on in the country as to whether our present system is better than the system they would advocate. I should like to have an answer from you on that point, and I think the committee is entitled to it.—A. There are two aspects of the argument. One relates to...

Mr. COLDWELL: If the argument was stated, I could not hear it.

Mr. TUCKER: The argument in a nutshell is this. You say if you had your banking system socialized in the days of depression, they would not seek to collect money so hard as the profit banking system did and then when we were on the upturn, they would not press money out so freely.

Mr. COLDWELL: No.

Mr. TUCKER: Well, I have read a speech of your esteemed leader in Saskatchewan, and if you want me to I will read it, where he says that in so many words.

Mr. COLDWELL: All right. Read it.

Mr. TUCKER: I will read it.

Mr. NOSEWORTHY: Saskatchewan again!

The CHAIRMAN: I wonder if we could leave that for the moment.

Mr. TUCKER: Mr. Coldwell suggests that I have not stated the matter correctly.

The CHAIRMAN: Just a minute. Later on the representatives of the C.C.F. will have an opportunity to state their position before the committee, and then it seems to me they might undergo examination. But I would suggest that at the present time if you devote yourself to the expression of your views and ask the Governor his ideas in regard to them, we would get along better.

Mr. TUCKER: In regard to the observation of the honourable member from the Toronto seat, Mr. Noseworthy, who said, "Saskatchewan again", am I to understand from him that the only place where they are fighting for socialized banking is in Saskatchewan? Have they abandoned it in Ontario?

Mr. COLDWELL: Certainly not.

Mr. TUCKER: Then is not the honourable member out of order?

Mr. COLDWELL: Did we not move it in the house the other day?

Mr. TUCKER: All right. Why do you not have your follower fall in line, then?

Mr. NOSEWORTHY: I was merely suggesting that we are not dealing with the Saskatchewan election in this committee.

The CHAIRMAN: Who is speaking now? Is that Mr. Noseworthy?

Mr. TUCKER: Yes.

Mr. MACDONALD (*Brantford City*): We are not on the subject.

The CHAIRMAN: No. We are not on the subject.

Mr. TUCKER: I submit it was improper to make that suggestion when I am trying to examine into the socialized banking system; the sneers that Saskatchewan is getting are uncalled for. I would hate to have it suggested that because they are advocating socialization of the banking system, we have no right to examine into the effect of it.

Mr. COLDWELL: Is that all Mr. Noseworthy said?

Mr. TUCKER: Yes. He said, "Saskatchewan again."

Mr. COLDWELL: Well, Mr. Tucker need not lose his temper. He seems to be heated up.

Mr. TUCKER: I am not heated at all. I just feel this strongly, and I object to the C.C.F. pretending that only they are honest in their motives and that we are not, and their suggestion there that the only reason I am doing this is to try to help in the Saskatchewan election. I resent that suggestion. I had been following this up long before the Saskatchewan election was suggested.

Mr. COLDWELL: You introduced the election here this morning.

Mr. TUCKER: No. It was introduced by the C.C.F., by interruptions such as that made by your humble and devoted follower.

Mr. COLDWELL: Mr. Chairman——

The CHAIRMAN: Order.

Mr. COLDWELL: I think this sarcasm is entirely out of place.

The CHAIRMAN: I agree with you.

Mr. TUCKER: I withdraw it then. I am humble, and I apologize.

The CHAIRMAN: The chair agrees with you.

Mr. TUCKER: I withdraw it entirely.

Mr. COLDWELL: He has a nasty temper which is showing itself.

Mr. FRASER (*Northumberland, Ont.*): I would not take that.

Mr. TUCKER: I consider where it comes from.

The CHAIRMAN: Order.

Mr. TUCKER: It is nothing to what they say out in Saskatchewan.

The CHAIRMAN: Proceed.

Mr. TUCKER: You heard what the leader of the C.C.F. party in this country has just said in regard to myself, Mr. Chairman?

The CHAIRMAN: I did not hear him.

Mr. FRASER (*Northumberland*): Mr. Chairman, I do not think any member of this committee has the right to tell another honourable member that he has a bad temper, that he has a nasty temper showing itself. Surely that is out of order.

The CHAIRMAN: Mr. Coldwell will withdraw it, then.

Mr. COLDWELL: Yes, Mr. Chairman.

The CHAIRMAN: All right. Let us proceed.

Mr. COLDWELL: I want Mr. Tucker to keep within the bounds of propriety too.

The CHAIRMAN: I am sure he will.

By Mr. Tucker:

Q. Now, Mr. Towers, I do not expect that you will be able to give an answer on that this morning, but I should like to have your considered opinion on the point which I just mentioned, as to the difference between the way the present system operates, providing in times of depression the banks with a great deal of reserve and putting pressure on them to seek every way they can to keep money lent out whether it is safely lent out or not, and to seek other investment, compared with the practice that might be expected from a state-owned bank, to the extent that you feel you are able to answer that as a financial adviser, without involving yourself perhaps, as I have apparently done, in politics. I do not know how any of us are going to deal with these things unless we do deal with them. I wish you would consider giving some sort of answer to that problem.—A. Yes.

Q. In regard to the other question it is suggested that about $1 out of $5 in Canada and the United States is saved?

Mr. GRAHAM: What is that question?

By Mr. Tucker:

Q. About $1 out of $5 in Canada and the United States is saved?—A. Yes, by corporations and by individuals, by the whole economy.

Q. And if that were saved and kept absolutely out of the picture it would mean that the Social Credit argument that your purchasing power is always less than the goods you have produced would be true?—A. Yes.

Q. And as I understand it the way it is balanced up is that under our system that $1 saved goes one way or another into the economic system by way of capital investments and deficit spending on the part of the government, direct payments to old age pensioners, and so on?—A. By way of capital investment which, of course, can also include loans in one form or another to other countries or by way of—yes, I think it would be fair to say by way of government deficit.

Q. I think it is fair to say there was a failure to realize the necessity of government deficits and government spending in order to balance purchasing power with productive power prior to the war in this country?—A. I do not think anyone's performance in that respect was particularly good. I mean in any country. Of course, as suggested in that initial statement I made there are other ways of arriving at that result. The question of distribution has a very important bearing on the rate of saving and on the rate of consumption.

In that connection the tax system, the social security system, are of very great importance.

Q. Of course, if you tax the money from the people that they——A. Would otherwise have saved?

Q. Yes, and put it into paying pensions or in spending on public works to that extent you do tend to balance the thing?—A. Yes.

Q. But to the extent you tax them on what they would otherwise spend you do not help at all in that regard?—A. No.

Q. So that you have got to be careful when you are taxing for that purpose that you have got what would otherwise be saved rather than what would otherwise be spent?—A. Yes, and I am not suggesting that the two factors I have mentioned are by any means the only ones because private and public capital investment are of major importance also.

By Mr. Fraser (Northumberland):

Q. And production?—A. In maintaining a high level of employment.

Q. And production?—A. Yes.

By Mr. Tucker:

Q. Of course, what I am talking about is balancing purchasing power with production, and as I understand from you it is quite feasible, having in mind the present program of the government, that purchasing power will be in the immediate forseeable future balanced with producing power in this country, reasonably balanced?—A. You are speaking now of the post-war years?

Q. Yes.—A. I think it is feasible but one has also to say, of course, it is a task of very great difficulty.

Q. And it will entail——A. In peacetime.

Q. —at times the abandonment of this idea that it is a splendid thing at all times to balance your budget, will it not?—A. Yes, it is an idea to which we paid lip service in Canada. We have not overdone it, of course.

Q. But it was a rather disastrous thing for a lot of young people, this devotion to a balanced budget in the days of depression as well as in days of prosperity, was it not?—A. Yes. Of course, the cure you are thinking of is not simply the unbalancing of the budget, but the positive actions and policies which have as one effect an unbalancing.

Q. Yes, I understand.—A. In other words, you are not thinking of the type of unbalancing which is simply caused by leaf raking projects.

Q. No, I am thinking as far as possible of productive projects on the part of governments such as the Boulder Dam in the United States, and such projects as that?—A. And, of course, it also has to be remembered that bold policies of that type have to carry general public support, otherwise a chain of circumstances is set up which may negative the policies due to the inspiring of fear or doubt in peoples' minds which results in their freezing in their tracks, so to speak, and being frightened to carry on in the normal way. In war time, because of the unanimous public support behind war policy, people will respond and will give their support in a way which so far has never been found to be the case in peacetime. I think that the mental attitude on these post-war problems is of enormous importance, and it is not simply a pious generality to stress that fact. I think public understanding and support of bold policies is the *sine qua non* of these policies being adopted in the first place or being successful in the second place. We have it in war. The question is can we have it in peace, or in peacetime will we follow what in the past has been normal procedure of having a thousand different views as to what should be done with the net result that nothing is done.

Mr. BLACKMORE: May I ask one question?

The CHAIRMAN: With Mr. Tucker's permission.

Mr. TUCKER: I should like to follow it through if I can. You will have a chance later.

Mr. BLACKMORE: I just wondered what the bold attitude was, whether it was that people would not be afraid to go into debt, whether that would be what would be involved?

The WITNESS: No, it does not relate to the individual going into debt.

Mr. TUCKER: I was going to say if I might, that I commend the leadership which the Governor of the Bank of Canada has given in the last seven or eight years along the line he has just mentioned of freeing people from undue fear of governmental debt.

By Mr. Tucker:

Q. I would put this question to Mr. Towers. Is it not true that if people are going to support bold policies, which may be absolutely essential if our present system is going to be made to work to the great advantage of our people, it should be based upon a knowledge and understanding of the difference between a nation going into debt and an individual going into debt under certain circumstances?—A. That knowledge would be very helpful.

Q. That is what I am trying to do in a humble sort of way this morning, to try and have you state that there is such a difference in time of depression between a nation going into debt and an individual going into debt at that time?—A. Yes, there is.

Q. And because you can state it so clearly I think it would be very worth while for you to say what is the fundamental difference, because it is so vital that our people should understand it?—A. I have my doubts about my ability to express that view extemporaneously and also coherently. I think it would be better if I tried to put it down in black and white.

Q. I am quite satisfied with that. You understand what I am trying to get at?—A. Yes.

Q. I hope you will put in that statement some sort of an explanation of the effect of a federal government such as ours going into debt, that is, you have suggested before that the government's liability, if the debt is kept owed internally, is an asset of part of its people, and various estimates have been given of how high the debt can safely go. I understand it has been suggested that the debt can safely go to the extent of double the yearly national income of the people. You have heard that suggestion?—A. I have, but the question of the distribution of the debt is so extremely important that I do not think one can suggest any absolute amount in relation to the national income or anything else without knowing more about its distribution.

By Mr. Macdonald (Brantford City):

Q. Then there is a great fluctuation in the national income?—A. Yes, but I think Mr. Tucker was referring to a volume of debt in relation to average national income.

By Mr. Tucker:

Q. That is right. Will you deal with that to the extent—it may be getting into the realm of soothsaying or star gazing—you feel you possibly can? I wonder if you would deal with it?—A. You mean the possible level in relation to national income?

Q. Yes.—A. I would prefer not.

Q. I suppose the reason is that in the days of the Napoleonic wars the tiny debt was going to ruin England, and in the days when we were going into the first great war the comparatively small debt then was going to ruin Canada, and now to-day we have a repetition of that. I suppose that is the reason why you hesitate to make any estimate, is it?—A. Again it is a question of distribution and taxation.

Q. I wish you would deal with it to the extent you feel you can, even to the extent of tracing the growth in the debt, for example, of Great Britain from the days of the Napoleonic wars on. It would be interesting to put that alongside the statements of the prophets of doom that each time the country increased the debt it was absolutely going to be ruined. I think that should be put before our people. In other words, it is true that if your debt could be owed reasonably to the people who paid the taxes in the proportion in which they would pay the taxes your debt could go to any amount without endangering your economic set-up?—A. That is correct.

Q. And incidentally is this not true—I suppose you can say whether you agree with this or not—that in quarreling about a reasonable service charge on the use of credit, if it is not going to be a brake on your necessary expenditure on humanitarian projects, it is of no great moment? Is that not correct?

A. Would you repeat that?

Q. In other words, the question of whether or not you shall pay a reasonable service charge for the use of credit is of no great moment because if you cannot pay that service charge you can add it to your national debt, and if you keep it properly distributed and in balance, and do not let the increase in the national debt deter you from taking proper steps to have a government based upon full humanitarian considerations, the question whether you pay a proper service charge or not is of no great moment?—A. I agree with that. There again it is a simple question of the distribution of the burden, because even if you paid no service charge at all some one is assuming the burden in the country.

Q. You would have to put it on them then in some other form?—A. Yes, but it should be kept reasonable. In other words, if I might add something to that, the problem of maldistribution is obviously greater with interest rates at $5\frac{1}{2}$ per cent and income taxation low than it would be with interest costs at $2\frac{1}{2}$ per cent and a steeply graduated income tax, infinitely greater in the former case.

Q. And if you bring your service charge on money below your actual costs of operating your system then you place the burden in the long run, I suppose, upon the people as a whole?—A. Then that is a form of indirect taxation.

Mr. SLAGHT: Put it on the shareholders.

By Mr. Tucker:

Q. I am assuming you bring your burden of interest below your actual cost of operation, and in that event the state would pay the cost?—A. The country as a whole.

Q. Yes, the country as a whole would pay the cost?—A. Yes, individuals as a whole would pay the cost but not necessarily in proportion to their ability to pay.

Q. If you did not have full employment the people that were doing that work would not be otherwise engaged anyway, and then you would not actually depress your economy by doing that; it would just simply add more to your public debt, would it not?—A. Yes.

Q. And for the sake, for example, of furthering a very worthwhile project, we will say that of rural electrification, or the making of farm homes as good as city homes, or something that really strikes at the very root of our whole economic set-up in this country, it would be very much worthwhile to provide credit perhaps at less than cost, would it not?—A. There might be circumstances under which a subsidy was necessary either in the form you mentioned or in some other form.

Q. It would be a matter of governmental policy?—A. It would be a matter of governmental policy.

Q. Now then, in regard to the question of the proposed limitation of interest charged by the banks you have had a great deal of experience in regard to banking, and is it not so that the limiting of interest charges is more likely to help the small borrower who has very little bargaining power than the big borrower?—A. Yes, I think that is true. As Mr. Scott reminds me I should have added, the small borrower may be prevented from getting credit at all if the rate is too low.

Q. Yes, that was pressed at the time small loans were being debated here.—A. It is true.

Q. I do not doubt it; if people cannot charge enough to warrant them taking the risk they will not loan?—A. No.

Q. What I suggested in my speech in the house was that as the average earnings of banks were 2·86 per cent, and in view of the fact that the government was guaranteeing these loans, in effect, as long as they did not make more than 10 per cent of bad loans, if they got 3 per cent they would be getting more than their average rate on a guaranteed basis; it would not be expected they would make more than 10 per cent of bad loans, so in effect the government is guaranteeing these loans? That is correct, is it not?—A. In effect, yes. The work involved is one of the major factors in that case because, of course, one can have an investment of $100,000,000 in government securities without involving practically any work in regard to handling the securities themselves. There is work on the deposit side, but we are not thinking of that now, whereas if you have 100,000 small loans to look after you obviously have to incur very considerable expense.

Q. Have any studies been made as to the relationship of the cost of the small loan, we will say of under $500, with the larger loan of four or five times that amount?—A. I do not think they have. I am not sure about that. I think some estimates could be made. It often is the case that the cost of looking after a loan for $1,000,000 to a very strong and first-class borrower is no greater than looking after the cost of a loan of $100.

Q. Well, as I remember your figures, you figured that the average cost of administering the loaning policy itself was ½ of 1 per cent a year, was it not?—A. The cost of administering the assets we figured at ¼ of 1 per cent per annum. But of course that included all the security holdings.

Q. So that the bulk of the expense is really administering the deposit end of it, and that is 1½ per cent as compared with ¼ of one per cent on loans, was it not?—A. Yes. But that ¼ of 1 per cent, as I say, included all securities as well as loans. The cost of looking after the security end of it is very small. The main cost, as far as the banks are concerned, relates to the looking after of small and medium sized loans.

Q. But if the actual cost of administering the assets is only ¼ of 1 per cent, Mr. Towers, the addition of a couple of hundred million dollars of farm improvement loans cannot possibly run it up very high, can it?—A. $200,000,000 might not affect the average very much. But just thinking of that $200,000,000 by itself, it could add very greatly to the cost of operation. I mean, if I had to make a guess, I should say that a $500 loan might involve costs of $25 in the course of a year if a manager felt that he had to visit the customer, and keep closely in touch and so on and so forth.

Q. But if the average could not be run up very much, it would still keep it, I submit to you, under 3 per cent. I mean it would keep it so that they would still be making a profit at 3 per cent.—A. No. I think you have to put that in separate compartments. If on the costs side the average was not up much due to high costs of administering the $200,000,000 of additional loans, naturally if you apply the same formula, the average earnings on all assets might go up by a lesser amount than the increase in the average cost.

Q. I follow you.—A. So that I think you would have to look at the gross earnings from the additional $200,000,000 and the costs of administering it.

Q. Of course, if actually business was being given to the banks on which they could make a small profit even at 3 per cent, your argument would be that the profit might be so small that they would not want to trouble themselves with the business. I think that is the thought in the minds of the government in the matter, that they want these loans made as widely as possible and therefore the policy should be as helpful as possible.—A. Yes, I think it is. If the impression was that the activity actually resulted in a loss from an operating point of view, then certainly it is very difficult to expect much to be done.

Q. That brings up the point that it seems to me is probably the most important of all, and that is this. Regardless of how carefully you operate your system, is it not correct to say that the banks are the final people who decide whether they will co-operate with any policy like that or not?—A. Do you mean co-operate in accepting the principle?

Q. Co-operate in carrying it out to the full extent, even if they do not make the profit they would like to make.—A. That is true. I mean, if any organization, whether it is selling boots and shoes or selling credit, thinks that each transaction is likely to involve it in a loss, it is a very discouraging thing.

Q. Yes. But suppose it gives them a profit which probably is not as great as they would like to have. But having in mind that we are giving them a profit on big transactions such as Mr. Slaght referred to this morning, and that we think they should take the rough with the smooth, if they refuse to do it, then there is nothing much, under our present machinery, that we can do about it.—A. I should not expect it was a case that was likely to arise; in other words, that there was not a meeting of reasonable minds on what would be sufficient to enable a moderate profit to be made.

Q. Why I doubt that is because of the situation which I mentioned and which will be developed later on, I hope. It certainly will be if I can get back here in time. I have heard that the banks are taking the attitude that any one who took advantage of an Act of this parliament, and which has been passed again in recent years—I have heard it of the Farmers' Creditors Arrangement Act—is not to have any credit given to him. If they take that attitude—which is, I think, contempt of this parliament—there is nothing that the government can do about it, under this present machinery, is there?—A. I think the banks would have to speak to that themselves. But suppose it were true—and I am not aware it is true—then irrespective of what there is may be in an act, I am quite sure this is a situation which could be cured.

Q. Well, there is nothing in our present machinery to deal with it, is there?—A. There is the common sense of the banking institutions. There is government persuasion. There is public opinion.

Q. But we do not leave it to those instruments, for example, to control the railroads as to whether they will close an agency or not. They have got to get leave from the Board of Transport Commissioners. Why would we trust the banks more than we do the railroads?—A. They are very different types of businesses. One is a type in which, so far as the expansion of credit is concerned, opinion enters in. In the case of a railroad, if it is under orders to operate a certain service day by day, that is an actual physical thing. One knows whether a train runs or not.

Q. Yes.—A. But in this question of extending credit to an individual, judgment enters in as to whether a loan is unduly risky.

Q. You do not get my point. A railroad can be, and sometimes is, ordered for the convenience of the public to maintain an agency even although they lose by doing so.—A. Yes.

Q. Now then, I submit that in a great program like this farm loan improvement bill, for example, there should be some way of keeping a check on the banks more often than once in every ten years, to see to it that they are co-operating.—A. In the form of extension of credit?

Q. Yes.—A. As distinct from just maintaining a branch at a given spot?

Q. I had both in mind, but mainly the extension of credit.—A. That is where, as I say, the question of opinion enters in. It is more difficult, much more difficult, to establish whether co-operation is all that could have been expected in a case like that. It is much more difficult to establish that fact than the mere simple fact that a particular railway station is open or that a train runs.

Q. No. What I am getting at is this. At the end of the year it could be easily found out how much the banks have loaned under a policy like that.—A. Yes.

Q. It is not whether they loan it to John Smith or Henry Brown or something like that. The question is, did they loan an amount which was fair, considering the need for the credit and the fact that it was government guaranteed. Did they or did they not? If they have not done so, there is nothing the government can do about it, is there?—A. The only way, of course, to establish the extent of that problem would be to know the amount which had been turned down and the reasons for turning down.

Q. Yes. Do you not think that in order to complete our control or our regulation of this probably most important franchise that we are giving, we should have some public authority established that has a right to examine into the way the banks are discharging their obligations under that public franchise, and if they find that there is no proper co-operation or public spirit being shown, a report may go to the Minister of Finance?—A. It is, of course, open to people who presently get turned down, to write—and I understand they do in a certain number of cases—to the Inspector General. He can speak for himself. I understand that he sometimes has had occasion to form his own views as to whether the turning down was right or not. But it will usually be found to be the case that the pros and cons are so evenly weighted in a case like that, that the slightest variation of opinion can get you on one side or the other. Perhaps the loan is all right. Perhaps it is not. The bank has turned it down because it thinks that the risk is really not justified, that the person should not be borrowing the money for that purpose; has not got the prospect of in due course paying the loan back. Some one else coming along might say, "Oh, no. I do not quite agree with you. I think this could have been done." But it is a hairline, Mr. Tucker, and it is awfully hard to say in such a case which one of the two views is the right one.

Q. There are two observations I should like to make on that. One is that I understood from you that there is some supervision. The other is that you can come back to the point of total results over a period of a year. On the first point, is there supervision such as you mention?—A. It is not exactly supervision. As I say, I think Mr. Tompkins should speak for himself. But I understand that it is not an unknown thing for him to receive letters which contain certain complaints and that he does what he can to investigate those complaints. But perhaps that question should be addressed to him.

Mr. TOMPKINS: Mr. Chairman, I may say that, more particularly during the years 1931, 1932 and 1933, I was in the habit of receiving, either direct or through the Minister, various complaints about banking services and about the refusal of loans. I succeeded, I think, in satisfying the vast majority of them, or at least in satisfying myself that in the vast majority of these cases the bank's action had not been unreasonable. On the other hand, there were some few cases where the question of judgment, as Mr. Towers has suggested, was more or less on the border line; and in some few cases the bank's head office changed their opinion in regard to it. Of course, I have no statutory authority in the direct sense to be a referee in matters of that kind.

Mr. TUCKER: Just so that we will have it on the record, Mr. Tompkins who has just spoken has the official position of what?

Mr. TOMPKINS: Inspector General of banks under section 56 of the Bank Act.

Mr. TUCKER: You acted in that capacity. That was quite informal and without authority?

Mr. TOMPKINS: In respect to matters of that kind, yes. I am charged with certain duties and it was not, strictly speaking, one of my duties to act as mediator or adjudicator upon complaints of that description.

Mr. TUCKER: Do you not feel that in doing that you were discharging a very useful purpose?

Mr. TOMPKINS: I felt it was. That is the reason that I was very glad, I may say, to bring the viewpoints of the dissatisfied customers and the particular banks together, so far as it was possible to do so.

Mr. TUCKER: And would you not have felt on sounder ground in interfering in those cases if you had had some statutory basis for your intervention?

Mr. TOMPKINS: Well, that is rather a broad question. As for myself, I question whether there should be anybody as such to act as a court of final appeal, so to speak, in regard to applicants for credit who believe they have a grievance. I do not think, in other words, that the judgment of a body of that kind should be substituted for the considered judgment of a bank, having regard to the responsibility of the bank management to its shareholders, to say nothing of its responsibility to its depositors.

Mr. MACDONALD (*Brantford City*): What would the bank say if your judgment turned out to be wrong and they took a loss?

Mr. TOMPKINS: In other words, if my judgment was wrong or the judgment of any body of that description was wrong, in effect you are telling the bank that you should make a loan which may turn out to be a bad loan. I think the bank itself must be the final judge as to the quality of the credit they extend.

Mr. TUCKER: You can answer this or not, as you wish. When we are basing a tremendous policy of rural improvements upon the willingness of the banks to enter a new field altogether, is it enough to say that they may not like to do it?

Mr. TOMPKINS: I think the banks should be asked that direct question themselves. From what I know of the situation, I believe that their disposition is a very co-operative one, and I think therefore that there is reason to anticipate good results from it. But I think the bankers themselves might better express their views in that regard.

Mr. TUCKER: Thank you, Mr. Tompkins. I am practically through, Mr. Chairman, but I wish to ask Mr. Towers a few more questions.

The CHAIRMAN: Very well.

By Mr. Tucker:

Q. In the light of what Mr. Tompkins has said, I should like to have your opinion, Mr. Towers, on the situation. Suppose that, as a result of an examination of the cost of intermediate credits to farmers in other parts of the world, it was decided that, in fairness to our farmers, the interest rate should be reduced to 4 per cent or 3½ per cent, we will say, or 3 per cent. Do you not think there should be some statutory basis for looking into the extent to which they are carrying out a government policy and having the right at least to report the situation to parliament if they find that that policy is not being carried out?—A. I am not quite sure if I follow you there, Mr. Tucker. Did you have in mind that there would be an interest rate which would actually be unprofitable so far as the banks are concerned?

Q. No. What I had in mind was an interest rate that would give them a return higher than the average return to-day; that is, on the figures you gave, a return of higher than 2.86 per cent, which is their average return on all their loans. In other words, they would not make maybe the profit they would like to make, but they would not be doing business at a loss.—A. By the way, that return is on their total assets, not on their loans.

Q. Yes, on their total assets.—A. The average on loans is 4·55 per cent. I think it comes back to the question as to whether, having in mind operating costs, there is a moderate margin of profit in the business. If there is, all right, the banks will do it. If it involves a loss, then it would also involve a government subsidy in order to enable the banks to carry on the business.

Q. Do you not think it would be a good thing, when we are relying on the banks so much to carry out such a fundamental policy, that there should be some officer charged with the necessity of keeping in touch with that and reporting to the Minister of Finance?—A. That is a question of hearing from or getting in touch with those who have been turned down, is it not?

Q. No. It might be on the results at the end of a six-month period or something like that.—A. But one does not know what the results might have been.

Q. On the total results.—A. One knows what the results are at the end of that period by reason of the fact that the banks will report the amount of loans which they make. One does not know what they might have been. One does not know what has been turned down.

Q. They might be required to make a report on that?—A. The investigation really relates not to what is, but to what might have been. One only knows what might have been if one knows how much has been turned down and the circumstances in each case.

Q. Do you not think that in the case of the Industrial Development Bank where they are actually entering the picture and giving this service, and in the other case where we will use the banking system to give it, we should follow it up for some time to make sure the farmers do get what we intend to provide for them?—A. My own belief is that if there were any substantial number who wanted to get credit and who believed they were entitled to it, and they were turned down, you would hear about, Mr. Tompkins would hear about, and a number of people would hear about it. The only alternative to that is to name a person or a board and advertise that they would be glad to receive complaints of that kind; in other words, to encourage the sending in of any such complaints. That is the distinction between your proposal and the present situation really.

Q. Do you not think that the fact that the banks are liable to be under supervision would make them realize they are administering a trust and not their own personal property entirely, that that was the dominant policy of the government, and having been given a great franchise do you not think that would help to bring it home to them?—A. I think that is a question I would sooner the banks answer themselves.

Mr. Tucker: Thank you, Mr. Towers, and thank you, Mr. Chairman.

Mr. Blackmore: Before you go I wonder if anything could be done to expedite the publication of the Hansard of this committee. I have not received the first copy yet. Obviously that puts us at a great disadvantage, and also the witness, because we have not the record of the words he has given.

The Chairman: I can assure you, Mr. Blackmore, that we are doing everything we can to expedite publication. We shall adjourn until Tuesday at 11 o'clock.

The committee adjourned at 1.05 p.m. to meet again on Tuesday, May 23, 1944, at 11 o'clock a.m.

May 23, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: We have a quorum.

GRAHAM F. TOWERS, Governor of the Bank of Canada, recalled.

Mr. GRAHAM: Mr. Chairman, I thought before I asked Mr. Towers any questions I would lay this premise, that I was struck with the comment that Mr. Mayhew made that in considering bill 91 our chief purpose should be to discover what services the chartered banks render to Canada, if they are performing those services in an efficient manner, and if the cost to Canada of obtaining those services is reasonable having regard to all the circumstances. Before doing that I thought, arising out of the examination of Mr. Towers that has already taken place, and having in mind that this is a decennial revision of the Bank Act, that a good purpose would be performed by attempting to put on the record certain information dealing with things fundamental. My own opinion is—and I have no particular theory I am attempting to support or attack—that there is considerable confusion of thought both in the minds of the individual members, and certainly in the minds of some of the public, with regard to the fundamentals which we discuss here with a certain degree of ease. For that reason I propose to ask Mr. Towers, if he will co-operate with me, certain questions which may appear very elementary to you but which I think would be valuable to put on the record and to have for our guidance in our future discussion.

By Mr. Graham:

Q. First of all, Mr. Towers, would you care to give a brief statement as to what you consider the purposes which the commercial banks were expected to serve in our Canadian credit and banking system?—A. I think the first purpose that comes to mind, although I would not try to list their functions in order of importance, is to provide a safe depository for the savings and current balances of the public. The second purpose that I would mention is to provide facilities for people to make payment by cheques; to make collections for business houses, to buy and sell foreign exchange, to provide safe keeping for securities, all that one might call the routine functions of banks.

Going back to that first function, I do not think any question has been raised in regard to the efficiency of performance of that function, that is, providing a safe place for the deposit of the funds of the public.

By Hon. Mr. Hanson:

Q. That has not always been 100 per cent true?—A. It has not always been 100 per cent true, but for a very long time that has been the case, and I think our arrangements are such that it will continue to be the case indefinitely.

Q. I have in mind the Home bank where the taxpayers in this country paid the depositors?—A. Yes, but I think measures were taken, steps were taken which would ensure that would not happen again.

Again I think there are few questions raised in regard to the performance of the routine functions that I menitoned. The banks, in order to perform those functions with reasonable economy for the depositors, find it is necessary—and this is, in fact, the business of banking—to use the proceeds of the deposits made with them to make loans and investments. Their loans and investments will never be as large as the amount deposited with them because they have to keep a certain percentage of their deposits in the form of cash. That is really the famous ratio we hear about, but I think there is some feeling that, in fact, banks' loans and investments exceed their deposits, that they lend money they have not got. Of course, that is not the case, and it is a misconception which it would be very helpful to remove.

By Mr. Graham:

Q. Just before you approach that, we want to deal fairly fully with that phase of it, but first of all in connection with the services that the commercial banks are expected to perform originally they had one other purpose which was to supply currency as a medium of exchange for the transaction of business in Canada? Is that not true?—A. In part, yes.

Q. And for many years bank currency was the larger medium of exchange among the people of Canada?—A. Yes.

Q. Was that a privilege given to the banks without any charge?—A. No, the banks paid a tax. They bought the privilege, so to speak, for a tax of 1 per cent plus the costs of issuing and keeping the currency in circulation.

Q. And gradually we are taking that particular privilege away from them?—A. Yes.

Q. And it will be completely extinguished, if I recall Mr. Ilsley's remarks, by 1950 if the amendments to the Bank Act are made?—A. Yes.

Q. Now then, as to the different services which the banks perform, the issuing of currency, as a safe depository, and to assist in the routine banking and commercial business of the country, plus the making of loans, I take it that in your opinion those are all services that we would want performed by some agency in Canada?—A. They are essential services; they must be performed by some organization.

Q. That being the case, in recent years have the banks greatly increased the added services, if you wish to call them that, or become involved in added services particularly in war years, that is, the financing of government requirements?—A. They have. In that case the banks do not take the initiative. It is the government, and to some extent the central bank which takes the initiative.

Q. I notice in the Canada Year Book—and I have only to the end of 1941; you will have later figures, of course—that it is quite noticeable that the ratio of loans to the public to their total assets is going down whereas the ratio of securities to the total assets is going up?—A. That is correct.

Q. Is there any particular reason for that?—A. That is due to government financing needs, and central bank policy.

Q. And I assume, Mr. Towers, that we can take this for granted that in the loans to the public while cheap money will encourage business expansion, of course, and therefore likely increase the demands for loans yet there is a saturation point, is there not?—A. There is; unless opportunities are present because of business conditions which make people believe they can borrow money and employ it profitably they do not borrow.

By Hon. Mr. Hanson:

Q. Those conditions do not obtain to-day?—A. They do not obtain.

Q. They do not obtain to-day?—A. The government is such an important factor in business because of the enormous purchases of munitions and supplies that the need for financing of private business has not increased very much.

Q. No, but on page 14 of No. 1 of the minutes of this committee you were asked by Mr. McGeer certain questions and you said at the bottom of the page:

> It is a good deal harder nowadays to interest individuals in putting in capital in a small enterprise unless they are ones which they are managing and trying to build up themselves.

By Mr. McGeer:

Q. Why is that?—A. Taxation.

Q. In other words, we are taxing ourselves out of private enterprise and taxing ourselves into a state of public aid or public ownership?—A. I think there is a tendency in that direction.

A. In making those remarks I was not thinking of the war situation. During the war we are not particularly looking for the development of new enterprise except those which Munitions and Supply feel it is desirable to have go forward for war purposes. The situation which I had in mind was rather the pre-war one and post-war one.

Q. What you are saying is it is government policy now to discourage private enterprise and discourage civilian consumption? I am not quarrelling with that, but that is the fact?—A. Well, discourage, yes, in the sense it is difficult to supply.

Q. You cannot do both?—A. To fill the demand.

Q. You cannot do both at once. I agree with you.

Mr. MACDONALD (*Brantford City*): That is not necessarily discouraging private enterprise.

Hon. Mr. HANSON: Well, it is very depressing; I will put it that way.

The WITNESS: What I was thinking of was new enterprises, and new enterprises, other than those of a war character, do tend to be discouraged because of the shortage of supplies.

By Mr. Graham:

Q. The result would be the encouragement of enterprises that we particularly needed for our war purposes?—A. Yes.

Q. And discouragement of those which we thought we did not need?—A. Exactly.

By Mr. Blackmore:

Q. Is it not one of the duties or functions of the banking system to provide loans for production which is essential? I did not understand that you mentioned that as one of the functions of a bank.—A. I have not finished. I was coming to the loaning part later.

By Mr. Graham:

Q. Go ahead with the loaning part then, but I wanted you, if you would, to reserve for a separate answer this ratio question. I want that dealt with separately. Deal with the loans in the light of Mr. Blackmore's interjection; that is a purpose of the banks?—A. Yes.

Q. To make loans?—A. Yes. The banks, as I was saying, use the proceeds of the deposits made with them to make loans and investments. So far as that function is concerned it is obviously an extremely important one, and has to be performed by someone. What one should expect of the banking system is that they would make loans to any individual or corporation which needed to borrow money and could show that there were satisfactory prospects of being able to repay. The banking system should not be expected to make loans which from the beginning are obviously unduly risky or bad. On the other hand, it must be expected they will lose money in the making of loans.

By Hon. Mr. Hanson:

Q. There is an element of risk?—A. There is an element of risk.

Q. In the profit system there is always an element of risk?—A. Yes, and banks which are performing their functions properly will lose a fair amount of money each year in bad loans. A banking system which does not incur bad debts from year to year is no good to man or beast because it means they are too conservative. In the statements which have been placed before the committee of bank earnings and operating expenses there are figures showing what the losses have been on the average over a period of years. I mention this point because I feel that an annual provision for loss is really a part of the operating expenses of a good banking system. It must lose a certain amount of money each year or else it is operating too conservatively which is not for the good of the country.

By Mr. Graham:

Q. And as to that 15-year period that the average was given on would you consider that an average loss period?—A. Yes, I would.

Q. It involves depression years?—A. It involves depression years and also some quite good years.

Q. So that you have considered that, and you consider that is a reasonably average period?—A. Yes.

Q. I take it, too, that banks, for the sake of these purposes you have mentioned, have been restricted in the type of loans they may make, that is, they cannot make long term loans on mortgage security?—A. They cannot make loans on the security of real estate, no. As to the term of the loans that is left to their discretion.

By Mr. Martin:

Q. Except as collateral?—A. Except as collateral.

By Mr. Graham:

Q. The purpose of that being so that the banks will not have their assets frozen where they could not be quickly realized upon. Is that not true?—A. That has always been regarded as the proper course for a commercial bank.

Q. It is for the safety of the depositor?—A. That is right.

Q. So that he may expect on a given occasion he will be able to draw out the moneys he has deposited in the bank's safe-keeping?—A. Yes.

Q. Those are the purposes of a bank, and again I wanted to ask you to emphasize this, that in your opinion these are all desirable and necessary services?—A. They are; they must be performed by someone.

Q. Then, we come to the question which you touched upon and which I referred to and which, in my opinion, gives rise to a great deal of the discussion that does arise whenever persons meet and discuss our banking and credit systems. That is the so-called ratio of 9 to 1 or 10 to 1 or 20 to 1. I should like you, Mr. Towers, without any further prompting from me to give to the committee how that arises, its limitations, and generally speaking the results that flow from there in as simple language as is possible. I think, Mr. Chairman, we should ask Mr. Towers to assume that no member—and I know that many of the members of the committee will not admit this—of the committee knows anything about it. We would like a statement in simple language that will clear up what the facts are with regard to that ratio.

Mr. McGEER: Providing Mr. Graham is speaking for himself.

Mr. MARTIN: That is a fairly good assumption.

The WITNESS: It would be more satisfactory from the point of view of a commercial bank if it could employ in loans or in investments all the proceeds of the deposits made with it by the public, because in that way it would be able to make earnings on the sum total of the deposits entrusted to the bank's care. However, because of the necessity for having legal tender cash to provide to depositors who need money in that form, banks in most countries—and this relates to a long period of time—formed the practice of keeping some 10 per cent of their deposits in the form of legal tender cash, and not investing that 10 per cent in loans or investments. Over and above the 10 per cent, of course, the banks will have other quick assets in the form of treasury bills or call loans or short term securities, but approximately 10 per cent has been found to be in normal times a reasonable amount of cash to carry.

By Hon. Mr. Hanson:

Q. What are those other items? What do they aggregate in a percentage, 10 per cent?—A. The quick assets?

Q. Yes.—A. Oh, under existing conditions substantially more than that. I have not got a percentage in my mind. That, so far as I can describe it, Mr. Graham, is the way in which the banks operate, but I may not have made it clear. I wonder if you could tell me whether you think I have.

Mr. GRAHAM: By the process of questioning.

By Mr. Graham:

Q. Now, let us bring the suggestion to a concrete point. Under the present Bank Act section 59 provides that the banks shall maintain a reserve in legal tender which consists of either Bank of Canada bank notes or deposits in the Bank of Canada to the extent of 5 per cent of the aggregate of the deposits which they hold. Is that not true?—A. That is true, and that, you may say, is a restrictive provision, not an enabling one.

Q. I was just going to ask that. That restricts the limit of the loaning capacity without reserve of the bank?—A. Yes.

Q. I want to make this clear. If I am correct, we could delete section 59 of the Bank Act and, in fact, delete any other section of the Bank Act without disturbing the primary sections, and still the bank would do exactly the same as it is doing, and, in fact, would have the right to increase the ratio above what it is at the present time by accepted bank practice. Is that not true?—A. Yes, that is true.

Q. So that I want to make it clear, if I am right, that the Bank Act does not grant in statutory terms any such privilege as we are discussing? That is correct?—A. I do not quite understand that.

Q. That the Bank Act does not in positive terms grant the privilege of treating deposits in the ratio of 10 to 1 of its reserves?—A. The Bank Act says that banks can accept from the public such deposits as the public is willing to entrust to them. The Bank Act goes on to say that you cannot loan or invest the full proceeds of those deposits; you cannot loan or invest more than 95 per cent of them. In actual fact the banks loan or invest only 90 per cent.

Q. So there is nothing mythical or unreal or intangible about increased deposits and the increased loans resulting from this ratio of banking practice of 10 to 1?—A. There is not, but where the trouble comes is in the discovery, shall I say, which was made ten years ago, although, of course, it has been banking practice for hundreds of years.

By Mr. Jaques:

Q. Twenty or 25 years?—A. It should have been discovered 300 years ago; this discovery that loans create deposits was a very exciting discovery. It seems to have given rise to the opinion that the banks made money for themselves, that they created money which they could use for their own purposes, and so there has been a good deal of excitement on the part of some people about this discovery of what the business of a bank consists of. Of course, what happens when a loan is made is that a deposit is created, but the deposit is a liability to the customer. The customer owns it. He can withdraw it in cash, if he so chooses. If he does, then the bank has to call for repayment of the loan which was made or some other loan or sell a security. In other words, it cannot expand its loans and deposits, its assets and liabilities, unless the customers in whose favour the deposits are created are willing to leave them on deposit with the bank. That being the case, what I have said a few moments ago is true, namely that the bank is limited in the volume of its loans and investments by the amount of deposits which the public is willing to leave with that bank.

By Hon. Mr. Hanson:

Q. Just right there, you said that banks in practice kept 10 per cent in legal tender?—A. Yes.

Q. And I asked you what proportion they kept in other forms, in liquid assets, and you would not venture a guess. May I suggest your experience would indicate that they keep say 50 to 60 per cent in normal times in the form of liquid assets, that is, obligations payable within two years, and now it is up to 75 per cent so that they cannot possibly loan 10 to 1.—A. But they do not loan 10 to 1. Their loans and investments combined are always less than their deposits.

Q. Very much less?—A. At the present moment I think loans are perhaps 25 per cent of the deposits.

By Mr. Blackmore:

Q. May I ask the meaning of the word "deposit" as it is used there? There are two meanings of deposit, as I understand it. If I take $10 into a bank and place it there that is called a deposit. If the bank lends me $100 that is also called a deposit. Therefore there are two kinds of deposits. My submission is there has developed the wildest kind of confusion in the committee because there is not a careful demarcation between the two meanings of deposit. —A. I think the confusion is in the two meanings, Mr. Blackmore.

Q. Let us get that clear.—A. When the bank makes a loan, it makes a loan to you. It credits $100 to your account.

Q. That is a deposit?—A. That is a deposit, which you own and which you pay out to other people.

Mr. Graham: May I interject there—

By Mr. Slaght:

Q. It is the creation of new money?—A. That is correct.

By Mr. Blackmore:

Q. Immediately it is called a deposit.—A. I beg your pardon?

Q. I say immediately it is called a deposit.—A. It is a deposit.

Q. The result is that the $10 that I may take and put in the bank is a deposit.—A. Yes.

Q. And also the money which the bank will create and loan to me, they call a deposit.—A. It is a deposit.

Q. Exactly, which makes all the remarks that the witness is making absolutely correct, but exceedingly deceptive to the ordinary mind.—A. Oh, on the contrary.

By Mr. Graham:

Q. We have been speaking of that in absolute terms, that a loan automatically causes a deposit and taking that, I presume, as true.—A. It is for the moment only. The depositor might choose to withdraw that deposit in legal tender cash.

Q. He might put it in his sock?—A. He might put it in his sock. He can cancel it.

Q. Suppose Mr. Blackmore were going to pay me money he owed me—I wish he did. Let us say he borrowed $1,000; suppose he owed me $1,000, that he paid it to me and I in turn owed another bank. I would pay off the bank and I would extinguish a deposit. Is that not right?—A. That is true.

Q. That is the negative of the deposit?—A. Yes.

Q. And I would take it that loans, to a certain extent, are limited. I will admit it is in keeping with government policy. As I said before, there is a ceiling to the loans that the bank can make. They must find suitable borrowers. —A. That is right.

Q. That is true?—A. Yes.

Q. So it is not an absolute statement that, in the working out of this, a loan creates a deposit and that continues to be a deposit for a long period?

Hon. Mr. HANSON: I have been wondering who is the witness here. Is it Mr. Graham or Mr. Towers?

Mr. GRAHAM: I am asking for confirmation.

Hon. Mr. HANSON: You are leading the witness.

Mr. MACDONALD (*Brantford City*): I think it is very mild compared to what has already happened.

The CHAIRMAN: Order, please. Proceed, Mr. Graham.

By Mr. Graham:

Q. Is that true, Mr. Towers?—A. That is true. It may create a deposit, but that depends upon the will of the depositor and what the funds are used for.

Q. I have the Canada Year Book for 1942 which gives the figures up to the end of 1941. I presume they are right. But could you give us, up to the latest date that you have had, the total deposits in the chartered banks, splitting them or breaking them down as to the time and the kind.—A. To the end of 1943?

Q. That is fine.—A. The Canadian dollar deposits are $4,356,000,000 at the end of 1943.

Q. Of which how much is savings?—A. Of which $1,948,000,000 are savings deposits.

Q. Yes.—A. $1,697,000,000 are demand deposits.

Q. What are the total loans to the public as of the same date?—A. The current loans to the public, so-called in their classification, $1,104,000,000; call and other loans, $91,000,000. In other words, there were total loans of about $1,200,000,000.

Q. As compared, again, as you have told us, with 4 billion?—A. $4,356,000,000 of deposits.

Q. What is the total of the securities held by the banks by way of investments?—A. The total of government securities is about $2,600,000,000; other securities $313,000,000.

Q. I assume that if we added together the deposits in the bank, plus their paid up capital, plus their reserves, plus their assets in the shape of buildings, that would constitute the assets of the bank?—A. Yes.

Hon. Mr. HANSON: No.

The WITNESS: Would you repeat that question, Mr. Graham?

By Mr. Graham:

Q. No, they would constitute liabilities of the bank.—A. Yes.

Q. If we added together—

Hon. Mr. HANSON: No. The buildings are assets.

The CHAIRMAN: Will you repeat your question, Mr. Graham?

By Mr. Graham:

Q. What I want to get at is this, Mr. Towers. If we added the loans to the public, plus the securities purchased by the bank, plus their buildings—A. And cash.

Q. And cash, they would equal the deposits put in there by the people of Canada, plus, I presume, the money put in by the purchasers of stock in the bank?—A. Yes.

Q. Plus the reserves that have been piled up?—A. Yes.

Q. Is that not true?—A. That is right.

By Mr. Blackmore:

Q. That is deposits in both senses? That is using "deposits" in both senses.—A. There are deposits only in one sense, Mr. Blackmore.

Q. I think there is plenty of evidence to the contrary.

By Mr. Graham:

Q. Let us go back to one point which you partly dealt with. Would you agree with me that, primarily, the confusion on this matter arises out of this single fact developed by Mr. Ilsley in the House of Commons, that that deposit which Mr. Blackmore speaks about, which arises as a result of a loan made to a borrower, is a liability to the bank in the sense that the bank owes to somebody that deposit?—A. Yes.

Q. And consequently it is a liability in the sense that it will cost money to service and take care of?—A. That is correct.

Q. Because, is this not true? While you might lend money to me and you might put it to my credit in the bank, common sense says that I borrowed it for some purpose; and if I paid it to Mr. Blackmore and he in turn paid it out, and it is in circulation eight or ten times, it will finally come in the hands of somebody perhaps who does not need the money and who will deposit it in the savings branch?—A. Yes, that is true.

Q. So the banks would be faced with these deposits on which interest has to be paid and have to meet that output?—A. Yes.

Q. Plus all the other incidental costs of conducting a banking business?—A. Yes.

Q. Do you agree with me that that is perhaps the fundamental error that persons make in connection with discussions of the nine to one ratio?—A. I am sure that is the case.

Q. You heard Mr. Slaght suggest that the wise thing for Canada to do would be to take the dominion securities now held by the banks and give the banks a like amount of their value in Bank of Canada notes, and then make provision in the Bank Act for that not to increase the deposits in the corresponding loans, so as to prevent inflation. You heard that suggestion?—A. Yes.

Q. I should have liked you to carry that through. You suggested that one must consider the results of such a policy. Will you tell us what, in your opinion, would be the results of such a policy?—A. The results would be that the banks would have to cease to pay interest on savings accounts, and that in default of any other method of replacing the lost earnings, they would have to impose charges for keeping deposits.

Q. Let us assume, as I assume you do—and we may argue about that later—that the present over-all profits of the bank are reasonable?—A. Yes.

Q. To maintain that amount, they would have, in some way, to replace the revenue they would get from the securities by some charge upon the depositors or the borrowers or the staff. Is that not true?—A. And the cutting out of interest on savings deposits.

Q. I think that is an interesting point to note. In the last few years we, I think, quite wisely have been attempting to lower the current rates of interest on loans of all natures, both public and private. That is true?—A. That is true.

Q. Which means a diminution of the bank revenues on loans that they make?—A. Yes, and on investments.

Q. Yes. But I notice that, during that same period, the banks have lowered the interest they pay on their savings accounts.—A. That is true. As in so many other cases, the thing is a question of degree. If I might branch off a bit from the question you have just raised, I should like to mention this: All the proposals for so-called reform of the monetary system are the same, in that they all relate to the financing of government expenditures by the issue of currency. Included in currency I place deposits with the central bank. They all relate to that. The second question that I always ask myself is whether there is anything new in these proposals; because if they are new, I would be expected to be under a handicap in considering them. It is usually thought that bankers, and particularly central bankers, are so frightened by any new suggestions that they are unable to give them impartial consideration. But, of course, the procedure which is suggested is not new.

The financing of government expenditures by the issue of currency has been taking place, off and on, for hundreds of years. It is taking place all over the world now. It is taking place in Canada. Government expenditures in the war in Canada have been financed by the issue of currency, defined as I have just mentioned a moment ago, to the tune of about 6 per cent. So that if the proposals are not new, then they are presumably a question of degree. Perhaps some people think that the percentage of government expenditures financed in that way should be higher. Perhaps they think that instead of being 6 per cent, they should be 12 per cent, 30 per cent or 80 per cent. In that case, I think it would be very helpful if, in making suggestions, they said how far they thought the government should go; and I think it would be useful too if they pointed to examples. Because nowadays the world is a form of an immense laboratory of procedures of that kind. If one wants to see the result of financing government expenditures to the tune of 80 per cent by the issue of currency, it will be possible to point to a country where that is now being done; and if it is thought that the results are good, then that country can be used as an example. Or if it is 60 per cent or 40 per cent, countries can be found where that is now being done. I think that to suggest that the financing of government expenditures by the issue of currency is new is wrong; that to fail to suggest what proportion should be financed in the way suggested does not help discussion; and that to fail to point to other countries which are doing so in varying proportions and see how they are getting along, is also wrong.

The second consideration involved in these proposals relates to the reduction of interest charges paid by the government. There again it is a question of degree. In Canada, in accordance with the policy which has been followed since 1935, there has been a steady reduction in the rate of interest paid by the government on its debts. The average coupon rate in March, 1935 was 4·24 per cent as compared with 2·69 per cent in December, 1943. The rates paid on borrowings from chartered banks have come down even more. During the war years, they have averaged about 1 per cent. If these reductions in interest rates paid by Dominion government since 1935 had not taken place, total government interest charges to-day, gross, would be $479,000,000 instead of $304,000,000; and the net charges would probably be about $347,000,000 a year instead of $220,000,000. So that the argument is really not on the question as to whether it is desirable that the interest costs should be reduced, but rather on the question as to how far one should go. The reductions which have taken place since 1935 have caused certain painful adjustments. The savings rate has been brought down from 3 per cent, or rather the rate paid on savings deposits has been brought down from 3 per cent in 1933; 2 per cent in 1935, to $1\frac{1}{2}$ per cent to-day.

By Hon. Mr. Hanson:

Q. Right through, is it not a fact that all the reductions that have taken place in interest charges to the public on government securities and on other securities were predicated on the reduction in the savings bank interest rate? That had to precede the whole thing?—A. No.

Q. I think it did.—A. No. The reductions in the rate on government securities affected the earnings of the banks and made it necessary for them to reduce the rate which they paid on savings accounts.

By Mr. Cleaver:

Q. How much money was put into the money stream from the incorporation of the bank up to the outbreak of war, which resulted in this reduction of interest rate?—A. You mean by the Bank of Canada? I have not got that back that far.

Mr. SLAGHT: It is $1,300,000,000 now.

The WITNESS: The Canadian dollar deposits in the chartered banks in March, 1935, when the Bank of Canada commenced operations, were $2,034,000,000. In August, 1939, they were $2,565,000,000.

By Mr. Cleaver:

Q. And the difference between those two amounts would be the new money that was printed and put into the money stream?—A. Not printed. The policy of the Bank of Canada in enlarging the chartered banks' cash reserves resulted in the chartered banks acquiring some securities in the market, and that in turn resulted in an increase in deposits which I have just mentioned.

Q. New money was printed and put into the money stream by the Bank of Canada during that period?—A. Well—

Q. There was an increase in currency issued by the Bank of Canada?—A. I have defined Bank of Canada currency as either an increase in our note circulation or an increase in deposits with us.

Q. Yes. What is the total of that?—A. The total assets of the Bank of Canada when we first commenced operations were $269,000,000 and in August of 1939 were $432,000,000.

Q. And the resulting credit expansion in the country at ten for one would the main cause of the reduction in the interest rate?—A. It is not ten to one of that. But it would be true to say that the credit expansion which took place as a result of our policy was a major factor in the reduction of the interest rate.

Q. Why would it not be ten for one with respect to the new money that was printed and put into the system?—A. Because a proportion of that increase in our assets relates to increased holding of Bank of Canada notes by the public.

Q. By the public?—A. By the public.

Q. Yes. Then in so far as the public is concerned, suppose $1,000 of new money is created by the Bank of Canada, this debt-free money that we hear so much about. $1,000 of debt-free money is issued by the Bank of Canada and if in regard to that $1,000 of debt-free money in the first operation a private individual in Canada acquires that and hides it in his mattress, there is no expansion at all?—A. No.

Q. So that this entire ten for one expansion that we hear so much about is as a result of the action of the customer and not as a result of the action of any bank?—A. That is correct.

By Mr. Graham:

Q. Mr. Towers, you mentioned the different countries we could, if we saw fit, examine. Unfortunately, China is perhaps the outstanding immediate example of credit expansion of government money.—A. Yes; and of course one speaks of that situation with sympathy rather than criticism.

Q. Yes. And as you say, you could find various gradations of that.—A. Yes. China and the occupied countries of Europe are the ones which have gone farthest in following the procedure recommended.

Q. And in the case of the occupied countries, that would be at the dictates of the Nazi controlling power?—A. That is right. The Germans have used that procedure in order to debauch those countries.

By Mr. Blackmore:

Q. What procedure is that?—A. The procedure of financing government expenditures by the issue of currency.

By Mr. Graham:

Q. Going back to Mr. Slaght's suggestion, we are at the present time borrowing from the Bank of Canada to a certain extent as a people, a government?—A. Yes; in the sense that the Bank of Canada holds a large volume of government securities.

Q. And we are borrowing from the chartered banks?—A. Yes.

Q. And on those direct borrowings by the government from the chartered banks we are paying a service charge or an interest charge of $\frac{3}{4}$ of 1 per cent?—A. On some $800,000,000 of that, yes.

Q. On some $800,000,000. Has the experiment that Mr. Slaght suggested ever been actually tried? I understand it has been tried in Australia?—A. Yes. That is correct.

Q. Would you tell us, please, the history of that particular experiment?—A. In Australia at a certain date, about the end of 1942, the government in power there decided that to the extent that taxation and borrowing from the public did not provide them with all the funds they required, they would borrow from the central bank, the Commonwealth Bank of Australia. They realized that in doing so they would increase the cash reserves of the commercial banks of Australia. So they decided that they would, so to speak, freeze that increase in the commercial banks' cash, very much in the same way as Mr. Slaght suggested. They made them keep that additional cash in a special account in the Commonwealth Bank which did not count for reserve purposes. They decided, however, that as the commercial banks would be under certain expenses in connection with the increased deposits and so forth, they would pay the commercial banks $\frac{3}{4}$ of 1 per cent per annum interest on that frozen cash. The net result of the whole procedure, as you can understand, and the cost, is exactly the same as in Canada in respect of our borrowings on deposit certificates.

By Hon. Mr. Hanson:

Q. That is the cost, and the other item was what?—A. The cost and the net result of the whole procedure, its effect on the banking system, on the public; its cost to our government is exactly the same as it is in Australia, although we have not taken the trouble to follow the same procedure nor to have it enshrined in legislation.

By Mr. Coldwell:

Q. Is the net result the same?—A. Exactly.

Q. With regard to the money that is now frozen?—A. I beg your pardon?

Q. With regard to the money that is now frozen? What becomes of that eventually?—A. In Australia?

Q. Yes.—A. That is undetermined.

Q. That is undetermined?—A. Yes.

Q. The net result is not known yet?—A. It is an asset of the banks in the form of an account with the Commonwealth Bank on which they get $\frac{3}{4}$ of 1 per cent interest per annum. In Canada a similar asset of the banks consists of deposit certificates on which they get $\frac{3}{4}$ of 1 per cent per annum.

By Mr. Slaght:

Q. There are long-term securities at a great deal more than the $\frac{3}{4}$ of 1 per cent rate?—A. In the hands of the banks?

Q. Yes.—A. There are very few.

Q. In the hands of the bank you gave us yesterday $963,000,000.—A. Over two years.

Q. Over two years.—A. I would not call over two years a necessarily long term.

Q. You do not suggest that $\frac{3}{4}$ of 1 per cent covers the interest they would pay on the $2,500,000,000 we owe, because you told me yesterday it was $35,000,000 or $40,000,000.—A. No. I say that the interest cost of $\frac{3}{4}$ of 1 per cent relates to a substantial portion of the war financing done by the government with the banks; and in Australia, in speaking of their arrangement, I am talking about the war financing since the end of 1942.

Mr. JAQUES: Why did they freeze them in Australia?

Hon. Mr. HANSON: So they could not be the basis of credit.

The WITNESS: To avoid that expansion which we all worry about so much.

Mr. JAQUES: But as I understand it, the banks do not expand. They only lend what they actually have.

The WITNESS: I am afraid—

Mr. CLEAVER: We are back again!

The WITNESS: That is where I came in.

Mr. GRAHAM: Mr. Towers, may I suggest this—

The WITNESS: But it would be useful, I am sure, to say again and again—it would be useful, I think, Mr. Jaques, to keep on remembering that the banks' assets cannot exceed their liabilities. One marvelous feature of a bank's balance sheet is that it balances.

Mr. MCGEER: It did not balance very well in 1939 and 1938.

The CHAIRMAN: Order, please. May we allow Mr. Graham to proceed?

Mr. GRAHAM: I was going to take this speech of Mr. Ilsley's—

Mr. MCGEER: It was no laughing matter for the people then.

Mr. GRAHAM: In Mr. Ilsley's speech in the House of Commons he pointed out that, carrying out such a scheme as Mr. Slaght suggested, taking securities and replacing them with Bank of Canada bills, and then legislating to prevent, as you say, that expansion which otherwise is sometimes called inflation, and then borrowing 3 billion dollars from the Bank of Canada, would result in merely a transfer of the cost of $22,500,000 to certain groups of bank depositors, bank borrowers, the staff of the bank, and I think one other.

Mr. SLAGHT: The shareholders.

Mr. GRAHAM: The shareholders, yes.

By Mr. Graham:

Q. You recall that?—A. I do not quite recall what the $22,000,000 related to.

Q. That is what I was going to ask. I noticed you mentioned a figure in answering a question that it might be $35,000,000. Would you kindly elucidate? —A. That $35,000,000 to $40,000,000 I mentioned as being the approximate amount of interest received by the banks on their total holdings of government securities.

Q. That is the point that Mr. Slaght made, that all of the securities do not bear this $\frac{3}{4}$ of 1 per cent interest?—A. No.

Q. You would be taking away from them the revenue they now get to the extent of $35,000,000 or $40,000,000?—A. Yes.

By Hon. Mr. Hanson:

Q. Before you leave Australia you say the end result was the same and the cost was the same to the government but is there not one distinction? In the case of Australia the asset is frozen and cannot be used as a basis of your expansion or, I would say, inflation?—A. Nor can it be in the way in which it is done here, not to any greater extent than in Australia.

Q. It is inflationary to that extent?—A. Borrowing from banks is inflationary in the sense you mentioned. That borrowing takes place here in the form of deposit certificates; in Australia it is in the form of this frozen account with the Commonwealth bank.

By Mr. Graham:

Q. Mr. Towers, this point did not arise during the course of this committee's work, but it is something I have often heard dealt with. I heard Mr. Coldwell in the house on one occasion talk about this, and I just wanted to examine the merits of it. He suggested that we should have financed our war effort by conscripting, as it were, the wealth of the country, and that we should do that by a compulsory interest-free loan. I wanted to examine that for a minute with you to see if my conclusions are right. I would assume he would mean by compulsion he would force the taxpayers who have cash to put that money they have at the disposal of the government and accept a bond of the government repayable in a certain period, let us say ten years, without interest. If that were done what would be the capitalized value of that bond that a particular individual would have as a result of that transaction? Could you give us an estimate, assuming that the interest is the same as it is now; that is, capitalizing it with interest the same as on the victory loans we are now issuing, let us say 3 per cent?—A. You mean what would be the market value of the non-interest bearing bond?

Q. Yes.—A. What term would it be?

Q. Ten years.—A. I would have to get a table before I could answer that. I do not know that I can figure it out.

Mr. COLDWELL: May I interject something? I did not quite hear what Mr. Graham said, but he said something to the effect that we would take the savings accounts of the banks and issue bonds. I have never said that. I have suggested a policy of paying very much as we do on our income tax on a graduated scale.

By Mr. Graham:

Q. Let us take it on a policy of paying it, and you would give to the man a non-interest bearing bond, let us say repayable in ten years. That would have a capitalized value of less than its face amount? Is that not true?—A. Yes, it would sell, if it sold at all, for less than the face amount.

Q. Would it not be reasonable to assume that if I held a $1,000 bond in my mind I would say, "I will have to hold this bond for ten years. At the end of ten years I will get just the face amount of the bond. If I sold it for $900 I could build a house and secure rentals from that house and at the end of ten years I would be ahead even if I took $900 for the face amount of that bond provided I build a good house". Is that not true?—A. Yes.

Q. Then I assume that another factor would be that some unfortunate persons who think they might speculate and make much more money would offer these bonds at a constantly decreasing price?—A. I think it would probably be necessary to make them non-transferable.

Q. If you made them non-transferable, yes, but that was not in it. I do not think that even Mr. Coldwell intended they should be non-transferable.

Mr. COLDWELL: I did not say ten years either. I said the duration of the war.

By Mr. Graham:

Q. If that happened, if the people holding these bonds decided to market them for the purpose of investing the cash they would get in some security that would earn money during the period in which the bonds would run somebody would have to buy those bonds at a depreciated price? That is true?—A. Yes.

Q. And since it would be a capital improvement that difference between the amount the purchaser paid for the bond and the face value of the bond would not be treated as income and would not be subject to income tax? It is capital?—A. Presumably under the circumstances you mentioned.

Q. So it would seem to me the net result of any such scheme would be to repeat the mistake we made in the last war, only in a much magnified form, of finally finding a group of money lenders with somewhat of a predatory instinct, who would purchase these bonds as cheaply as possible, who would not pay income tax on the profit they made, and we would have issued a great quantity of bonds with that result. Is that not reasonably correct?—A. In the circumstances you mention, yes, and that is why I say I think such bonds would have to be frozen and non-transferable.

Q. And there would be an awful outcry against that?—A. New Zealand did make an attempt for a short while, but it never amounted to anything very much and they gave it up.

Q. And it seems to me it would have a bad effect on confidence in our banking institutions, in our Bank of Canada and government financing?—A. —Yes, and they found that out in New Zealand that you could not run with the hare and the hounds.

Q. I notice when Mr. McGeer asked you a few questions he had you agree that in 1939 you said the banks did not lend their deposits, and then under examination by Mr. Fraser later, in Mr. McGeer's absence, he asked you that question in a different form, and you answered this time that they do, in effect, lend the deposits. I would be glad if you would clear up that apparent contradiction, or what might appear to be a contradiction.—A. Yes. That earlier statement was made on an occasion when I was trying to emphasize that a deposit was a liability so far as the bank was concerned, but it is true they lend the proceeds of their deposits, that their ability to lend and invest is limited by the total amount of deposits and that in essence the depositors' funds are employed by the banks in loans, investments and cash.

By Mr. Slaght:

Q. Before we leave the Australian question would you mind answering whether that plan is still in progress there?—A. Yes.

Q. And how is it working?—A. I think they feel it is working satisfactorily. I think they feel with us, those of them whom I know, that our procedure is just as satisfactory and has the same result and the same cost.

By Mr. McGeer:

Q. In view of the fact that Mr. Graham has brought it up and I notice that this statement has now been made again when Mr. Fraser asked Mr. Towers at page 128 of the proceedings:—

> Q. So consequently, to clarify the record, you now agree that banks do lend their depositors' money?—A. Yes.

I should like to point out that we went into that very fully in 1939, and I thought that not only in answer to myself but in answer to several others the statement was very clear. In any event, may I draw your attention to page 455 of the record of the 1939 proceedings. Mr. Jaques said:—

> Q. I understood you to say they could not loan what did not belong to them?—A. The banks cannot, of course, loan the money of their depositors. What the banks have done is to make loans and investments which result in a certain sum total of deposits. In respect to savings that amount is 1 billion 600 million dollars odd. Now, what the depositors do with these savings is something which is quite beyond the control of the banks. The depositors can leave the savings idle, in which case there is no turnover. They then rest in the banks. Or the depositor can, if he chooses, spend it on consumption goods. If it is a pure savings account he is unlikely to do that; or he can buy government bonds, corporation bonds, any investment of that kind that he liked; but the banks have no control over what the depositor does with his money.

A. That is right.

Q. So in a savings bank account once the money represented by that account comes into the possession of the savings bank the bank do not lend that money, and the depositor is free to use it for consumer goods, to make investments with it or to leave it idle in the bank?—A. So long as he leaves it idle in the bank the bank uses the proceeds of that deposit for loans and investments.

Q. That is what I want to get at. I understood you to say that when a bank loaned money or purchased securities that the bank increased its deposits?—A. Its liabilities to the public, yes.

Q. Which are what we call deposits; you call them liabilities to the public, but after all what the public know them as are their deposits?—A. That is right, from the public point of view, assets.

Q. I mean to say they are liabilities of the bank, but they are only liabilities of the bank because the bank has promised to make good these deposits on demand?—A. Yes.

Q. And the fact is that the banks have not that cash on deposit, and if they were called upon to produce the cash they would have to get cash from the Bank of Canada?—A. Temporarily, yes.

Q. Temporarily or otherwise; I mean to say temporarily if the people would redeposit, but if everybody in Canada decided to convert their deposits from liabilities of the chartered banks into cash in their possession the chartered banks would have to go to the Bank of Canada to get the cash?—A. Yes, and then after that they would gradually liquidate and we would no longer have a banking system.

Q. We would have our money all in our possession, whatever the amount would be?—A. There would be no loans, no means of extending credit, no holdings of securities by the banks. The banking system would disappear.

Q. The point I am dealing with is the question of whether or not the banks have this cash on deposit, and they have not got that cash on deposit, and the only security the depositors would have if they wanted to get the cash would be the ability of the chartered banks to get cash from the Bank of Canada?—A. Oh no, the depositors would have the assets of the banks in the form of loans and investments.

Q. But that which was in the form of loans and investments would have to be transferred to the Bank of Canada to get legal tender cash which is the only kind of cash we have now?—A. That is right. They would have to go to the Bank of Canada in order to get legal tender cash, and then gradually that debt to the Bank of Canada would be repaid by the liquidation of the securities and of the loans.

Q. And all of the securities held by the chartered banks would then be transferred to the Bank of Canada?—A. Yes.

Q. And the Bank of Canada would have just as much power to lend if it wanted to, as the chartered banks have to-day?—A. Oh well, then we have a nationalized banking system.

Q. I do not think you want to be unfair, but what you are saying to me in answer to my question is that our whole banking structure would be rocked; there would be no loans, there would be nothing of that kind when, as a matter of fact, the government would have all the power, if any such situation was created, to step in and finance every need of both the government and the people.—A. Of course, the government could establish a nationalized banking system. I would not deny that for a minute.

Q. And the statement made by you a moment ago that there would be no loans, no deposits, and nothing of that kind, was not a correct statement?—A. In the private. . .

The CHAIRMAN: Order, please.

Mr. McGEER: Order what?

By Mr. McGeer:

Q. I said the statement made by you a moment ago that there would be no banks, no loans, and no facilities for carrying on the business of the country was not a correct statement?—A. At that point we had not come to the nationalized banking system. I referred to the disappearance of the private banking system.

Q. Well, it may be that it would be necessary to do away with that system, and I for one will make the statement to you unhesitatingly that if any such conditions recur as obtained from 1930 to 1939 that the private banking system will be done away with. We are coming right down to grips on this thing—A. I do not suppose you are addressing me, Mr. McGeer, because I cannot be frightened that way.

Q. I would not think you would because I would think you are a public servant and the head of the Bank of Canada, and not here as a representative of the chartered banks?—A. That is quite right.

Q. So as far you and I are concerned if we represent the public, I as a member of parliament and as a member of this committee and you as the head of our publicly owned central bank, we should be at one. We may have differences with the private monopoly which carries on, but I am not frightened of that situation either. You do not frighten me, Mr. Towers, when you suggest that this private monopoly might go out of business because if it does not change its ways it is going to go out of business.

Hon. Mr. HANSON: Are we giving speeches now?

Mr. BREITHAUPT: What was the matter with the private banking system in 1933 in Canada when banks in the United States were going down one after the other? Did not our private banks stand up?

The WITNESS: Yes, I think it is perfectly proper to ask the question, does the private banking system serve the purpose for which it is intended? Is there some other way in which the public could get better service, and the question one should ask in order to get down to brass tacks is, is the private banking system a safe one from the point of view of the depositor? That is the question.

Mr. McGEER: That is one thing.

The WITNESS: Mr. McGeer can answer that as well as I.

By Mr. McGeer:

Q. That is one phase—A. I am coming to the others. Is it a satisfactory organization for routine functions of banking? I mean to say the payment of cheques, the effecting of collections, and so forth. That is a question I think you all can answer. Does it provide adequate credit facilities for individuals and corporations? That is another question to be asked, and finally is the cost of these various services reasonable?

Mr. BLACKMORE: Before we leave the point I should like to ask what was the matter with the United States banks that they closed?

Mr. BREITHAUPT: That is not up to this committee.

Mr. McGEER: Summarizing the general situation, the difference between the banking system in the United States and in Canada in times of depression is that in the United States the people broke the banks and in Canada the banks broke the people.

Hon. Mr. HANSON: In the United States the small banks closed in the main because their assets were frozen. I know.

By Mr. McGeer:

Q. I think you will agree with me in this, Mr. Towers, that in the United States the establishment of a central banking system really did not come about until 1912 with the establishment of the federal reserve system?—A. 1914.

Q. Well, it started in 1912 with the election of Woodrow Wilson, and on that occasion they made a fundamental change in the banking system of the United States from a national point of view by setting up their national federal reserve system with, I think, its twelve regional services? That is correct, is it not?—A. Yes.

Q. And in that regard the United States did come to the adoption of what is commonly known as the English banking system, that is, a central bank with the chartered banks revolving around it in their operations?—A. Yes.

Q. Which formerly we had through our finance department, and which we established in 1934 with the Bank of Canada?—A. Yes.

Q. But I think you will agree that in the United States there were certain advantages. Whether or not they offset the disadvantages and weaknesses of local banks I am not prepared to say, but they are spread all across the United States in the states and in the cities, central banking institutions. For instance, take the city of Seattle which I happen to know very well. I contrast it very often with the city of Vancouver, or take the city of Portland or the city of

San Francisco. They have a local banking community where they centralize the local wealth, and where the banking system centres on the development of local enterprise. You will agree that in the vast industrial program of the United States, take in Detroit, the localized banking system did have advantages for the local communities which to some extent offset the weaknesses of that banking system, did it not?—A. It is a question of opinion, Mr. McGeer. I could not answer. I know what you have in mind, that a local bank is more likely to be liberal in the extension of credit to local people than a branch bank is, and that the advantages of that system offset the failures and the losses to depositors. It is a question of opinion. I am inclined to think our system is better.

Q. Better undoubtedly from the depositors' point of view, but whether or not it is better from the point of view of the expansion of the economy of the nation as a whole and for the general security of the people is another matter. It probably would come in between the two, that is, a greater distribution of local power with greater strength in organization through a national power such as the central bank?

Hon. Mr. HANSON: We had that system in Canada for years. What happened the local banks? They were bought up by the big banks, or they could not use their funds locally except seasonally. I know from personal experience.

By Mr. McGeer:

Q. But I say whether or not one system is better than the other no one will question the power of the economy of the United States, from whatever source it came. They have unquestionably with their banking system the highest economic power of any nation in the world.—A. Yes.

Q. They have raised the standard of living of their people to the highest level of any people in the world. They pay the highest wages of any people in the world, and they have the highest standard of education and social service of any people in the world.

Hon. Mr. HANSON: Do you attribute that all to the banking system?.

Mr. McGEER: No, I do not attribute it all, but I simply say when people denounce the banking system of the United States and boast of ours as being infinitely superior there are a good many things that ought to be taken into consideration when you are forming any conclusion in that regard. I do think, and I think the Governor will agree with me, that the adoption of the central bank idea was recognized as necessary to give greater security to depositors from 1912 on, but they still retained in the United States a tremendous local power which is evidenced through the fact of the establishment of their regional federal reserve system which is not as extreme as the centralizing of all power in headquarters banks which exist to-day in Montreal and Toronto and in the bank in Ottawa. I think there is something to be said for the United States system, at least from a westerner's point of view.

The WITNESS: The regional system, of course, operates as one under a board of governors in Washington.

Mr. McGEER: I agree, but they have pretty strong powers in these regional areas.

Mr. BLACKMORE: Mr. Chairman, there is a sad and interesting comment there, that while the United States had that particular mode of banking Canadian youth fled from Canada to the United States and made the United States a great country and left Canada still undeveloped.

The CHAIRMAN: There have been many Americans who fled over here, too, Mr. Blackmore.

Mr. RYAN: It is certainly unanimous that the banking system of the United States built up the industry of the United States. That has been known for many years.

The WITNESS: Of course, their banking system helped in that process, certainly.

By Mr. McGeer:

Q. On Wednesday, Mr. Towers, we were dealing with the report of the Bank of Canada which I was interested in, and which was referred to this committee. If you will recall I had got to page 7 and I was dealing with the issue of Bank of Canada bills. I wonder if we could get from you or from some source a statement of the kind of securities, the rates of interest and the amount of interest paid by the government to the chartered banks since the war commenced? There is no reason why that should be in the air, in my opinion.—A. That is the new special issues sold to the chartered banks since the war commenced?

Q. I want that form of security financed by the banks, and what they have been paid in interest charges by the government since the war commenced.—A. In other words, a list of the security holdings of the chartered banks?

Q. Yes, and some of them have been refinanced, I take it. We start in 1939, and I think the first borrowing from the banks was $200,000,000 at 2 per cent, was it not?—A. We have not got a list of the security holdings of the chartered banks.

Q. It must be available some place. I suppose the chartered banks could get it, or the government would get it?—A. I think perhaps that is a question that should be addressed to the minister.

Q. I do not care where it comes from but it seems to me it is information which you would have on your files?—A. No, we have not.

Q. In any event, it is in the Department of Finance, because the government could not have borrowed any money from the banks without knowing what it is and what they are paying for it.

Hon. Mr. HANSON: Let us hope so.

The WITNESS: There are two things. There are certain issues which have been made since the start of the war to the banks, $800,000,000 odd of deposit certificates, and certain other issues aggregating $650,000,000. Of course, the Department of Finance has a record of that in their Orders in Council authorizing those sales.

By Mr. McGeer:

Q. What I want is I want to come up to that savings certificate financing because I think that has instituted an innovation in public financing through the banks? I think you will agree with me on that?—A. Innovation—well, financing has been taking place by sales of issues to the banks for a long period. The rate and the form of the certificate is a bit of an innovation.

Q. What we have been battling for over the years is a reduced cost of public finance, and what you call a deposit certificate I think is one of the things that have stepped the cost of public finance down?—A. That is right.

By Hon. Mr. Hanson:

Q. They are called certificates of deposit, but they are in essence treasury bills, are they not? The only difference is you pay them a low rate of interest?—A. They are a note.

By Mr. McGeer:

Q. What did you call them?—A. Deposit certificates.

Q. That was the name given to them.

Hon. Mr. HANSON: They are treasury notes.

By Mr. McGeer:

Q. But the point I am getting at is that even in this war we have moved along towards the point of reducing the cost of financing public enterprise?—A. Yes.

Q. And I will take the outstanding illustration of the last war, $5\frac{1}{2}$ per cent tax free bonds, and that has come down now to financing at $\frac{3}{4}$ of 1 per cent. I am taking the two extremes.—A. Yes.

Q. You know Mr. Towers I am not so old that I do not remember the great statement about superior financing that came out when these $5\frac{1}{2}$ per cent tax frees were issued as a means of raising money to finance the last war. That was looked upon as a great achievement of the then Minister of Finance, Sir Thomas White. You will no doubt recall that?—A. No, I was in France.

Q. Well, it happened unfortunately, and let me tell you that these $5\frac{1}{2}$ per cent tax frees went all the way down the peace right up until 1937. You would not agree that that kind of financing should be adopted in this war?—A. I would not.

Q. In fact, you would agree with me that kind of financing and that cost of financing was an exploitation of the public treasury and a viciously unfair one?

Hon. Mr. HANSON: But that is in the light of conditions then obtaining.

Mr. MCGEER: There were not so many people like myself talking about cutting the cost of public finance then as there are now.

By Mr. McGeer:

Q. But if it was good then, why would it not be good today? And if it is bad now, why would it not have been bad then?—A. I think I would say that we live and learn.

Hon. Mr. HANSON: I think that is the answer.

By Mr. McGeer:

Q. And one of the things that we have to learn more about is the problem of effective, efficient public financing. You would agree with that?—A. Yes.

Mr. BLACKMORE: Hear, hear.

By Mr. McGeer:

Q. And the lower we can cut the cost of public financing, the better it is going to be for the taxpayers in the long run?

Mr. BLACKMORE: Both in interest and in debt.

By Mr. McGeer:

Q. You will agree with that, will you not?—A. I think, as I said earlier, that all these things are a question of degree, a question of the exercise of judgment as to how far one should go.

By Hon. Mr. Hanson:

Q. Mr. Towers, may I ask a question? Were not those deposit certificates issued under more or less pressure?—A. Pressure?

Q. The government had to have the money to make up the difference between taxation and loans, on the one side, and expenditure on the other?—A. Yes.

Q. There was a deficit?—A. Yes, that is right.

Q. And they went to the chartered banks who had the money?—A. Yes.

Q. And really required them to let them have the money, and as patriotic citizens they gave it?—A. Well, I would not say—

Q. But under some pressure?—A. I would not say there was any pressure.

Q. As to the rate of interest?—A. No. I think the banks felt that the proposal which was made was fair.

By Mr. McGeer:

Q. It emanated from the government of Canada?—A. Yes.

Q. From the Department of Finance?—A. Yes.

Q. And it came from the Department of Finance under the advice of the fiscal advisers?—A. Yes.

Q. Yourself and the Deputy Minister of Finance. And you made that proposal because you felt it was a fair proposition to the public and the chartered banks?—A. Yes.

Q. And the result was financing at the rate of ¾ per cent.

Hon. Mr. HANSON: I think they were forced loans.

Mr. MCGEER: Well, I do not think they were.

The WITNESS: There was not any element of forced loans.

Hon. Mr. HANSON: Certainly I would say they were forced loans.

The WITNESS: I think the banks can answer that, but I would say there is no element of forced loan in it at all.

Mr. BLACKMORE: In the last war the government issued $26,000,000 of bills debt-free that never cost us a cent. It may be said that that is inflation. But if we had had price control, surely we would not have that.

The WITNESS: $26,000,000 in the last war looks small beside the billion in this war.

Mr. BLACKMORE: Quite so. But the same principle that applied then could apply now, perhaps with greater intelligence and understanding.

The WITNESS: I thought the suggestion was that $26,000,000 was a good action; and I thought that, a billion being forty times as much as $26,000,000, perhaps we were forty times better in this war.

Mr. BLACKMORE: My remark is merely an answer to Mr. Hanson's remark that they were forced loans.

Mr. JAQUES: I would suggest the difference between this war and the last war is this. In the last war nobody understood or at least the public did not understand the banks' creation of credit and therefore they thought that 5 per cent was justified; whereas in this war too many people understand the real process of bank loans.

The WITNESS: Never too many.

Mr. JAQUES: And they know very well that 5 per cent is not justified and so they do not press claims. I would say that is the real reason.

Mr. MCGEER: In any event, what I should like you to appreciate is this. There are many features of the financial policies of to-day with which I thoroughly agree, and that is one of them; and that is one that I think both the government and the fiescal advisers are entitled to a full measure of credit for.

Mr. BLACKMORE: Hear, hear.

Mr. MCGEER: I feel that the public should be advised and informed as to the tremendous difference that has taken place between the financing of this war and the financing of the last war.

Mr. BLAIR: Hear, hear.

Mr. McGEER: As a result of the changes that have been made in our financial machinery and as a result of the difference of the point of view of the two governments that were in charge of the respective wars.

Hon. Mr. HANSON: And you want us to go farther and have it interest free.

Mr. McGEER: I am not one of those who believe that conditions are never so bad but that they could be worse. I believe conditions are never so good but that they might be better; and I still think that the road of reform and the road of progress that we have undertaken is a road that we can pursue to further advantage, both from the point of view of the government and the people that it serves. I may be wrong about that, but I do think you will agree with me in this. Since the turn of this century finance has made tremendous changes in its technique of operation, in its endeavour to maintain a relative place in the progress of science, in industrial production and otherwise.

The WITNESS: I hope and believe that is true, yes.

By Mr. McGeer:

Q. And that we have not exhausted as yet all the possible channels or opportunities for improvement that remain to be explored?—A. I hope not.

Q. All right. If we are on that basis, I think that this committee, working in co-operation with the technical officers of the government, who are now responsible for this thing, might explore some of these things to the general advantage of everybody.—A. I think that is true.

Q. I think if we approach it in that attitude, if I may use the term, other things of advantage may evolve. You will agree with that, I am sure?—A. I hope so.

Q. We have had the Bank of Canada since 1934. It was incorporated then. But the Banking and Commerce Committee has never yet seen a balance sheet or a statement of the operating expenses and the details of the profits. I presume there is such a statement available?—A. Oh, Mr. McGeer, there was information put before the committee in 1939. Then there is in *Hansard* a detailed statement which I put on the record some days ago—I mean, in the earlier sessions of this committee.

Q. What I should like to get before the committee, if I may, with the permission of the chairman and of the committee, is this.

Mr. SLAGHT: Exhibit No. 1 at page 106 was filed when Mr. McGeer was away.

Hon. Mr. HANSON: What is the reference, Mr. Slaght?

Mr. SLAGHT: Exhibit 1 at page 106, which Mr. Tompkins filed the other day and we directed should be included in *Hansard.* That statement is found there.

The WITNESS: Of the Bank of Canada.

Mr. SLAGHT: Yes.

The WITNESS: Yes. I filed that.

Mr. SLAGHT: Yes. That is at page 106.

The WITNESS: Yes.

Mr. McGEER: That is for what year?

Mr. SLAGHT: Covering the years from 1939 down to 1943, and giving a breakdown of the operating expenses and distribution of earnings.

By Mr. McGeer:

Q. In this statement we have the cost rising from $2,024,643.25 in 1939 to $3,430,477.27 in 1943.—A. Yes.

Q. What I wanted was from 1934. You have started in 1939 and have given 1939, 1940, 1941, 1942 and 1943.—A. Yes, because the earlier figures were put before the committee during the hearings in 1939. That is the reason I started with 1939.

Q. I see. I was not sure that they were on the record and I have not had the chance to look them over. When you come to page 4, bank rate, you say: "Bank rate remained unchanged throughout 1943 at 2½ per cent. Following the issue of the fourth and fifth victory loans small credit facilities were required for only brief periods. At a meeting of the board of directors on February 7, 1944, it was decided to reduce the bank rate to 1½ per cent, effective February 8." That was a decision made by the Bank of Canada directorate, I take it?—A. Yes.

Q. What was the reason for that decision?—A. The reason for it was this. The level of bank rate is not in itself of great importance because the amount of borrowing from the Bank of Canada which takes place is insignificant. In those circumstances, you may ask, "Why bother to change?" We did bother to change as a means of indicating our belief in the maintenance in the future of a low level of interest rates and as an indication of our intentions to pursue a policy which would permit a low level of interest rates in the future; that is, after the war, as well as at the present time.

By Hon. Mr. Hanson:

Q. Well, there was no rediscounting being done, and this was a gesture looking towards lower interest rates; it was an assurance for the future?—A. It was a gesture and an indication of future policy.

Q. Yes, quite so.

By Mr. McGeer:

Q. Mr. Towers, can you give us a statement showing the amounts of money lent each year to each of the chartered banks by the Bank of Canada and the amount of interest paid by each of the banks for Bank of Canada cash borrowed for each year to date?—A. I think that question was asked in the House of Commons, was it not?

Q. Yes.—A. And answered there, but not in the form of showing the borrowings by each bank.

Q. Yes; I asked the question but did not get the answer.—A. I think that the answer gave the total amount borrowed at certain times.

Q. But I want the totals. Let me put plainly to you what I want. I want the amount of money borrowed each year by each chartered bank and the amount of interest paid by each chartered bank to the Bank of Canada for all the money it borrowed, and I want it each year to date.—A. We can give you the sum totals readily, but I question whether we should divide it as between one bank and another. I think there is a customer relationship there that we should not disclose.

Q. I do not agree with that, because, after all, we are lending public money.—A. Incidentally, I am speaking on a question of principle, because the amounts involved are insignificant. To tell the truth, I do not think a chartered bank has borrowed—

By Hon. Mr. Hanson:

Q. There is nothing in your statement of assets and liabilities showing that they have a single outstanding loan.—A. They had not at that date.

Q. That is at 31st December, 1943.

By Mr. McGeer:

Q. If they do not borrow anything, certainly you are not disclosing anything. But let us have a detailed statement of the borrowings that have taken place during the years.

Mr. BLACKMORE: Have they any figures there?

Mr. MCGEER: I am starting from 1934 on. That is information I think this committee is entitled to and should have.

Mr. MACDONALD (*Brantford City*): It is not necessary to give the branch of the different banks, is it?

Mr. MCGEER: You might call them A, B and C. You do not need to disclose the name of the bank, if you do not want to, although I cannot see why this committee, representing the people, should not know to whom and how much is paid for the loan of Bank of Canada cash.

Mr. BLAIR: Hear, hear.

Mr. MCGEER: I may be wrong about that, but I cannot believe that there is anything secret about it.

Mr. MACDONALD (*Brantford City*): It might be a question of whether the banks' consent should be secured.

Mr. MCGEER: I certainly do not want to do anything improper.

By Mr. Blackmore:

Q. What possible reason could there be for concealment?—A. It is a question of principle. I think it would be better to ask the borrowers really rather than ask the lender.

By Mr. McGeer:

Q. After all, you are a trustee for the people of Canada, and you are lending this money. We in turn are representatives of the people of Canada and we are entitled to know what is being done with it and to whom you are lending it and what you are getting for it.—A. To the extent that a chartered bank borrows, it, of course, shows that on its monthly statement, so there is no secrecy involved.

Q. I want the statement before this committee. I have no doubt that if we were all bank accountants, we could get all this information without any trouble at all.—A. Yes.

Q. But none of us are; and unless we have statements prepared in summarized form and in the form we want to look at them, of course we have not the facilities to dig through and get this. Surely there is no reason why we should not have this.

Hon. Mr. HANSON: If they are all in the chartered banks' statements, the Inspector General could get that.

Mr. MCGEER: I think we should have that.

Mr. TOMPKINS: They would only appear in the statement at the month's end, and those statements would not disclose the interest rate. I thoroughly agree with Mr. Towers, that an over-all picture of the total borrowings and the total interest paid would be the fair way to disclose the information.

Mr. MCGEER: And not show all the individual banks' names?

Mr. TOMPKINS: No. I would agree with Mr. Towers' idea that there is a customer relationship there, and I do not think you should single out any one bank. I think it might be sufficient for your purpose, Mr. McGeer, if the information were given in total here with respect to the principal amount of the borrowings and the interest paid to us.

Mr. McGEER: When you say there is a customer relationship, do you mean to tell me that each chartered bank does not know the rate the other banks are paying to the Bank of Canada?

Mr. TOMPKINS: Of course. That rate is always the same.

Mr. McGEER: Do you mean to tell me that the Bank of Montreal, for instance, cannot go to the statement filed with you and secure from those monthly statements the amount of the borrowings of each other from the Bank of Canada?

Mr. TOMPKINS: Those statements are published; but there might be conceivable borrowings between month ends which would not be disclosed in those statements.

Mr. McGEER: But there would certainly be the total.

Mr. TOMPKINS: As outstanding at the end of the month.

Mr. McGEER: As outstanding at the end of the month?

Mr. TOMPKINS: Yes. But if borrowing took place on the 5th of the month and was repaid on the 20th, it would not be disclosed by the monthly statement at all.

Mr. McGEER: So we could not get the information at all from this statement?

Mr. TOMPKINS: No, not in complete form.

Mr. McGEER: But to get a statement of the total bank borowings, then we would have to have all the details of what took place, as I suggest?

Mr. TOMPKINS: And that information is in the possession of the central bank.

Mr. McGEER: If we get the banks as A, B, C, D and so on, with the amounts—

Mr. TOMPKINS: Well,—

Hon. Mr. HANSON: Mr. McGeer, are you not following up as to what the system is and the outcome?

Mr. McGEER: That is exactly what I want to get at.

Hon. Mr. HANSON: Would it affect your purpose at all if you knew that bank A borrowed so much and bank B so much?

Mr. McGEER: If I might, I should like to explain to the members of the committee, Mr. Chairman, what I have in mind. There are three methods of control, as I understand it, of the flow of currency through the chartered banks.

Mr. BLACKMORE: Louder, please.

Mr. McGEER: One is the bank rate. By raising and lowering the bank rate, that is—presumably in theory—supposed to induce borrowing from the Bank of Canada or liquidation of loans.

The WITNESS: Or the liquidation of borrowings from the Bank of Canada, yes.

Mr. BLACKMORE: Louder, please.

Mr. McGEER: If the rate goes down, it is supposed to induce the bank to borrow reserves and increase their volume of loans. If the rate goes up, as I understand it, the theory is that the banks do not borrow but are inclined to pay off, to escape the higher rate of interest.

The WITNESS: That was not only the theory but to a certain extent the fact in certain countries in times past. But in our case here there has practically never been any borrowing from the Bank of Canada since we started, and that is why I referred to the bank rate as more of a psychological factor than a practical one.

By Mr. McGeer:

Q. Then the other control, as I understand it, is the sale of securities by the bank?—A. By the Bank of Canada, the sale or purchase of securities, yes.

Q. The sale of securities by the bank calls for payment to the Bank of Canada of legal tender cash?—A. Yes.

Q. Which reduces the bank's reserves?—A. Yes.

Q. And when the Bank of Canada buys securities it puts Bank of Canada cash into circulation and increases, presumably, the reserves?—A. That is correct.

Q. So that the controls exercised by the Bank of Canada are the bank rate policy, the purchase of securities or the sale of securities by the bank?—A. Yes.

Q. I mean, that is the skeleton of the thing?—A. Yes.

Q. There are some other variations, but in the main those are the controls in the sysem.

Mr. FRASER (*Peterborough West*): May I interrupt here, Mr. Chairman. I have here the report of the chartered banks of Canada of May 6, 1941. In it appear advances secured from the Bank of Canada. This is a monthly statement, and if there is any advance from the Bank of Canada it is shown in this chartered bank statement every month.

The WITNESS: Yes. If they are outstanding at the month end.

Mr. FRASER (*Peterborough West*): So there is no secrecy at all in that.

The WITNESS: No.

Mr. McGEER: That is at the month end.

Mr. FRASER (*Peterborough West*): Yes.

Mr. McGEER: If there are inter-month borrowings and they are paid off, they are not shown.

Hon. Mr. HANSON: That is right.

Mr. McGEER: So that to get it all, you must have a detailed statement of the borrowings of the chartered banks, including their month-end statements which they publish.

Hon. Mr. HANSON: Might I ask you this, Mr. McGeer: What would be the purpose of those figures? What is the purpose you have in mind?

Mr. BLAIR: Information.

Hon. Mr. HANSON: Oh, I know. But what would be your purpose in getting that? What is the definite object?

Mr. McGEER: I want to deal with the question of controls.

Mr. FRASER (*Peterborough West*): On that point, Mr. Chairman, it would only be at the month end that the bank would have to borrow. Is that not right?

Mr. TOMPKINS: Not necessarily. I am not suggesting that there has been any substantial or frequent borrowing between month ends. I simply wished to make it clear to the committee that these statements only showed the month-end figures of any advances that happened to be outstanding at that time.

The WITNESS: If there are no objections to calling it bank A, bank B and so on, of course we can readily provide the information. I think the question should be directed to the borrowings either of chartered banks or savings banks, because we are also authorized to loan to the savings banks incorporated in the province of Quebec.

By Mr. McGeer:

Q. Yes, I understand that. I was not particularly interested in the Quebec savings banks. I know that is an exceptional situation. But if you care to include those, I think probably we should have that information before us.—A. So we will just put in a return showing the loans to any of the banks to whom we are authorized to lend.

Q. And the amount of interest received by the Bank of Canada from that source.—A. Yes.

Q. Will you agree with this as a general proposition, Mr. Towers? The condition of the economy of the nation as a whole is affected by the level of the circulation of the medium of exchange in the country?—A. Yes.

Q. As a matter of fact, you will agree, I think, with the proposition that the circulation of the medium of exchange is, of all the factors in monetary economy, the most important to the people at large?—A. On the monetary side, obviously yes; because that is what the monetary show consists of. I would say that central bank policy and commercial bank policy is not a major positive factor in the level of income and employment.

Q. And not a major factor in the control of circulation?—A. Well, it is in the control of circulation, if I understand you.

Q. Let us see if we can come together. It is a major factor in the total volume in issue, which is a very different thing from circulation.—A. Banking policy is a major factor in respect of the total amount of bank deposits in the hands of the people, yes.

Q. That is in issue?—A. Yes.

Q. Then the circulation, which is an entirely different thing, is dependent upon other factors?—A. What you might call the velocity of turnover.

Q. Yes, and the ability of certain people to come into possession of the medium of exchange.—A. Their ability to do so, of course, relates to the volume of employment and the level of the national income, yes.

Q. Quite true.—A. Yes.

Q. That is, when we have a depression, as we had during 1929 to 1939 or 1930 to 1939, whatever date you want to fix it at, there was a great volume of money in circulation.—A. Yes.

Q. There was a great volume of money in issue?—A. Yes.

Q. There were tremendous reserves available upon which more money could have been put in issue?—A. Yes.

Q. I think we agreed in the last inquiry in 1939 that, on the existing gold reserves, accepting the 25 per cent basis, we had sufficient to have created some 12 billion dollars of the credit medium of exchange at that time. Do you remember?—A. I daresay. It was a large amount, in any event.

Q. And the reason we did not have that medium of exchange circulating to a greater extent than it did circulate at that time was that there were not good borrowers in the country, in the estimation of the banks.—A. That was one reason, yes.

Q. Well, I mean, was that not the major reason? I think we agreed on that in the last inquiry. If there had been good borrowers and people had gone ahead and invested their money—

Hon. Mr. HANSON: There were not enough people wanting to borrow. Was that not it?

Mr. BLACKMORE: No.

The WITNESS: I find it rather hard to follow the question, so I think I will have to leave it at that. That was one reason.

By Mr. McGeer:

Q. All right. That was one reason. But you will agree, a very major reason?—A. Yes.

Q. Do you remember certain statements that were made at that time, that governments could not spend their way to prosperity? That was one slogan that was very prevalent at the time.—A. I heard it.

Q. Yes, it was very prevalent. It was one of the slogans of the enemies of the Roosevelt administration and used very effectively as a condemnation of the new deal program, which was based, I think you will agree, up to that time at least, upon a very great expansion of public expenditure.—A. Yes.

Hon. Mr. HANSON: It was based on borrowing.

Mr. McGEER: Well, to some extent. I think you will be rather amazed if you will notice the increase in the volume of currency that was established at that time. I have not those figures here, but you did agree with me that there was a very, very heavy increase in the medium of exchange in circulation in the United States during that time, particularly the silver certificates or silver dollars, as well as your deposits.

Mr. JAQUES: I have heard it stated that you could not borrow yourself out of debt.

Mr. McGEER: Those were the slogans that we heard. One was that you could not spend your way into prosperity.

Hon. Mr. HANSON: You could not borrow your way out of adversity into prosperity.

By Mr. McGeer:

Q. Those slogans have been shattered by our war finance program. We have found we could spend our way to enormous prosperity, even to dangerous prosperity, and we can tax ourselves into enormous industrial production. You agree with that, do you not?—A. Yes.

Q. So in the financing of this war some conceptions of orthodox finance have been rather rudely shaken at the roots, have they not?—A. I do not know.

Q. Well, I probably should not use the word "orthodox" finance. Let us say the common conception of finance.

Mr. JAQUES: Sound finance.

The WITNESS: They may have been. I must say I have not had any surprises in this war of that kind.

By Mr. McGeer:

Q. No. Of course, we may look at the thing a little differently from what you do. But the public of Canada—that is, the masses of the people of Canada—are today asking this question. Why is it possible to find an abundance of money to finance the enterprise of war while it was not possible to find the money to finance the productive enterprises of peace that would have put the people to work who wanted to go to work and who could not find employment?

Mr. McNEVIN: Did you not answer that the other day, Mr. Towers?

The WITNESS: In war time, of course, it is the government which is the buyer and the employer in large measure.

Mr. BLACKMORE: Hear, hear. The buyer, mainly.

By Mr. McGeer:

Q. I am only putting it up to you as a man who seeks to fill that public demand.—A. Yes. After all, if you will remember, that question was asked in 1939. The hearings of the committee were in the spring of that year, and every one felt that war might be in the offing. The question was asked, "If there is a war, will not the government be spending endless hundreds of millions of dollars?" The answer, of course, was yes. It was a question which was related to the peace-time situation of that day, and the best answer I was able to give is on the record.

Q. Yes. And the answer at that time, and it was an answer to me and I think we agreed on it, was that if war came there would be no limit as far as finance was concerned, to put the entire energy of this nation to work.—A. That is right.

Q. Defending itself.—A. That is right.

Q. And that proved to be the fact. We have never been short of money to finance this war; and up to the level of what we can produce out of the human intelligence, energy and resources that we own for war purposes there is no financial limit. That is correct?—A. Assuming the support of the people, which you take for granted.

Q. Yes, I quite agree.

Hon. Mr. HANSON: I should like to call your attention, Mr. Chairman, to an editorial in this morning's *Journal* where the London *Economist* deals with this very problem.

Mr. BLACKMORE: Louder, please.

Hon. Mr. HANSON: It points out that "Conditions of war cannot be translated bodily into conditions of peace." People are not willing to pay taxes in peace time. They are not willing to allow governments to spend as they are doing in war time. It is the will of the people that prevails. This is still a democratic country.

Mr. BLACKMORE: Some other method must be found.

Mr. MARTIN: That is merely begging the question.

By Mr. McGeer:

Q. You will agree with me that the London *Economist* is a very orthodox journal in its economic thinking.—A. Oh—

Hon. Mr. HANSON: Is it to be condemned for that?

The WITNESS: I think it is liberal in the broad sense.

Mr. McGEER: I would say fairly broad, but from my own point of view reading a great many of these things I think the London *Economist* views everything from the point of view of the bankers. I want to continue that examination, Mr. Chairman.

The CHAIRMAN: Gentlemen, I should like the subcommittee to meet at 4 o'clock. The Governor of the Bank of Canada will not be with us tomorrow or the day after. We will have to have some arrangements made for the meeting tomorrow. We will adjourn until 11 o'clock tomorrow morning.

The Committee adjourned at 1.05 o'clock p.m. to meet again on Wednesday, May 24, 1944, at 11 o'clock a.m.

May 24, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

(The Chairman read the report of the sub-committee.)

The CHAIRMAN: What is your pleasure, gentlemen?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Then I will call on Mr. Wedd.

Mr. S. M. WEDD, President, Canadian Bankers' Association and General Manager of the Canadian Bank of Commerce, called.

Mr. MCNEVIN: Will the witness make a statement first, Mr. Chairman or do we start questioning?

The CHAIRMAN: Just a minute, Mr. McNevin. Mr. Wedd, do you desire to make a statement?

The WITNESS: Mr. Chairman, I have not any statement to make. I am here to answer any questions that I can.

By Mr. Macdonald (Brantford City):

Q. I think as a matter of record, we should know who Mr. Wedd is. Would you kindly tell us what organization you represent?—A. Mr. Chairman and gentlemen, I think that I have been called here as the first witness for the chartered banks because I happen to be the president of the Canadian Bankers' Association this year.

Q. What does that consist of, Mr. Wedd?—A. The association is an organization which was incorporated in 1900 and really it started out to be an educational affair. At the present time its main use is probably a liaison between the government and the banks in connection with carrying out government policies concerning ration coupon banking and things of that kind.

Q. You say you were incorporated. Have you a Dominion charter?—A. Yes.

Q. Is it a private company?—A. It is a private company, yes. It is, "An Act to incorporate the Canadian Bankers' Association, assented to 7th July, 1900." May I just recite the objects of the association?

Q. First of all, I should like to know who are the shareholders or members of the association.—A. The members of the association are the Canadian chartered banks.

Q. By name?—A. By name; and their representatives on the association are the general managers or chief operating officers of each one of the chartered banks.

Q. Is that provided by your charter?—A. That is provided by the charter.

Q. Are there any other banking institutions in the membership?—A. No; just the Canadian chartered banks.

Q. Just the Canadian chartered banks?—A. Yes.

Q. As I understood you to say, you are the president of the association?—A. President of the association.

Q. How long have you been president?—A. Since last November.

Q. And is this an annual appointment?—A. It is an annual appointment.

Q. Does the president sometimes hold office for more than one year?—A. As a courtesy, they usually give each president two years of office, without remuneration.

Q. But it is not necessarily a two-year appointment?—A. No, not necessarily. I believe that, earlier in the affairs of the association, one president remained president for quite a long time. If I remember rightly, we have made some internal arrangement whereby two years is as long as any one man may occupy the presidency.

Q. Does the appointment by practice pass from one bank to another?—A. Yes.

Q. It passes from the representative of one bank to the representative of another?—A. Yes. That is what happens. There is another practice, and it is this. It is two years in Toronto and two years in Montreal. That is to satisfy geographical conditions.

Q. The president one year represents a bank whose head office is in Montreal and the next year one whose head office is in Toronto?—A. Yes.

Q. The following president represents a bank where the head office is in Toronto?—A. Yes.

Q. Now, Mr. Wedd, I suppose you have been in the banking business for some time?—A. It will be forty years next January.

Mr. FRASER (*Northumberland*): You do not look it.

By Mr. Macdonald (Brantford City):

Q. You say it will be forty years next January?—A. Yes.

Q. And you are, I take it, general manager of some bank now?—A. General manager of the Canadian Bank of Commerce.

Q. At where?—A. At Toronto.

Q. And you have held practically every position, I take it, in the bank?—A. Yes. From junior up.

Q. From junior up to general manager?—A. Yes.

Q. Have you represented the bank in countries outside of Canada?—A. No, I have not. In the course of my duties I have had to go into the United States on inspection trips of certain of our offices there and in certain of them in the West Indies.

Mr. SLAGHT: Mr. Chairman, do you think Mr. Wedd might be seated?

The CHAIRMAN: It is at your pleasure, Mr. Wedd. If you care to sit down, you may do so. If you would rather stand, that is all right.

The WITNESS: It is all right. Thank you very much, Mr. Slaght, for the courtesy. However, I will stand as long as my legs hold out.

By Mr. Macdonald (Brantford City):

Q. You can feel free to sit down, as the chairman has said, Mr. Wedd.—A. Thank you.

Q. You were telling us of your experience in other countries.—A. On certain inspection trips some years ago my duties called me to the West Indies and the United States, and on one occasion to our office in Great Britain—London, England.

Q. Do I take it now that you are here representing all the chartered banks in Canada?—A. No, Mr. MacKenzie. I am not representing—

The CHAIRMAN: That is Mr. Macdonald.

The WITNESS: I am sorry, Mr. Macdonald.

By Mr. Macdonald (Brantford City):

Q. MacKenzie is a good name too.—A. As president of the Canadian Bankers' Association I cannot represent all of the banks, because I do not know anything about the details of the other banks. I can only represent my own bank and that is the Canadian Bank of Commerce.

Q. Then you are here as a representative of the Canadian Bankers' Association and as general manager of the Canadian Bank of Commerce?—A. Yes, of the Canadian Bank of Commerce.

Q. Thank you, Mr. Wedd.

Mr. McNevin: Mr. Chairman, I have some questions.

The Chairman: All right, Mr. McNevin.

Mr. McNevin: In order that the records may be clear I wish to state my position with respect to the work of this committee as a preliminary to some statements and some questions I have to ask. It is this. I do not consider that I take second place to any member on the committee in my interest in the welfare of the great masses of the people. I have not any special interest in bankers. I think they are very good citizens. I have not any special interest in big bankers and am not approaching the revision of the Bank Act from that point of view. But I have a very deep interest in the welfare of the very large clientele, the customers of the bank. I refer now to the depositors, those who have entrusted their savings to the protection and the care of the ten chartered banks in the Dominion of Canada. Reference has already been made in the discussions in this committee to the effect that our banks were monopolistic. I do not think that we shall ever reach the time when people generally will be entirely free from monopolistic tendencies. I think that might take place even on this committee. Some one might want to monopolize the time or something like that. However, the statement has been made that 90 per cent of the credit loaned by the banks is represented in wind. I do not agree with that. I have some figures here. My first question to the witness would be this. Does this statement, the return of the chartered banks of the Dominion of Canada of October 30, 1943, with assets on one side and liabilities on the other side, represent what might be termed a true statement of the affairs of the chartered banks of the Dominion of Canada?

The Witness: Unquestionably.

Mr. McNevin: Thank you. In summing up the situation, I find on the liability side of the ledge a number of items—notes in circulation. And just here there is a point which has already been raised in this committee that I should like to clear up to satisfy myself with regard to the situation.

The Chairman: Order, gentlemen, please.

Mr. McNevin: I believe a ten dollar bill was used. I cannot use a similar exhibit because at the moment I do not happen to have one. It was presented to the committee and the question was raised as to whether that was an asset of the bank or an asset of the person in whose hand or whose pocket it might happen to be at that time. I think that when that bank note is in the possession of the person, it after all represents that much value as a medium of exchange for service of that person. Is that a correct interpretation or not?

The Witness: That is a liability of the bank to the holder of the note.

Mr. McNevin: In other words, that is a medium of exchange, an asset of the holder?

The Witness: An asset of the holder.

Mr. McNevin: Yes.

Mr. Slaght: I do not think anybody ever disputed that, Mr. Chairman.

By Mr. McNevin:

Q. To follow along, I see notes in circulation, $45,000,000. I shall not give the exact figures in every case. I see deposit balances due to the Dominion of Canada, deposit balances due to provincial governments and deposits by the public payable on demand, deposits by the public payable after notice and a number of other items. The total of them amounts to $4,969,000,000, representing liabilities of the bank to the public?—A. Correct.

Q. In addition to that, on the other side or following that, the banks have certain liabilities to their shareholders which, of course, also appear on the liability side?—A. That is correct.

Q. If we turn over to the assets side, there are very many items, such as subsidiary coin held in Canada, gold held elsewhere, subsidiary coin held elsewhere, notes of the Bank of Canada, deposits with the Bank of Canada, governmental bank notes other than Canadian, cheques of other banks, depositors' obligations due. There is quite an extended list of items representing assets of the bank?—A. Yes, that is right.

Q. And I notice that totals $5,266,000,000. So that my opinion is that the banks hold assets, and when you total those other items, they are comparable and balance with their total liabilities.—A. That is correct.

Q. That is a fact?—A. That is a fact.

Q. Then in the operation of the Canadian banking system, is there the slightest foundation for the statement that 90 per cent or 75 per cent or some other very large per cent of the loans by the banks are made of wind without assets to protect them or back them up?—A. Well, my answer to that would be that those statements are made and the cart is put before the horse. We have our deposits. Funds come in from our depositors and the proceeds of those deposits may be loaned and invested, but the government in its wisdom rules that we cannot invest more than 95 per cent of those deposits. That is as far as I feel I can go.

Q. There is a further point I wish to bring up now. My interpretation of the banking business is that —

The CHAIRMAN: Mr. McNevin, I wonder if you would move over and take a seat opposite the witness.

Mr. BLAIR: Yes, and speak louder.

The CHAIRMAN: The reporter finds it difficult to hear you, and so do we, and to catch the full import of what you are saying.

Mr. McNEVIN: Very well.

By Mr. Blackmore:

Q. While Mr. McNevin is getting located, Mr. Chairman, I wonder if I might ask a question just to clarify what Mr. Wedd said a moment ago. Do I understand that if Mr. McNevin took $100 in and deposited it in the Canadian Bank of Commerce—is that your bank, the Canadian Bank of Commerce?—A. The Canadian Bank of Commerce.

Q. If he deposited that in the Canadian Bank of Commerce, do I understand that all the Canadian Bank of Commerce would be able to lend out of that $100 would be $95?—A. That is all.

Q. It would not, by any possibility, be that the bank could lend 95 per cent of ten times $100, would it?—A. I really cannot follow you, Mr. Blackmore.

Mr. BLACKMORE: In due time, Mr. Chairman, I have a quotation from an important book that will probably be worthy of attention.

Mr. NOSEWORTHY: Following that question, Mr. Chairman, will the witness relate the statement he has made regarding the banks' ability to lend only

95 per cent of the depositors' money, with the statement made by the Minister of Finance to the effect that when the bank gets into possession of a $1,000 government bond, it is then able to lend ten times that amount.

Hon. Mr. ILSLEY: I did not make that statement.

Mr. NOSEWORTHY: Well, to that effect.

By Mr. Macdonald (Brantford City):

Q. Mr. Wedd, if the person who borrowed the money then deposited it, the $95, back in your bank, you could then lend up to 95 per cent of the additional $95?—A. Yes; if he leaves his deposit in.

Q. Yes. And if the second man also deposited his say $90, then you could lend up to 95 per cent of the second $90?—A. Yes.

Q. And so on.—A. Yes, and so on.

Mr. BLACKMORE: I have just one other question, if I may be permitted to put it, and it is this. If it is really so that that bank can lend only $95 out of every $100 put into the bank, there should be no anxiety about inflation from using the Bank of Canada to finance the war.

The CHAIRMAN: All right. Proceed, Mr. McNevin.

Mr. MACDONALD (*Brantford City*): Just a minute, Mr. Chairman. If I may, I should like to pursue that point. We will go back to the first $100 that is deposited in the bank. I think you said you could then loan $95 of that $100?

The WITNESS: Yes.

Mr. MACDONALD (*Brantford City*): But if, instead of the man re-depositing the $95 in the bank, he took it home and put it in some safe place, then you could not loan any further amount on that first $100?

The WITNESS: That is correct.

By Mr. Fraser (Northumberland):

Q. You would not have his asset?—A. No. It is a very fleeting thing.

The CHAIRMAN: Suppose we allow Mr. McNevin to proceed without interruption, although I suppose Mr. McNevin will allow some interruption.

Mr. MCNEVIN: Oh, yes.

The CHAIRMAN: Within reason.

Mr. MCNEVIN: Oh, yes.

By Mr. McNevin:

Q. The matter raised by Mr. Blackmore was really the next item to which I was going to refer, and that is with regard to what might be termed an expansion in the credit and monetary system of the country. It is perhaps a street phrase that the banks, having purchased a million dollars of securities from the dominion government, can then loan up to 9 times that amount. That is referred to in some cases as fountain-pen money or making money by making a book entry. But is it not true that, in that process of an expansion in the credit monetary structure of the country, that expansion comes back into the bank in the form of deposits?—A. Yes. The inflation aspect of it is the increased money in the hands of the individual.

Q. But the general picture would be that the bank deposits would rise somewhat proportionately to the rise in the issue of credit?—A. In the borrowing.

Q. To which I have referred?—A. Yes.

Q. The question has already been raised in the committee that if a bank fails, whose money is it that is lost? I think it is to the credit of the Canadian banking system that failures have been few and the amounts involved have not been what might be termed very large amounts. However, there have been some failures. I believe it was my friend Mr. Slaght who made some reference to the effect that the depositors' money really belonged to the bank; therefore if the bank failed, they lost the deposits which were the property of the bank. I do not view it in that light because I happened to go through the United States in the early thirties during that period when not a few but very large numbers of banks failed and closed their doors. I happen to have witnessed the prairies of western Canada when they had complete crop failures. In my opinion a bank failure has a much more disastrous effect, and it is much more of a calamity to those who are affected, than is the case of a crop failure.

Mr. JAQUES: It depends on whose ox is gored, does it not?

Mr. McNEVIN: Because there is no question in my mind, when I saw the consternation on the countenance of the people who were affected and who were standing in groups around the bank doors, sometimes on the morning that the bank doors closed, that at least in the depositors' minds they were quite satisfied that it was their equity that had been lost. So you would say that the deposits, as you have said earlier in this committee, are the property of the person who put them in the bank?

Mr. SLAGHT: Well, he did not say that.

The WITNESS: It is a debtor-creditor relationship.

Mr. McNEVIN: Yes. It is an asset of the holder.

Mr. SLAGHT: He did not say that about deposits at all. You have made an erroneous statement as to what Mr. Wedd said. He told you the ten dollar bill belonged to the man who held it. He did not tell you that the deposit in the bank, after it was made, after he left the money in the bank, is the money of the depositors. That is the difference.

Mr. McNEVIN: Well, at the moment, Mr. Slaght, I am not referring to that ten-dollar bill. I am referring back again to deposits.

Mr. SLAGHT: Then I did not hear you.

Mr. McNEVIN: I was referring to the loss of the bank, perhaps by unwise investments or in some other manner, of the depositor's assets which was lost by the bank. That is the point that I am interested in establishing.

By Mr. Macdonald (Brantford City):

Q. Could we have Mr. Wedd's opinion now as to whether the bankers loan their depositors' money. There has been some discussion on that before the committee.—A. The description of that gets so very technical. As it is now, it is a creditor-debtor relation. The depositor has an asset. The bank has a liability. If the bank has been unwise in its investments or through some unforeseen circumstances its resources do not pan out, the depositors suffer the loss.

Q. At a previous sitting of this committee a number of years ago, Mr. Towers made a statement that the banks did not lend their depositors' money, but I understood him to qualify that to quite a large extent yesterday. Were you in the committee yesterday?—A. Yes, I was attending. That is what I say. It seems to work up into such a technical answer, that it is really beyond me.

Mr. JAQUES: Mr. Chairman—

The CHAIRMAN: Now, gentlemen—

Mr. SLAGHT: Have you finished?

Mr. McNEVIN: No.

The CHAIRMAN: Let me suggest that we allow Mr. McNevin to continue. You will have an opportunity later on, Mr. Jaques.

Mr. JAQUES: Well, I do not want to butt in, of course, but I did not want to leave this particular part of the question.

The CHAIRMAN: With Mr. McNevin's consent, then, go ahead.

Mr. MCNEVIN: If it is only a question, all right; but if he is going to continue on, I cannot consent to that.

Mr. JAQUES: I was going to read a statement and ask the witness if he agreed with it. That is all.

Mr. MCNEVIN: All right.

By Mr. Jaques:

Q. Would you agree with this statement, Mr. Wedd:—

"If the government borrows——

The CHAIRMAN: Whom are you quoting? What is your authority for this?

Mr. JAQUES: I am quoting from Hansard.

The CHAIRMAN: Yes?

Mr. BLAIR: Page and date.

The CHAIRMAN: By whom is the statement made?

Mr. SLAGHT: Whose statement is it?

Mr. JAQUES: It is a statement of the Minister of Finance.

Mr. FRASER (*Northumberland*): What page?

Mr. MACDONALD (*Brantford City*): What session?

Mr. JAQUES: The date is March 20, 1941.

Mr. MACDONALD (*Brantford City*): Who was Minister of Finance then?

Mr. JAQUES: Mr. Ilsley.

Mr. MACDONALD (*Brantford City*): That is why I asked for the date.

Mr. JAQUES: And the occasion was the war appropriations bill. Mr. Quelch had advanced the suggestion that the government should avail itself of the use of the Bank of Canada and Mr. Ilsley said:—

> Mr. ILSLEY: That would be far more inflationary.
>
> Mr. QUELCH: Why?
>
> Mr. HANSON (*York-Sunbury*): It would be pure inflation.
>
> Mr. ILSLEY: It would be far more inflationary to borrow from the Bank of Canada than it would be to borrow from the chartered banks.
>
> Mr. QUELCH: Why?
>
> Mr. ILSLEY: Because, if we borrow from the chartered banks, the amount of new money, or the additional deposit liability, is the amount that we borrow. For instance, if we borrow \$250,000,000 from the chartered banks, there are deposits immediately in existence, after the loan, of \$250,000,000 more than there was before. That is inflationary to a certain extent, other things being equal. If we borrowed from the Bank of Canada the result of a loan of \$250,000,000 from that bank is a deposit in the Bank of Canada of \$250,000,000 which, when we use it, finds itself in the possession of the chartered banks, as cash reserves.
>
> The banks, in order to carry on a banking business along the lines commercial banks have always followed the world over, must lend a good deal more than \$250,000,000 to the public. The ratio is nine or ten times as much as that, and that in turn creates deposit liabilities which add to the total deposits of the country a very large sum and are very much more inflationary in their effect than borrowing from the bank would be.

The WITNESS: I think that is a proper statement.

The CHAIRMAN: Proceed, Mr. McNevin.

Mr. McNevin: When I took my seat I was referring to fountain-pen money.

Mr. Blackmore: Louder, please.

By Mr. McNevin:

Q. I was referring to fountain-pen money. Is it true, Mr. Wedd, that even under the present method of financing in the Dominion of Canada, there is a measure of inflation, and without the controls exercised by the Wartime Prices and Trade Board, that inflation would be greater than it is at the present time? —A. I would not say that the inflation would be greater. I would say that it would have a more dangerous effect.

Mr. Blackmore: Would the witness define "inflation" for the committee as he used it, Mr. Chairman?

The Chairman: Proceed, Mr. McNevin. You are going to have an opportunity later on, Mr. Blackmore.

Mr. Blackmore: We ought to know what we are talking about.

The Chairman: That is highly desirable.

Mr. Blackmore: It is the easiest thing in the world to have great confusion by using words that people do not know the meaning of. Surely the president of the Bankers' Association of Canada should be able to define "inflation".

Mr. McNevin: That was not my question, so I will proceed.

Mr. Blackmore: Mr. McNevin used the word "inflation". Maybe he would define what he means by inflation.

Mr. McNevin: Perhaps I will.

The Chairman: May I interrupt there. The word "inflation" I assume, at any rate, is very loosely used. But generally it means a rise in price as a result of an increase in money without a corresponding increase in consumers' goods.

Mr. Ryan: Can there be a rise in prices with control of prices?

The Chairman: Oh, yes, certainly, there can be. It depends upon the controls.

Mr. Slaght: If it gets away.

The Chairman: If you have proper control, or perhaps I should not say proper control but stringent controls such as they have in Germany where they say if you pay more than the amount on the list we put a bayonet through you, you have control which would prevent it.

Mr. Ryan: Let us take the control in Canada. Can prices increase here with the controls we have?

The Chairman: I think they can, because we do not have that absolute control and do not pretend to have. Proceed, Mr. McNevin.

Mr. Blackmore: That definition is very good, Mr. Chairman. I wonder if Mr. Wedd will accept your definition, and also Mr. McNevin.

The Witness: Yes.

The Chairman: Mr. Wedd accepts it.

Mr. McNevin: I was just going to give my definition. It may be right or it may be wrong.

Mr. Blackmore: We want to hear it.

Mr. McNevin: I think if you have a greatly increased amount of purchasing power represented by money in the hands of the people and you have a restricted production of consumer goods, that that vastly increased purchasing power will, through one person bidding against another, cause a pyramiding of prices; and that in my mind represents inflation.

Mr. RYAN: With control?

Mr. BLACKMORE: In other words, it would not be inflationary unless prices rose?

Mr. MCNEVIN: At the same time, of course, as the prices of the goods on the one hand go up, of course the buying power of the unit goes down. That is inevitable.

Mr. BLACKMORE: Mr. McNevin would not consider it inflation unless prices rose.

Mr. MCNEVIN: I am not going to get into a long discussion because I think, Mr. Blackmore, that inflation has been explained to you and to the members of the house generally by persons much more competent to explain it than I am, in the person of the Minister of Finance and his under-secretary and others. If they could not convince you, I am not going to try.

Mr. BLACKMORE: They convinced me. I just wondered if they convinced Mr. McNevin.

By Mr. McNevin:

Q. I was coming to the point of referring to certain countries where they have used printing press money extensively. There is no question in my mind that in the occupied countries of Europe, the masses of the people have been dispossessed by that method. Do you think it is a fact, Mr. Wedd, that you can by that method dispossess people?—A. You ruin the value of the assets to the point where it dilutes them to nothing.

Q. Yes. Unfortunately I think one of our courageous allies is suffering from that very situation. I refer to China.—A. Yes, China.

Q. There is no question that they have been engaged in the war much longer than the rest of the nations. Their coast lines, which were conducive to any trade they might have, have been overpowered and occupied by the Japanese. No doubt they were forced into a very difficult position. As I understand the ratio, what you could buy at the beginning of the war in China for about $100 would now take perhaps substantially over $2,000 to buy.—A. And to-morrow $4,000.

Q. Yes.

Mr. JAQUES: I would like to ask Mr. McNevin one question and that is whether that inflation was due to an increased amount of money or a decrease in the amount of goods?

Mr. FRASER (*Northumberland*): There is no difference.

Mr. MCNEVIN: You are at the same station, I think, anyway. Also, in some parts of the areas recovered by the allies from the Germans I think it is a fact that printing press money was being used very extensively by the forces then occupying those countries. I believe that in some places where the allies took over control the farmers with goods to sell refused to accept paper currency of any kind. Now, that would be because they had experienced the very conditions that might be referred to as printing press or fountain pen money. They had lost confidence in the medium of exchange, legal tender, or whatever you want to call it to the extent that it was necessary in some cases to either bring in food from outside or bring in some gold in order to get the farmer to sell his produce.

Mr. JAQUES: Where did they get the gold from?

Mr. McNEVIN: They got it. There is a little around. They are mining some in Canada.

The point I want to illustrate is this: I am not contending that there is the slightest possibility internally of the Dominion of Canada, perhaps, and the United States or other countries going back on the gold standard. That is not the point I am going to make. But the point I do want to make is this, that if you create a condition where the public generally has lost confidence in your legal tender or your unit of exchange then you may have to adopt some less convenient method of carrying on your exchange, and in this particular case they did bring in some gold in order to get the produce. Of course that attitude on the part of the farmer is natural. He has been accustomed in normal times to bring in a basket of produce and, perhaps, get $2 or $3 for it, and if he was offered $10 or $15 or $20 or $40 for the same amount of produce he would be suspicious, and he had learned his lesson. So, that has some bearing on maintaining stability and confidence in the unit of exchange which, after all, is tied up with the banking system.

Now, I have one or two criticisms to offer with respect to business as carried on by the chartered banks, or at least of the operation of the chartered banks. My first criticism, Mr. Wedd, is this: I think for many years that the junior employees of the banks have been underpaid. Now, it may be necessary early in the training of a bank clerk to teach him frugal habits; but it is my opinion that he has been underpaid for the first five or ten years—this may have been corrected for the moment—but I think in the over-all picture he has been underpaid. What is your answer to that question?

The WITNESS: I would say that some years ago that statement might have been appropriately directed. We as bankers have always felt that any man who came into a bank had to go through a period of apprenticeship somewhat similar to a young man going into a university, and that four years would elapse before he could earn his keep. After that the pay that he gets, I think, sir, is in relation to what other bookkeepers and clerks in similar establishments get.

Mr. HAZEN: What are these people paid? I think we should have some evidence on the record of that?

The WITNESS: I shall be glad to submit a list that we had approved by the National War Labour Board.

By Mr. Macdonald (Brantford City):

Q. Does this information apply to all banks or just to the officials of the Bank of Commerce?—A. Just the Bank of Commerce.

Q. Do other banks pay a different scale?—A. I presume so.

Q. At any rate, your knowledge has to do with the wages paid to members of the staff of the Bank of Commerce?—A. That is right. Mr. McNevin, would you like me to make this information an exhibit or would you like me to read it to the committee?

Mr. McNEVIN: Whatever is the wish of the committee. If it is agreeable to the committee, I think the information might be printed in the record to save time.

Mr. BLACKMORE: I think the statement should be read.

The WITNESS: Junior clerks with an age range of approximately 16 to 20, $600 to $900.

Mr. MACDONALD (*Brantford City*): May I interrupt? Does that apply to both male and female workers?

The WITNESS: No, this is for male workers. Further down I will deal with female workers. Intermediate clerks, including ledgerkeepers and tellers with an age range of 20 to 25, $900 to $1,450; senior clerks, including ledgerkeepers and tellers, with an age range of 25 to 33, $1,450 to $2,150; junior accountants and special clerks with specialized training, with an age range of 30 years on, $1,700 to $2,450; senior accountants, chief clerks and junior managers, 33 years and on, $2,200 to $3,250.

Now, I shall deal with our girl employees: stenographers and clerks and juniors commence at $700. I am sorry to say I have not got the ages in these cases; we do not ask for that information too carefully; but with a few years' experience they run from $700 up to $1,100; senior stenographers from $1,100 to $1,550; secretaries—secretary to manager and executive officials, from $1,550 to $2,050.

Mr. MACDONALD (*Brantford City*): Does that wage rate apply to all cities? For instance, are the wages paid in Brantford the same as the wages paid in Toronto or Montreal?

The WITNESS: In Toronto and Montreal there is an extra $100 for living expenses. For example, a boy coming in fresh out of school would receive $600 in Brantford and $700 in Toronto. If he were moved out of Toronto to Brantford within a month or two his salary would still be $600.

Mr. FRASER (*Northumberland*): They should pay them $100 more in Brantford.

The WITNESS: They would be delighted to go there for less money.

Mr. NOSEWORTHY: Is that the general scale?

The WITNESS: The general scale of the National War Labour Board.

By Mr. Fraser (Peterborough):

Q. May I ask a question about the freezing of the salaries after $3,200 by the Wartime Prices Board?—A. I might add, Mr. Fraser, that recently we have been having conversations with the regional boards and certain of the regional boards have permitted us to increase this scale. As a matter of fact, in the case of managers that applies in the case of managers up to $5,000 and one or two appropriate changes below that; but that is not from the National War Labour Board as yet. We have had that accepted in quite a number of provinces.

Q. The freezing of the salary would affect the superannuation of those men receiving that salary, would it not?—A. Yes, unfortunately that is true.

Q. That is the trouble there?—A. There are many men now fifty years of age and their pension is calculated on the salary that they get in our bank for the average of the last ten years of their service.

Q. Is not that the same in all chartered banks?—A. With a few minor changes.

Q. Is anything being done to alleviate that superannuation situation?—A. We have, as I say, got authority from a number of the provinces to move our scale up a bit.

Mr. MCNEVIN: Mr. Chairman, the next point I wanted to bring up was this: a suggestion was made previously in this committee that the government should step in and take a large percentage of the deposits of the banks and use them for war financing purposes and put a certificate in the bank that is supposed to protect the interest of the depositors. Now, I view that suggestion with some concern. I am free to admit that in my opinion there may be money in the banks that, perhaps, I would think should be taken out and put into victory bonds. Nevertheless, I think that when we survey the whole list of deposits in our savings accounts it would create an irreparable damage to the war effort and to the post-war period if the Canadian government took such action and, like a bolt out of the blue, stepped in and commandeered or conscripted a large percentage of the deposits in the chartered banks of Canada.

I find from looking over the report of deposits in the chartered banks as of October 30, 1943, that there were deposit accounts of $1,000 or less amounting to $4,280,439. Now, perhaps, that number should be reduced by, say, 10 per cent. There may be slightly more than that—there are duplicate accounts for the one person, or one firm if it was using a savings accounts, might have more than one account. That represents $617,260,480. I think that reveals a remarkable confidence on the part of the depositors in the banking system of Canada.

Mr. MACDONALD (*Brantford City*): Is that current or savings account?

Mr. MCNEVIN: That is savings account only. I was going to give the figures for the savings accounts first and then for the demand accounts afterwards.

Then in deposits over $1,000 and under $5,000 there were 342,760. For deposits over $5,000 and up to $25,000 there were 35,798 accounts for an amount of $308,000,000. In the deposits of $1,000 up to $5,000 the amount represented was $671,000,000. Deposits from $25,000 up to $100,000 represent 2,420 accounts for $105,000,000. Deposits in excess of $100,000 represent 696 accounts for a total of $250,000,000, in round figures. Actually, in these larger accounts there might be manufacturing concerns or there might be insurance companies or institutions like that. I do not imagine that they represent individual savings accounts.

Mr. MACDONALD (*Brantford City*): Is this statement on record as an exhibit?

Mr. SLAGHT: It is on page 121.

Mr. MCNEVIN: Now, let us turn to demand deposits. We have deposits of from $1,000 or less of 611,926 for an amount of $132,000,000. That is already in exhibit. I do not think it is necessary for me to present the complete picture. I have already dealt with the tables. But in addition to this I find that residents of foreign countries have deposited, in round figures, something over $600,000,000 in the chartered banks of Canada. I am approaching the revision of this Bank Act from this point of view. If I had any what might be termed radical or even extremely advanced theories on banking, I would not advocate them before this committee at the present time, because I do not think that this is the proper time. I do not say that I have those ideas, but if I had them I think this would not be the logical time to advance them.

Mr. MCGEER: Mr. Chairman, I want to object to the line of statement that is being made.

Mr. MCNEVIN: This is my opinion.

The CHAIRMAN: Go on, Mr. McNevin.

Mr. MCGEER: I have a right to object—

The CHAIRMAN: No. You have no right to interrupt a member in the middle of a sentence.

Mr. MCGEER: Just a second, Mr. Chairman. I understand we are here to-day to examine this witness.

The CHAIRMAN: Yes.

Mr. MCGEER: For the last ten minutes we have been having statements which are properly presentable to the committee on argument, but I have been waiting for the question to come to this witness. I certainly do not want to interfere with statements in this connection, but what I suggest to you is that if this kind of argument is going to be allowed, there are many things I should like to answer on. But this is surely an argument that is properly presentable to the committee when the evidence is in. The witness is here to-day to be examined.

The CHAIRMAN: Yes.

Mr. McGeer: I do not want to interrupt my friend or anybody else in the committee, but may I be privileged to make the statement that arguments of this kind, protracted as this one has been, are properly presentable to the committee when the evidence is in.

The Chairman: Mr. McGeer, if you will go over the record, I think you will find you are the last man who should raise that objection.

Mr. McGeer: I expected that to come. But I was examining the witness.

Mr. McNevin: I want to say this. On some points that were brought up when Mr. McGeer was examing Mr. Towers, he was making statements of his own opinion rather than questioning the witness. And if Mr. McGeer was permitted to do that—

Mr. Slaght: I rise to a point of order.

Mr. McNevin: — am going to take the same privilege.

Mr. Slaght: I rise to a point of order. It is not argument that the hon. gentleman is just stating. It is a scolding to gentlemen who have views that differ from his for bringing them forward at this particular time.

Mr. McNevin: Oh, no.

Mr. Slaght: I should like to know when he wants it done. Would he like it ten years from now? This is just a scolding.

Mr. McGeer: It is questioning the right of the committee to deal with these matters at this time.

Mr. McNevin: I am giving my opinions on this, and I am going to continue to state them. I am perfectly within my rights in so doing.

Mr. Slaght: You will obey the chair.

The Chairman: Let us allow Mr. McNevin to continue.

Mr. McNevin: The point I wish to establish at the moment is this: It would, as I said previously, do irreparable damage if we acted, as has been suggested, and commandeered a large percentage of the deposits in the Canadian banks. Irreparable damage would be done to our war effort and in the post-war period. I stand by that statement. Mr. Wedd, in your opinion, would the action suggested, the government stepping into the chartered banks and taking over 50, 60 or 70 per cent, as the case may be—I forget the immediate suggestion—of the money deposited there by the customers of your bank, seriously impair the confidence those customers have in your institution?

The Witness: I would not say that that would impair the confidence they had in our institution. I think it would impair the confidence people would have in government.

Mr. McNevin: Well, it would react; it means the same thing.

Mr. McGeer: Oh, no.

Mr. Slaght: Are you through?

By Mr. McNevin:

Q. It does not mean the same thing, but the effect would be the same on the general financial picture. That is the point I want to make—A. I quite agree.

Q. I mentioned at the start that there might be an attitude of mind or a monopolistic tendency to monopolize the time of this committee. About ten times since I started to make my presentation and ask my questions, Mr. Slaght has risen up and asked me if I was through. When I am through, I will sit down.

The Chairman: By the way, when you are through, Mr. Fraser has asked for the floor.

Mr. McNevin: All right. When I was interrupted I was stating that in my opinion if the government stepped in and conscripted a large percentage of the deposits of the Canadian people in the banks, it would seriously impair the war effort. I stand by that statement. Now I want to return for a moment to the question of monopoly as related to the Canadian chartered banks. The suggestion has been made already in this committee that the banks should be nationalized.

Mr. Blair: No, I do not think so.

Mr. McNevin: Yes, I think it was.

Mr. McGeer: It is part of the C.C.F. program. That is definitely on the record.

Mr. Macdonald (*Brantford City*): It was not suggested. Somebody stated that might be the answer.

Mr. McNevin: It was referred to, anyway. It is immaterial as to just how. I would be opposed to that.

Mr. Blair: Who suggested it? We should let the witness go home.

Mr. McNevin: Of course, monopolies are destructive. There is no question of that. I believe that the experience of the last ten years has taught us this. It has taught us that state monopoly as it has existed in Germany is the most destructive and the most vicious type of monopoly that has been experienced by the people any place in the world's history up to the present time.

Mr. Slaght: Hear, hear!

Mr. Jaques: What about Russia?

Mr. McNevin: Therefore I am unalterably opposed to nationalization of our Canadian banking system. There has been a lot of talk about interest-free money, and I think this is my last point. Before I leave him I should like to have Mr. Wedd's opinion with respect to a state monopoly as applied to the banking system in Germany.

The Witness: Mr. McNevin, I am afraid I am a prejudiced witness. There is only one answer I could give.

Mr. McNevin: Yes. However, I think this is my last or at least nearly my last point.

Mr. Macdonald (*Brantford City*): Go on. Take your time.

Mr. McNevin: I have taken my time. The point I have reference to is this myth of debt-free money or interest-free money. As a farmer who keeps a substantial number of live stock—

Mr. Blackmore: Louder, please. We cannot hear you.

Mr. McNevin: As a farmer who keeps a substantial number of live stock, I have never been able to look far enough into the future so I can see where I can keep that live stock without putting forth some effort to feed and look after them myself or paying some one to perform that task for me. I think the very same principle applies in connection with the banking system, and the monetary system of the country. I believe that some persons somewhere must be paid something to look after our money and our banking business and give us an account of it from time to time. For that reason I cannot see any foundation for absolutely debt-free money. It is going to cost something; as the Minister of Finance so well said, I think, "You cannot get something for nothing."

The Chairman: Mr. Fraser.

Mr. Fraser (*Northumberland*): Just at this point in the discussion I should like to direct several questions to the witness.

The Chairman: Order, please, gentlemen.

By Mr. Fraser (Northumberland):

Q. They have to do with a matter that I know is in the minds of the public and I am satisfied is in the minds of some, at least, of the members of this committee. Mr. Wedd made a statement that he is president of the Canadian Bankers' Association. That is correct?—A. That is correct.

Q. Will you kindly tell the committee what are the functions of the Canadian Bankers' Association?—A. The objects of the association as set out in the Act are as follows:—

> The objects and powers of the association shall be, to promote generally the interests and efficiency of banks and bank officers and the education and training of those contemplating employment in the banks, and for such purposes, among other means, to arrange for lectures, discussions, competitive papers and examinations on commercial law and banking, and to acquire, publish and carry on the "Journal of the Canadian Bankers' Association".

In addition to that, Mr. Fraser, the association established clearing houses for banks, the rules of which are outlined subject to the approval of the treasury board. Also the association is charged with certain supervising routine in connection with bank note circulation; that is, as to seeing that the limits are not exceeded and things of that description. I should add that we regard our chief function at the present time as a liaison between government departments in connection with such things as coupon banking, milk subsidies and things of that description, where the secretary of the association can be advised by the government, "We would like to work out some arrangement whereby the banks could do so and so." Then the secretary arranges with the association to appoint a small committee to go into the routine of the physical aspects of how such an undertaking should be accomplished.

Q. Mr. Wedd, the chapter you read there, I would suggest, would be the usual chapter or the usual outline in a charter of that type. I think you said a few minutes ago that each chartered bank is a member of the Canadian Bankers' Association?—A. Yes. That is correct.

Q. And is represented in the Canadian Bankers' Association by the president or general manager?—A. Yes.

Q. Of the chartered bank?—A. Yes.

Q. The word "association" has been used in this country for a great many years in connection with trade associations, tin plate cartels and many other things I can mention, which you and I are both well acquainted with. I should like to clear up one point at this time and get it on the record. Either the Bankers' Association functions beyond the articles of agreement or it adheres to the articles of this charter. For instance, may I direct this question to you. Do the chartered banks, through the Bankers' Association, agree, for instance, on rates to be paid on deposits?—A. Well, I would say, yes.

Q. Yes.—A. It is not obligatory, you understand.

Q. No. The major function of the association is like the major function of all these associations, a liaison between industry and governments?—A. To promote generally the interests.

Q. Most generally the interest?—A. To promote generally the interests—not interest—and efficiency of the banks.

Q. I would suggest, Mr. Wedd, as a matter of clarity, that we leave out that word "interest" because it has been used pretty often.—A. Interests.

Q. Yes, I got it. You agree that, through the Bankers' Association, the chartered banks do discuss and arrive at certain decisions in connection with policy; for instance, one that you have admitted was as to the bank rate paid on deposits.—A. On deposits. You are quite right.

Q. All right.

Mr. GRAHAM: A clearing house of ideas.

Mr. FRASER (*Northumberland*): I will accept that at this juncture, Mr. Chairman.

By Mr. Fraser (Northumberland):

Q. My question is this. Through the Bankers' Association do the chartered banks swap ideas or exchange ideas and information in connection with borrowers?—A. You mean as to whether John Smith has a loan in one place and a loan at another and so on, or as to the details as to the financial position of the borrower?

Q. As to the details of the financial position of the borrower and whether that borrower has applied to the Bank of Montreal and then to the Bank of Commerce, for instance, and whether he has been turned down by the Bank of Toronto and taken on by the Dominion Bank.—A. Not to my knowledge. At certain clearing house points there has been an exchange of borrowers at such and such date, because it was found to be a practice some years ago that if a man had a good story, and he could get a loan at bank A and found his story worked pretty well, then he would get a loan from bank B. So in the interests of proper management, at certain clearing house points where there were large communities, exchanges of these names and amounts were put in through the clearing house manager; not the bank but the clearing house manager was used as the medium, so that there could be a check on whether John Smith had five loans.

Q. I would presume, Mr. Wedd, that that particular function would come under the heading of "education"?—A. That is a very good way to put it. Thank you.

Q. My next question, Mr. Chairman, is this. Do the chartered banks, through the Canadian Bankers' Association, discuss and agree upon the advisability or inadvisability of opening a branch or closing a branch or branches in different locations?—A. If there are two chartered banks in one community, one town, it is quite usual for those two banks to get together and say, "Now, we have not very much business at point A, and we have checked on the number of people we see going in your door at point B. Would it not be a good sound idea, particularly with the shortage of staff and so on, to amalgamate our offices?" In other words, it is a saw-off.

Q. Mr. Wedd, obviously the conclusion that you come to— —A. That is not an association matter, by the way.

Q. I beg your pardon?—A. That is not an association matter. It is a matter between banks.

Q. What I am trying to procure from you as a witness is this. Does the Canadian Bankers' Association in any way tend to, assist in, or result in a monopolistic tendency and a combine or control on behalf of the Canadian chartered banks?—A. Mr. Fraser, I would say unqualifiedly no.

Q. Then it seems to me there is a fine distinction and a fine line of demarcation based on your answers to my questions, as to just how far an association functions before it does have the complexion and the tendency to create a monopolistic tendency or combine on behalf of the Canadian chartered banks. What is your answer to that?—A. I would say that the association looks after matters of purely routine efficiency of operation. Believe me, when you turn your back, the other fellow gets your business if he gets a chance.

Q. If the other fellow is in the lumber business, he gets business either by his charming personality, such as the bankers have, or by a competitive price or competitive service. The rates of the banks are set by whom?—A. I beg your pardon?

Q. The rates charged to the borrowers are set by whom?—A. The individual banks.

Q. May I suggest to the witness that I will vouch that he cannot approach two banks in any town or city in the Dominion of Canada, with the same collateral and with the same business proposition, where one bank will lower a rate to compete with its competitor.—A. That would be quite sensible, Mr. Fraser, because the banks' costs of operation are so close together—within fractions—that it is just good sense that the rate would be the same.

Q. May I suggest to the witness that the argument might apply in the hosiery business, the shirt business or the tin plate business or some other business, but the fact does remain. Let me put it in the form of a question, Mr. Chairman. I ask the witness, to his knowledge is it possible for a borrower to approach two or three individual banks in any locality and have a different rate quoted on his borrowings by any one of them?—A. That is possible.

Q. Do you know of any case where it has ever been done?—A. I have known of dozens of cases.

Q. Is it true that the managers of the branches in certain locations of the different chartered banks having offices in that particular location, meet and discuss their borrowers' business as to the borrowers' ability to pay and as to the rate the borrower is being charged by the individual bank?—A. I do not think they do, Mr. Fraser; not to my knowledge.

Q. Through the Bankers' Association then, or otherwise, do the chartered banks agree on the rate or rates to be paid by borrowers as against different types of collateral?—A. The Bankers' Association? No, they do not.

Q. Is the Bankers' Association the medium or does the board room of the Bankers' Association provide the atmosphere in which discussions of that kind can very profitably take place on behalf of members of the association, constituting the chartered banks?—A. I will admit one respect there, in connection with loans against Dominion of Canada bonds. That question was at one time discussed, not at a meeting of the association, but amongst several of the general managers. It was not in meeting. I think possibly I telephoned somebody and we would say, "Now, this is pretty good collateral and we want to get this victory loan over and placed. Would it not be a good thing in the interest of Canada and our business, to make a lower rate?"

Q. That condition or that modus operandi could not and would not be employed in connection, we will say, with the Massey Harris account, would it?—A. Definitely not.

Q. Or some other industrial account?—A. Definitely not.

Q. There is no question about that?—A. I would say there is no question about that.

Q. And there would be no question then that, except in the matter of the banks loaning against victory bonds, a discussion of that kind could not take place.—A. Oh, I would not say that. But there would be no discussion in a board room of the association or anything like that. It might be an exchange of ideas but not en bloc and nothing that is obligatory.

Q. Of course, that palatial office of yours would be a very fine place for a discussion of that kind.—A. It is a lovely place.

Q. Particularly that round table. Mr. Chairman, what I am trying to do is this. I think it vitally important from the public standpoint and the standpoint of this committee, to clarify in its entirety, as far as we can, not only the function of the Bankers' Association as set out in their charter, but now that we have the opportunity to examine the general manager of the Bank of Commerce and president of the Bankers' Association, just how far the tendency goes beyond the articles of agreement or the articles of their charter.—A. I would say, Mr. Fraser—

Q. Excuse me just a moment until I go one step farther, because there is undoubtedly in the Dominion of Canada an impression in the minds of the public that the Canadian Bankers' Association does provide the medium for a monopolistic set-up to a certain extent for the chartered banks. I make that statement and I believe it is absolutely true. I make that statement and say, particularly in view of the discussion that has taken place before this committee, that we should have every possible evidence on the record to the contrary by the witnesses that appear before the committee.—A. Well, I have not been here.

Mr. McGEER: Or otherwise, if the evidence goes that way.

Mr. FRASER (*Northumberland*): Or otherwise.

Mr. McGEER: Let us have the plus side of the thing put on once in a while.

Mr. FRASER (*Northumberland*): I submit that if Mr. McGeer had followed me for the last fifteen minutes, he would realize that I have been trying to clarify that part of it.

Mr. McGEER: I thought you were doing pretty well until a minute ago.

The WITNESS: Mr. Fraser, could I add that the Bankers' Association has been meticulous to avoid any reference to rates charged borrowers at any of its meetings.

Mr. FRASER (*Northumberland*): I am glad to get Mr. Wedd's evidence in connection with the functions of the association on the record. But I would suggest to him that possibly, accepting his evidence and not with knowledge of the Bankers' Association, like every other industry or avocation certain policies or habits have developed amongst banks or among bankers which have had a tendency to create the impression in the minds of the public that they are barricaded by ten chartered banks holding charters in the Dominion of Canada under the Bank Act, brought together in a nucleus or a type of combination under the Canadian Bankers' Association. Mr. Wedd, you absolutely refute any possibility of factual basis for that impression?

The WITNESS: As far as the Canadian Bankers' Association is concerned, yes.

Mr. FRASER (*Northumberland*): Thank you, Mr. Wedd.

The CHAIRMAN: All right, Mr. Blackmore, you asked for the floor.

By Mr. Blackmore:

Q. I just desire to ask two or three simple questions which arise out of the remarks that Mr. McNevin made at the close of his evidence. They have to do with the question of debt-free money. I should like to ask the witness if he believes that there could not be such a thing as debt-free money?—A. Debt-free money or cost-free money?

Q. Debt-free.—A. Debt-free?

Q. Yes.—A. No. I would say there could not be any such thing as debt-free money.

Q. The witness is aware of the cost of minting $5 worth of Canadian five-cent pieces or nickels. He is aware that the cost of minting, including material and everything else that enters into the minting of $5 worth of nickels, is 47 cents; is that it?—R. I could not say as to what the figures are.

Q. That is correct. The cost of material which enters into the minting of $5 worth of Canadian nickels is 39 cents and the cost of minting is 8 cents, which makes a cost of 47 cents.

Mr. McNEVIN: What would that be in percentage?

Mr. BLACKMORE: We will deal with that afterwards. I am giving you the figures. I am quoting figures from a statement which I have of May 18, 1944, signed by R. J. Edmunds, superintendent of the Mint, so that you may know that what I am saying is authentic.

By Mr. Blackmore:

Q. Now, in the minting of $5 worth of Canadian nickels there must be $5 less 47 cents or $4.53 of money that is debt-free in any sense of the term.—A. I say definitely not. I would say that is not debt-free because that is a liability of the dominion.

Q. Why is it not debt-free?—A. It is a liability of the Dominion of Canada.

Q. Does the witness happen to have a five-cent piece in his pocket?—A. I think so.

Q. Then would you take it out? Then if he happens to have a one-dollar bill, I would ask him to take that out of his pocket and look at it. You will find that there is a considerable difference between the two. You will find that on the one-dollar bill somebody promises to pay a dollar. I can see that by a purposeful interpretation, that might be conceived of as a debt because somebody promises to pay a dollar. But if he will regard with careful scrutiny a five-cent piece of Canada, he will notice that there is on it no promise to pay.—A. Has that not been implied by custom over the centuries?

Q. Well, suppose it is.—A. The implication to pay is something that has accrued over the centuries.

Q. That may be so.—A. We have stream-lined it by leaving off the promise to pay.

Q. Well, why is the promise to pay not left off the Canadian one-dollar bill?—A. Paper currency is a more modern invention.

Q. Exactly. But suppose the promise to pay were left off the Canadian one-dollar bill, do you suppose people would refuse to accept it when they readily accept Canadian 50-cent pieces, 25-cent pieces and five-cent pieces on which there is no promise to redeem? In other words, they readily take two 50-cent pieces with no promise to redeem, and there is no reason why they should not take a dollar bill without a promise to redeem. The whole important aspect of the question is that in both cases the money is accepted as a medium of exchange. A medium of exchange does not necessarily have to be a debt. When the Indian traders used a beaver skin as a medium of exchange would anyone be so simple as to suggest that the use of this beaver skin was the creation of a debt?—A. That represented an obligation.

Q. They were using them as their medium of exchange.—A. Quite.

Mr. MCGEER: The hon. member made the statement that he had a statement there from the Royal Canadian Mint; may I ask, Mr. Chairman, that that statement be filed as an exhibit?

The CHAIRMAN: Yes, Mr. McGeer, I think that would be a good idea.

Mr. BLACKMORE: I will read it, if I may, and then file it as an exhibit. It deals with a very important matter. It reads:—

Dear SIR,—In response to your telephone request to the Mint this morning the information regarding the value of the metal in the coins of the 50-cent, 5-cent nickel, 5-cent steel and 1-cent bronze, and the cost minting each of these denominations is set out below:—

Denomination	Cost of Metal	Cost of Minting	Total	Face Value
50-cent silver	$12 50	$0 50	$13 00	$50 00
5-cent nickel	1 12	7½	1 19½	5 00
5-cent steel	39	8	47	5 00
1-cent bronze	09½	17½	27	1 00

For 100 pieces, 50 cents, 5 cents and one cent.

Yours very truly,

R. J. EDMUNDS,

Superintendent.

It is time, Mr. Chairman, that once and for all the people of Canada have come to realize that a medium of exchange does not need to be a debt any more than gold used for exchange purposes which anyone would have accepted before April of 1933 without debt.

Mr. McGEER: Will you file that exhibit?

Mr. BLACKMORE: Most certainly, Mr. Chairman.

By Mr. Blackmore:

Q. I would like to ask one more question before I take my seat. I am going to ask this witness directly concerning his bank; if the Canadian Bank of Commerce printed a five dollar bill and issued it and I came back to that bank with that five dollar bill and I wanted to redeem it and if the witness gave me another five dollar bill printed by the Canadian Bank of Commerce would he have redeemed that five dollar obligation?—A. No, it is not paid off. It is a liability and the bank would not have paid off its liability.

Q. What would they have to do finally in order to pay off its liability?—A. As it stands now, he would have to be paid in Bank of Canada cash.

Q. And suppose if the Bank of Commerce issued its dollar and its five dollar bill and then redeemed it by the issue of a Bank of Canada cash certificate for five dollars, they would have been considered as having redeemed the debt?—A. Yes.

Q. Then suppose that the witness took a five dollar bill of the Bank of Canada and went to the Bank of Canada and said, I want to redeem the amount which is written on this bill, you promised to pay five dollars; what would he expect to receive in exchange for the five dollar bill?

Mr. SLAGHT: Five one dollar bills.

Mr. FRASER: I have a social credit one here.

Mr. BLACKMORE: I would like to have the witness answer, if you don't mind.

The WITNESS: He would probably get five one dollar bills.

By Mr. Blackmore:

Q. Exactly, and the promise would be redeemed?—A. No, he would still have an obligation; it would still be an asset in his pocket but a liability of the Bank of Canada.

Q. But every time he came in with these five dollar Bank of Canada bills he would receive in redemption five one dollar bills or a Bank of Canada five dollar bill.—A. As it stands now, due to the war situation, that is the redemption he would get.

Q. Exactly so; and ever since April 10, 1933, when the gold redemption was suspended by order in council in Canada, it has been impossible for anyone except perhaps bankers to get gold at the Bank of Canada or from anyone else.

Mr. SLAGHT: The Bank of Canada hasn't got any.

The WITNESS: Yes.

By Mr. Blackmore:

Q. Which means that even before the war the Bank of Canada or the Finance Department of Canada before the Bank of Canada was set up redeemed their dollar bills only with dollar bills.—A. Well, the situation grew out of the events at that particular time, when Great Britain went off the gold standard and naturally Canada followed.

Q. But my point is this; since 1933 in Canada the whole national system has been based entirely on paper, so far as redemption thereof is concerned?—A. A matter of good faith.

Q. Exactly so; in other words if there is the debt created through the use of this paper money that debt is dischargeable with another piece of paper money.

The CHAIRMAN: Have you finished, Mr. Blackmore?

Mr. MACDONALD (*Brantford City*): If Mr. Blackmore is finished with the witness there are a few questions I would like to ask him.

The CHAIRMAN: All right, Mr. Macdonald?

By Mr. Macdonald:

Q. There is one subject to which I would like to refer briefly and it is this, it was brought up by Mr. McNevin's examination of the witness. He referred to inflation. I do not know that this is the time to make any argument about, or advance any definition with respect to inflation, but as it has been referred to in this committee, by the term of I think bug-a-boo. I am not the one who referred to it in those terms. But I would ask the witness is it not a fact that wherever there has been uncontrolled inflation it has brought great suffering and hardship to the people of the country where there has been inflation.—A. Unquestionably.

Q. And is it not so that once there is, we will call it a slight inflation, that it is very difficult to control?—A. The more it spreads the harder it is to control.

Q. It goes off itself; would that be correct?—A. It would depend on what the contrary restrictions are.

Q. But once it starts is it not very difficult to apply the restrictions?—A. I would say so, yes.

Q. From what has taken place in other countries where there has been inflation is it not a fact that once inflation starts it is difficult for a government to control it?—A. That has definitely been the experience of other countries.

Q. In a number of other countries where there has been inflation; is that not correct?—A. That is my understanding.

Q. Would you not say at the present time in any country where there is inflation it has created great hardship for the people?—A. Yes.

Q. Now, then, let us try to consider who it affects, briefly; first, would you agree with me if I said that the first people who suffer are those who are living on pensions?—A. Well, yes; because their income does not increase automatically. I would have said in answer to that perhaps without thinking that it was the wage earners.

Q. Well, we will add the wage earners. Shall we put the wage earners first?—A. I think you should put the pensioners first; you are right.

Q. I am right?—A. Yes.

Q. We will agree then that if there is inflation the people who are going to suffer first are the pensioners; you will agree with that?—A. Yes, the people of fixed incomes.

Q. And then I will come to the fixed income section; would you agree with me that those who suffer next and almost as soon as the pensioners are those who are getting a fixed salary?—A. Yes.

Q. Or living on fixed income?—A. Yes. But the person who is on a fixed salary perhaps has an opportunity through agitation to get an increase.

Q. But the increase does not keep pace with the inflation?—A. No, it is always after in fact.

Q. Now then, I come to the third class; would you agree with me that it is the pensioners who suffer first, then the fixed salary group, or the fixed income group, second, and that the wage earners are the third class of people who suffer from inflation?—A. The wage earners and the salaried men perhaps can be bracketed together, although sometimes the salaried men are not quite as vocal.

Q. The wage earners have organized themselves, they can present their applications for increases in wages as a block; isn't that correct?—A. Yes, more quickly.

Q. But even if they did apply for increased wages, or increases which they think are necessary in order to keep pace with the inflation, and even if they are more vocal and better able to present their demands, their application is always away behind the line at which the inflation began to take place.—A. There is a definite time lag, depending on the situation.

Q. There is a definite time lag?—A. Yes.

Q. So I think we are in accordance when I say that the people who suffer first from inflation (and I think I should say who continue to suffer during the period of inflation) are pensioners, those on fixed incomes and wage earners.—A. You are right, quite right.

Q. Now then, let us come to the other side of the picture; would you agree with me when I say that those who benefit first from the inflation are the manufacturers?—A. Oh, I do not think anybody benefits from an inflation, really.

Q. But if there is an inflation for the time being does not the manufacturer benefit, if anyone does, from the fact that he has goods in his factory which have been made at a low cost and he can sell those goods at an increased price?—A. That is a very questionable condition, and I think he loses out in the long run.

Q. That may be the case, but I am talking about the early stages of inflation; I think, Mr. Wedd, that you agree with me that the pensioners, that the low income groups and the wage earners suffer all through the period of inflation?—A. Yes.

Q. Then, will you not agree with me that the manufacturers are the only people who benefit or the people likely first to benefit through inflation; perhaps it may not continue but they benefit for the time being at any rate, those who have goods in their plants?

Some Hon. MEMBERS: Hear, hear.

The WITNESS: I would say that the reckoning catches up with them at the end.

Mr. MACDONALD (*Brantford City*): That may be so or it may not; I am not talking about the end, I am asking you during the period of inflation; surely it must be, if a man has goods say which cost him a dollar and can sell them for \$100; he is not suffering from inflation.

Mr. JAQUES: What about deflation?

By Mr. Macdonald (Brantford City):

Q. You agree with me?—A. I agree with you.

Q. Yes; there might come a period when inflation would catch up with the manufacturer.—A. Quite.

Q. But by that time there would be probably a complete adjustment of the financial system?—A. By that time he would have accumulated a stock of very high-priced goods and assuming there was an adjustment then he would suffer very severely during the marketing of these very high-priced goods in a market which had been readjusted downwards.

The CHAIRMAN: That is in the deflation?

The WITNESS: That is in the deflation.

Mr. MACDONALD: Yes, that is in the deflation; but by that time there would be a system of valuation whereby the deflation would take place and the hardship would not be nearly as great as to offset his benefit during the period of inflation.

The WITNESS: I would say that it might be true of a manufacturer within certain restricted limits; his materials and labour costs would catch up with him; I mean, it is a vicious circle.

Mr. MACDONALD: It may be a vicious circle.

Mr. SLAGHT: Don't forget that everything he has to buy goes up also, that he has to buy everything on inflated markets at inflated prices.

Mr. MACDONALD: I quite agree with you that everything he buys after inflation starts would be up, but he has that initial period where he bought goods at a low price and he manufactures them at normal cost with the result that when he comes to sell these goods he gets the benefit of the rise when the inflation starts, he gets an initial benefit at least from the inflation.

The WITNESS: And then loses in great quantity later on.

Mr. MACDONALD (*Brantford City*): Yes. I don't go all the way with you to say that he loses as much at the end because I think when the deflation period takes place that it is done in a systematic manner and a new unit of money it set up as it were.

Mr. FRASER (*Northumberland*): Deflation is worse than inflation.

The WITNESS: But no manufacturer that I know would admit your hypothesis.

By Mr. Macdonald (Brantford City):

Q. You may be correct. Then, will you agree with me in this that after the manufacturers, those who are in debt—whether it be a debt in the form of bond issue, or mortgage, or a bank indebtedness or any other kind of indebtedness—is it not quite true that during the initial period of inflation that it is easier then when the inflation is getting underway for a manufacturer to pay off his original indebtedness?—A. You mean he will pay by depreciated currency or something of that kind.

Q. Yes, that is what he would do, is it not?—A. There are so many other things that come into the picture in the way of wages, cost of materials and so on; the whole set-up rises accordingly.

Q. But, Mr. Wedd, you agreed with me a minute ago that the pensions and wages did not keep pace with the inflationary spiral?—A. You are quite right, there is a lag.

Q. So I think you must agree with me that inflation, in so far as inflation may have any benefits, gives benefit to people who are in debt or manufacturers who have a lot of goods which they can place on the market during the initial period of inflation?—A. During the initial period I would suppose that is a proper statement.

Q. I do not think there is any doubt about it that those who suffer most and those who suffer first are the pensioners and the wage earners?—A. Quite so.

Mr. FRASER (*Northumberland*): They suffer first; but they do not suffer most.

The WITNESS: Perhaps that is right too.

By Mr. Slaght:

Q. Mr. Chairman, I have two or three other matters which I want to discuss with my good and old friend Mr. Wedd, but there is one in particular which I would like to take up at this time. It is about the assertion that there could not be debt-free money; and one of the reasons advanced in support of that by you, Mr. Wedd—I took it down—in answering a specific question you said, there could not be debt-free money.—A. That is my opinion, sir.

Q. That is your opinion. I just want to glance at it with you for a moment. Of course, we are old-timers together. Let me suggest that you are quite wrong, and for this reason: the five-dollar bill to which Mr. Blackmore referred as the means that the Dominion of Canada take now in issuing currency through the Bank of Canada; we agree on that?—A. Yes, sir.

Q. And I think we had the reference made that there was something like $60,000,000 in Canada of gold—of course, there is no outstanding gold in Canada except the odd bit which may be hoarded—and that the current obligations of Canada issued by the Bank of Canada—I don't remember the figure exactly, it was given here, it was something in the nature of $800,000,000 approximately—is in what we call paper money. Now if you had a $100 bill, a $10 bill (I am merely reading what it says on this piece of paper) "The Bank of Canada will pay to the bearer on demand—(this is a five-dollars bill) $5. You are candid enough to say that all you can get would be copper or bronze or silver coins, or five one-dollar bills; similarly if you presented a $100 bill, the same thing follows?—A.. Yes.

Q. Now to return to my point; say that Mr. Ilsley wanted—I am sure he would only do it most reluctantly—to borrow for Canada's public needs from the Bank of Canada to the extent of about one million dollars—I understand that our borrowings at the moment are in the nature of one million dollars, and Mr. Towers seemed to be proud of that yesterday when he named that figure; that is, we have expanded borrowings until to-day they are $1,300,000,000—Mr. Clark can check that for you. That is correct, Mr. Clark?

Mr. CLARK: You mean the borrowings since the outbreak of the war?

Mr. SLAGHT: The outstanding Bank of Canada issues amount to about $1,300,000,00; that is right?

Mr. CLARK: Approximately, yes.

By Mr. Slaght:

Q. Now then, let me put this to you, Mr. Wedd; that our Finance Minister went to the Bank of Canada and handed them either a bond or obligation or other security—there is something else, but I have forgotten what it is termed.

Mr. CLARK: You refer to the deposit certificates?

Mr. SLAGHT: Deposit certificates. He sends over a deposit certificate, an obligation of the Dominion of Canada to pay in the sum of let us say $1,000,000, and that amount $1,000,000 is at once credited to the Minister of Finance in their books.

The WITNESS: Mr. Slaght, I think there is a misunderstanding there. These certificates of deposit are the bonds used in borrowing money from the chartered banks, not from the Bank of Canada.

Mr. CLARK: Oh yes the deposit certificate is sold to the chartered banks.

Mr. SLAGHT: I am just starting Mr. Ilsley over to the Bank of Canada to get credit of $1,000,000. What does he hand into the Bank of Canada; a certificate, something to show that Canada's credit has been used with the bank to furnish the Minister of Finance with $1,000,000 as he needs it.

Mr. CLARK: A note, or a bond.

The WITNESS: Yes if he were borrowing from the Bank of Canada, that is what he would do, I presume.

Mr. SLAGHT: Now then the people of Canada never as long as that lasts pay any interest on that $1,000,000, do they? Oh no, they get it interest free, or debt free; is that not so?

The WITNESS: No, Mr. Slaght, the people of Canada pay the cost of that particular money. It is disbursed by the government into the hands of the people who are going to use it, let us say it is to manufacturers; they use it for their payrolls and it comes into the banks and the banks employ it, pay interest on it; so there is the cost of operation on it.

Mr. BLACKMORE: The same thing would happen if it were gold, wouldn't it?

Mr. SLAGHT: Just keep to the credit of $1,000,000; in the books of the Bank of Canada a credit is set up through our Minister of Finance, and that transaction is closed, isn't it; as far as that is concerned?

The WITNESS: Take the practical effects of it then, Mr. Slaght.

Mr. SLAGHT: All right then, take the effects, if you like; but there is no interest attached to that advance. We have used in the credit of our country to purchase goods; let us say wheat, or to the John Inglis Company; we take that $1,000,000 to purchase things and send them over to England or anywhere we like; that is what happens, is it not?

The WITNESS: That is what happens.

By Mr. Slaght:

Q. Now then, if he goes to the chartered bank, your bank, with a bond for $1,000,000, there are coupons attached to it, interest bearing debt coupons, are there not?—A. There would be, yes.

Q. And you would not take one if there was not, you could not offer any $1,000,000 unless you get security which bears interest, a fee?—A. We have their certificates of deposit which bear interest at $\frac{3}{4}$ or one per cent.

Q. I do not care for the moment what the rate of interest is; you only give credit to Mr. Ilsley, or to any other party for that matter, to the extent of $1,000,000 when they pay you for it; you do not set up a credit of that kind in the books of the Bank of Commerce otherwise; he gives you security for it?—A. Yes.

Q. And now, I suggest to you that he did not get that yoking fee, interest obligation, on it at all when he went to Mr. Towers; and when he went to you you put that yoke of interest on the obligation; what do you say to that?—A. Well, Mr. Slaght, if he gets the money from the Bank of Canada the Bank of Canada credit to the government and the government disburse it say to the John Inglis Company and they pay it over to their employees and the employees put it into the chartered banks, and the chartered banks are under expense in handling that and paying interest on it, and that is called the cost of the loan.

Q. And now, Mr. Wedd, that dark dog won't bark, for this reason.

The CHAIRMAN: Now, now, Mr. Slaght. Order, please.

Mr. SLAGHT: Oh that is all right, that is just a friendly expression between us.

The CHAIRMAN: As long as it is friendly.

Mr. SLAGHT: Mr. Wedd and I could not be anything but friends.

By Mr. Slaght:

Q. But is not the simple fact of the matter this, that when Mr. Ilsley goes to the Bank of Canada he gets his money debt free, but when he goes to your bank to borrow the same amount he creates a debt; that is exactly what it amounts to, and the same story applies to the million dollars deposited in the bank, doesn't it? Say no to that.—A. I would say then, Mr. Slaght, in order to make a reasoned reply to this suggestion of yours I would have to sit down and take some time—

Q. I would be happy to have you do that, and bring me in a memorandum if you would, something that would explain it. But I want to warn you that many men like Mr. Towers have made it very clear that there is such thing as borrowing from the Bank of Canada without paying interest. It is one o'clock now, Mr. Chairman; I would be very glad if Mr. Wedd would contemplate that.—A. I think somebody has to pay.

Mr. SLAGHT: Somebody has to pay what; pay for bank services after the loans are created; but I think you are labouring under a mistaken proposition when you think they have to pay for banking service on $1,000,000 borrowed from the Bank of Commerce, and that they have to pay in the same way on the $1,000,000 they get for nothing from the Bank of Canada.

Mr. FRASER: They do not get it from the Bank of Canada without interest. They have their employees and other costs. The government pays the Bank of Canada interest.

The CHAIRMAN: Order, would you please allow Mr. Slaght to continue.

Mr. SLAGHT: You have Mr. Clark sitting there alongside of you and you might like to get his views on this. I suggest to you that when the government borrows from the Bank of Canada a million dollars that the government pays interest to the Bank of Canada for that million dollars; what do you say?

The WITNESS: I would say that it does.

Mr. SLAGHT: You would say that it does?

The WITNESS: And then it comes back to the government in connection with profits on the operation of the Bank of Canada.

By Mr. Slaght:

Q. Oh yes, the government is the recipient of the interest the Bank of Canada receives. It all goes into a consolidated revenue fund and it owns any profit. The Bank of Canada represents the taxpayers?—A. Quite right.

Q. And the taxpayers are the ones who have to pay any interest on the bond, are they not?—A. Yes.

Q. Are you going to say to this committee that if they do pay interest to the Bank of Canada the taxpayers are paying interest to themselves, that this is an interest bearing type of security?—A. Well, to go back to your previous remark, I think it is more inflationary doing it through the Bank of Canada.

Q. Now you are coming to another point entirely. And, will you contemplate that in regard to costs; I will have a word with you about it at our next meeting.

The CHAIRMAN: Order, gentlemen. Is it your pleasure to adjourn until 4 o'clock to-morrow afternoon?

Mr. MCGEER: I so move, Mr. Chairman.

Mr. BLACKMORE: Why?

The CHAIRMAN: There is a caucus in the morning. It has been moved that we adjourn until 4 o'clock to-morrow afternoon.

Some Hon. MEMBERS: Carried.

The committee adjourned at 1.05 p.m. to meet again on Thursday, May 25, at 4 o'clock, p.m.

May 25, 1944

The Standing Committee on Banking and Commerce met this day at 4 oclock p.m. The Chairman, Mr. W. H. Moore, presided.

S. W. WEDD, President, Canadian Bankers Association, called.

The CHAIRMAN: Order, gentlemen.

Will you proceed, Mr. Slaght?

Mr. SLAGHT: Yes.

By Mr. Slaght:

Q. Now, Mr. Wedd we were discussing for a moment the question as to whether when the government borrowed for government needs from the Bank of Canada they secured the money interest free; do you agree with that?—A. Mr. Slaght, I prepared a memorandum on that, if I may be permitted to read it.

Q. Certainly, it is directed to that point?—A. It is directed to that point and it follows from that point. I will read it if I may.

Q. Yes, all right.

At the last session of the committee I undertook to prepare a memorandum with respect to the relative costs of governmental borrowing from the Bank of Canada as against borrowing from the chartered banks. Although I certainly would not presume to appear as an expert on broad questions of economic theory and policy, I should like to preface my remarks with one brief general observation that seems to me to have ample justification.

I suggest, therefore, that the only proper basis upon which any alternative policies of governmental finance can be considered is that of the effects of such policies upon the general welfare of the Canadian people and the smooth functioning of the whole Canadian economic system.

It is quite possible to argue that borrowing from the Bank of Canada is a "costless," or more correctly, nearly costless method of financing. The basis for this view is that a part of the interest paid by the government to the central bank will, assuming the central bank makes a profit, ultimately return to the taxpayers.

Obviously, if this were the only consideration involved the people of Canada would have an almost inexhaustible supply of funds at their disposal and it is difficult to see why we should ever need to make use of other methods of financing.

The fact is, of course, that other extremely important considerations do enter into the picture.

When the government borrows from the Bank of Canada, the government, in exchange for its promise to pay in whatever form that promise may be stated, obtains a deposit on the Bank of Canada's books, which deposit immediately becomes convertible on demand into Bank of Canada notes. I suggest, therefore, that borrowing from the Bank of Canada is, in all its essentials, equivalent to the issuance of new purchasing power in the form of Bank of Canada currency.

It is, of course, quite within the power of the Bank of Canada to issue new currency. Indeed, if my interpretation is correct, a principal reason for that institution's creation, was and still is, the determination of how much money can safely be outstanding and in circulation within the country at any time. It seems to me, therefore, that the problem of borrowing from the Bank of Canada can only be considered in relation to the amount of currency already outstanding, and the possible effects upon the Canadian economy that the issuance of the additional currency would involve.

It would, for example, be poor policy to borrow from the central bank if, as a result of such action, the additional purchasing power created would drive up prices and raise the government's cost on all its purchases, create dislocation and hardship throughout the economy, not to mention the effects of such consequences upon the external purchasing power of our currency.

It would be poor business also if as a result of the idea that issuance of additional currency is a cost-free method of finance, the central bank's position as a regulator of the money supply were destroyed and if the central bank were to become a sort of money mill grinding out currency without regard to the welfare of the economy.

It is apparent from previous discussions that there is an impression current in some quarters that establishment, in whole or in part, of the 100 per cent reserve requirement as applicable to the chartered banks, would completely nullify any dangers and difficulties that might otherwise result from a policy of financing principally through the central bank. Regarding this, I would like to make two points.

My first point is that if any government were to commit itself to a policy of borrowing from the central bank, without consideration of all the relevant factors, the immediate increase in the money supply involved would be sufficiently great to be in itself a tremendous inflationary force, leaving aside entirely any question of multiple expansion through the chartered banking system, which multiple expansion the 100 per cent reserve system would be supposed to correct. In other words, I come back to the point that if the government were to borrow say $100 millions or any other amount from the central bank, the net result is an equivalent increase in the purchasing power of the Canadian people. The question then becomes whether, in the light of all the circumstances involved, and of all the possible consequences, such an expansion in the money supply is or is not desirable. The decision in this respect would be on the shoulders of those charged with the responsibility of regulating the country's money supply—a responsibility that is particularly heavy at a time such as the present when inflationary forces are very evident.

My second point is one that has already been developed in detail and if I may say so, with great clarity by the Minister of Finance, and, on several previous occasions, by the Governor of the Bank of Canada. It is this: Once the new purchasing power has been created as a result of governmental borrowing from the Bank of Canada we might expect that in the normal course of government spending, most, if not all of the new currency would find its way into the chartered banking system. The result would be that the chartered banks would have new deposit liabilities. To the extent that these new deposits were savings deposits, interest would have to be paid on them and all of the new liabilities would give rise to additional expenses in the form of bookkeeping and servicing costs. Against these liabilities the banks would, of course, have the additional Bank of Canada cash which is, however, non-revenue producing. Naturally the banks would wish to see the normal ratio of cash to deposit liabilities restored and in the absence of restrictions to the contrary, it would be reasonable to expect that the ultimate result of the receipt of the new Bank of Canada cash would be a further expansion of bank assets in the form of loans or securities and of liabilities in the form of deposits. It is quite true that this expansion could be prevented by restricting the ability of the chartered banks to employ their new cash in the making of loans or the purchasing of securities. But if this were done all that would be accomplished would be first, to levy an additional tax upon the banks and second, to restrict the ability of the banks to provide the services upon which the Canadian people depend.

I should like now to say a few words regarding certain related proposals advanced before this Committee. As I understand it, these proposals would involve the acquisition by the government of approximately 2\frac{1}{4}$ billions of Dominion government securities now held by the chartered banks and the payment to the banks of an equivalent amount of central bank cash. I believe that as part of this proposal also it is suggested that the chartered banks be compelled to retain, immobilized, the cash paid them as a result of the proposed acquisition of their securities by the Dominion government.

The first and obvious result of this proposal would be that the banks would be compelled to continue to service their existing deposit liabilities and would lose the revenue that the relative holdings of dominion government securities formerly produced. The Governor of the Bank of Canada has indicated that the revenue loss so involved would be in the neighborhood of $35 millions a year. In other words, the initial consequence of the proposal would be equivalent to the imposition of an additional tax on the banks of approximately that amount. The banks would then have to consider what steps would have to be taken to offset this substantial reduction in revenue. Obviously, short of abandoning or curtailing business the banks would have to seek relief in directions that could not but involve additional costs to users of banking surfaces, whether as borrowers or depositors.

Further, and without attempting to go too far into the detailed implications of the matter, there is one technical point that I should like to mention. It is true that a proposal along the general lines stated would give the banks a greatly increased volume of cash but this cash would be, as it were, frozen as an offset to an equivalent amount of deposits. Against the remaining deposits the banks would, I presume, be legally required to maintain a 5 per cent cash reserve, although the normal procedure is to maintain approximately a 10 per cent reserve.

But, it is in the nature of the general proposals suggested that the banks would have lost what they now regard—and with good reason—as a necessary second line of reserve, namely, treasury bills and other short-term Dominion obligations. Under such circumstances I think that the banks would be compelled to maintain against that portion of their deposits not covered by the 100 per cent reserve requirement, a substantially higher cash ratio than is their practice at the present time. This would result in an even further contraction in the amount of loans or security purchases that the banks would be able to make.

Q. Yes. Then, in relation to your statement, before you follow the matter through any further you do agree with me that if the government borrows from the Bank of Canada they secure the money interest free?—A. Nearly cost free.

Q. Nearly— —A. Nearly cost free.

Q. Then if they borrow from the chartered banks they borrow at the rate which you indicated for the $2,500,000,000 which they have now borrowed, and that would cost them about $35,000,000?—A. That is what it works out at.

Q. Yes. Now let's look at it that way for a moment. The first proposition I put to you is accurate; the country would save a great deal of money, or the taxpayers would, by borrowing from the Bank of Canada rather than from the chartered banks?—A. Well, the taxpayers who are not depositors with the chartered banks.

Q. Who are not depositors?—A. Yes.

Q. Well then, you agree with the figures I accept which we had from Mr. McNevin yesterday that more than half the taxpayers of Canada, or of the population of Canada—Mr. Moore does not want to include babies or persons under sixteen in that figure—more than half of the population never had any funds in any bank in Canada?

The Chairman: Take an average of one for a family, that is the way it figures out.

The Witness: I could not say, Mr. Slaght.

By Mr. Slaght:

Q. You are putting against my proposition, as I understand you, two factors, one is that if you had to borrow from the Bank of Canada (let us keep to the sum of 2½ billion dollars which we have already borrowed in fact); if you borrowed that 2½ billion dollars from the chartered banks, they would hold our securities for it and then the banks are going to have to what you call service that money when it gets around into their deposit accounts. I think perhaps you overlooked another factor—I want to be fair—that on some of it they would have to pay interest because it would be deposited in savings deposits, and you did not mention that element in your statement that I recall. Now, will you tell me what the system of the Bankers' Association is regarding service charges against the public at your ten banks; what you have been doing over the last three years in that way, or the last ten years, it is suggested.—A. My recollection goes back twenty years.

Q. Did you say twenty years?—A. Yes, in that respect.

Q. And tell me, as president of the association,. what the general policy is, if there is one in the matter of how you fix the service charge to a particular customer?

Hon. Mr. HANSON: First of all, is there a general policy, or does each bank act on its own?

The WITNESS: Each bank acts on its own. There have been from time to time small routine committees appointed through the medium of the association by the various banks to work out the costs of operation. The costs are reported back to the respective general managers and on the strength of that certain bases are worked out.

By Mr. Slaght:

Q. Who can give us those bases?—A. I, as far as our bank is concerned, for savings account. It is one cheque for every $50. One cheque may be issued free for a balance of $50, one cheque per month. And there is no charge to anybody who goes into the bank to draw cash themselves, but if they issue a cheque to somebody else there is a charge.

Mr. MACDONALD (*Brantford City*): But there is no charge if the customer withdraws cash from the bank?

The WITNESS: There is no charge where a customer withdraws cash at the bank.

By Mr. Slaght:

Q. Now then, you are speaking of small savings accounts?—A. Savings accounts.

Q. Now then, that is something; one free cheque per month up to $50.—A. If the balance were $50; if it were $100 it would be two free cheques per month.

Q. And so on up the scale to $500?—A. Yes.

Hon. Mr. HANSON: Are cash withdrawals on the part of the customer free?

The WITNESS: Yes.

Mr. KINLEY: Mr. Chairman, Section 91, subsection 4, of the Bank Act states definitely:—

> No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer.

The WITNESS: That is invariably done, and an agreement is invariably arranged before any charge is exacted.

Mr. KINLEY: It is an individual agreement between the customer and the bank?

The WITNESS: Quite right.

By Mr. Slaght:

Q. Will you produce one of those for us, please?—A. I haven't one here.

Q. You could arrange to get one for us?—A. Yes.

Q. For the little fellow who has got 100 there he gets two free cheques a month; if he issues ten cheques a month, what further service charge do you make him on the eight extra?—A. That would be five cents an item; that would be forty cents.

Q. That would be forty cents; yes, then what service charge do you make your larger customers such as, let us take the T. Eaton Company or the John Inglis Company?—A. The same ratio would apply but it would not be—we never take it in that way because their balances are generally more than ample to cover any cheques that they might issue, Mr. Slaght.

Q. So that the way it works out is that a small man who does not carry much of a balance with you pays more than the wealthier firm or individual who carries a large surplus balance with you?—A. In the first place, the larger balances would be maintained by corporations. The interest rate to corporations is ½ of 1 per cent per annum, and to individuals 1½ per cent.

By Hon. Mr. Hanson:

Q. Let me ask a question. Is it the function of a savings bank account to be used as a current account? Do banks encourage people to use a savings account as a current account or do they desire to have them real savings accounts?—A. I would say that the practice of charging service charges on savings accounts was inaugurated to endeavour to discourage people from using their savings accounts as current accounts.

By Mr. Macdonald (Brantford City):

Q. Are the figures which you have quoted as to these charges figures which apply only to savings accounts?—A. There is another set of charges for current accounts.

Mr. MACDONALD (Brantford City): You will probably come to that, Mr. Slaght.

Mr. SLAGHT: Yes.

By Mr. Slaght:

Q. Give us the method of charging customers service charges on current accounts?—A. One free cheque for every $20.

Q. And after the one free cheque, how much per cheque?—A. Five cents in some cases, maybe 4 cents in some cases, maybe 3 cents.

By Mr. Macdonald (Brantford City):

Q. Is there any charge for withdrawing cash from a current account?—A. An individual coming in and drawing cash—I could not say. I do not think that usually happens.

Q. You referred to it in connection with savings accounts?—A. It does in the savings accounts where they come in and there is what we call a withdrawal receipt. It is not in the ordinary form of a cheque.

By Mr. Slaght:

Q. All we have so far are the combined ten bank revenues from service charges, so that if you do not mind I am going to ask you now to come to your own Bank of Commerce. I do not desire to ask you any questions as far as I am concerned which would not be disclosed in your annual statement if I can help it. In asking you with regard to the Bank of Commerce let me say I have the highest regard for the Bank of Commerce and I am not singling it out in any way, but merely because you have told me that is the only bank you can tell me about as to their practice.

Mr. MACDONALD (*Brantford City*): Mr. Slaght, I do not want to interrupt, but the witness said there was one free cheque for every $20 on a current account. Then he stated that where there were more cheques issued there was a charge of either 3, 4, or 5 cents?

The WITNESS: Yes.

By Mr. Macdonald (Brantford City):

Q. Why the difference in the amounts charged?—A. It might be that those particular cheques were easier to handle. For instance, with payroll cheques they can be run off on the adding machines. It depends on the physical situation surrounding the account.

Q. Is that after an agreement with the customer?—A. An agreeement with the customer invariably. For instance, Mr. Macdonald, if I might illustrate, if a man has on one particular day one hundred cheques coming in you can understand how much easier it is to run through one hundred cheques all at the one time than to have to enter twenty a day or five a day, and so on.

By Mr. Slaght:

Q. Then, if you have your Bank of Commerce annual statement before you—

Mr. GRAHAM: Might I interrupt to ask Mr. Wedd are these all of the service charges, everything in the nature of service charges that the bank makes?

The WITNESS: Yes, those are all the service charges.

By Mr. Slaght:

Q. The capital of your Bank of Commerce is what?—A. $30,000,000.

Q. And the service charges that you collect in a year amount to what?—A. I wonder, Mr. Slaght, if you want me to give our annual figures. I think that very shortly Mr. Tompkins will give you figures of the service charges of all the banks.

Q. I want to avoid this because I have discussed it with Mr. Tompkins. I do not want to take the Bank of Commerce to-day, and then ask for the Bank of Montreal, and so on, going down the line, but I did want to get a break-down of the item that appears in the statement filed on page 2620 of *Hansard* on May 2nd where I find this item. Let me direct your attention to it. Item No. 3 covering the revenue of the ten banks last year was 35·2 million dollars. It is made up of exchange, commissions, service charges and other current operating earnings.—A. There is no reason why I should not give you those figures, as a matter of fact. The service charges which we collected in 1943 were $127,000 on saving accounts and $579,000 on current accounts, a total of $707,000.

Q. About three-quarters of a million dollars.—A. And we have something over a million accounts; we have some 900,000 savings accounts.

Q. Can you give me the total of how much you collected on exchange?—A. I cannot give you that.

Q. How much on commissions?—A. I just happened to have service charges because I knew you were interested.

Q. Then there is "other current operating earnings". What other types of earnings have the banks got besides commissions, service charges, and exchange?—A. There is foreign exchange, inland exchange, commissions on drafts, commissions on victory loan bonds. That is handling them for the government. I do not know whether I can think of any more at the moment.

Mr. BREITHAUPT: Letters of credit.

The WITNESS: Safekeeping charges as well, safekeeping charges plus safety deposits.

By Mr. Slaght:

Q. And bank boxes, and so on?—A. Safety deposit boxes.

Q. That pretty well covers the field. May I take it that my suggestion that if the Dominion of Canada—I am not getting into any of your customers, other than the taxpayers of this country—borrowed from the chartered banks, that would not interfere with any of your revenue we have just been discussing?—A. This particular revenue?

Q. This particular revenue?—A. No.

Q. Which happens to be 35·2 million dollars.

Hon. Mr. ILSLEY: You said chartered banks.

Mr. SLAGHT: Is there confusion there? I will put it again so we will be clear. The witness seemed to understand it. If the suggestion I have made that the Dominion of Canada for its necessary excess borrowings, and only for that, should go to the Bank of Canada instead of the ten chartered banks, and they did so, their doing that would not interfere with the revenues you and I have been discussing?—A. The 35·2 millions—no.

Q. You would get all that revenue anyway?—A. Yes.

Q. So it would not interfere with that, and that just happens to be the amount that you say you would lose—perhaps Mr. Towers gave us the figure—by not having this privilege of the ten to one loaning in excess of the reserves you hold.—A. The $35,000,000 would come under the item which is immediately above that in that statement.

Q. Wherever it comes from my proposal would not interfere with your going on and collecting from your customers these various items that make up the $35,000,000? You have told me that?—A. Quite right.

Mr. GRAHAM: Mr. Chairman, may I ask one question there.

By Mr. Graham:

Q. If by any chance the confidence of your customers in the safety of the banking system was either lost or lowered as as result of either of these views you would lose in all likelihood revenue from all sources?

Hon. Mr. HANSON: That is indirectly, but he is not speaking of that.

Mr. SLAGHT: He is complaining because if Canada borrows from the Bank of Canada that money will be turned loose into the chartered banks and they will have to service it, but they will also use it for all of this business that we have just found brings you a gross of $35,000,000?

The WITNESS: Gross.

By Mr. Slaght:

Q. And if you had more money to service why would not these figures on commissions and exchange, and so on, increase for you instead of decreasing?—A. That would be the case but not proportionately, I suggest.

Q. There would be an increase though?—A. There would be.

Q. And the fattening of your profits to that extent, whatever it might be?—A. Whatever it might be.

Q. Then, if you could be furnished with a copy of exhibit No. 6, page 113 of the evidence of this committee on Thursday last, I should like to direct you to a couple of items there for a moment; the total paid-up capital of the ten banks, including the Bank of Commerce which I see is here at $14,000,000 and $15,000,000—is $145,500,000?

Mr. TOMPKINS: That is all the banks.

Mr. SLAGHT: I am going down the schedule. That item appears there under the heading of total paid-up capital of the ten banks, does it not?

The WITNESS: Mr. Slaght, you have to take the figure—

By Mr. Slaght:

Q. I am going to take it but let us work it out, if you will. Is not that item put there by Mr. Tompkins on information furnished by the ten banks to him the total paid-up capital, $145,500,000.—A. $145,500,000, but, Mr. Slaght, the capital of the Canadian Bank of Commerce is $30,000,000. The two figures have to be added together.

Q. I just told you that there was 14 something and 15 something, making $30,000,000.—A. I did not hear you.

Q. You will find that those two figures are added together along with similar figures of other banks and make $145,500,000?—A. Quite right.

Q. What do you find to be the total reserve funds of the ten chartered banks? Look at the table and see if you agree it is $136,750,000?—A. That is right.

Q. So that adding the $145,500,000 and $136,750,000 we would find $282,-000,000 in capital and reserves?—A. Quite right.

Q. Now, I am interested in an item on the same page, amount of reserve fund from cash premiums on stock issues, $67,534,317, and the amount thereof set aside from profits, $58,459,544. Is that right?—A. That is right.

Q. And added in connection with purchases of assets of other banks, $40,256,135, making a total of $166,000,000 which would be the reserve fund but for a deduction that is made. Is that right?—A. That is right.

Q. The net reserve as we have it here is $136,750,000. Now then, the deduction made is $29,500,000, is it not?—A. That is right.

Q. Let us take the item referable to the Bank of Commerce and it reads this way: "Less reductions in reserve funds of the following banks in 1933 for the purpose of restoring inner reserves". Do you see that phrase?—A. I see it.

Q. And then there is the Provincial, Royal, and so on. I am interested now only in the Commerce. There is a deduction of $10,000,000 in the year 1933 for the purpose of restoring inner reserves. What are inner reserves as distinguished from the reserve fund?—A. Inner reserves, Mr. Slaght, are those appropriations which have been set up to cover against possible potential losses.

By Hon. Mr. Hanson:

Q. Pardon?—A. They are set up to cover against potential losses that might appear from time to time.

Mr. SLAGHT: It is not an item of real loss.

Mr. FRASER (*Northumberland*): Yes.

Mr. SLAGHT: The witness will take care of himself on this.

The WITNESS: Mr. Slaght, if John Smith owed us $1,000, and we had to write off the $1,000 it would come from this account.

By Mr. Slaght:

Q. But I am suggesting to you you have not had to write that off in arriving at that amount, that that was a sum estimated arbitrarily by your bank which you placed in what you called the inner reserve or inner sanctum of moneys, put it to one side. Is that right?—A. Oh, I do not think that is a fair way to put it.

Q. Then, what is an outer reserve or an ordinary reserve?

Hon. Mr. HANSON: Is not this inner reserve the same as a commercial company sets up, a reserve in case of loss of inventory?

Mr. MCGEER: Leave it to the witness.

Hon. Mr. HANSON: All right. We are all interestd in this.

Mr. KINLEY: Go ahead.

By Mr. Slaght:

Q. Would you mind answering?—A. An outer reserve and an inner reserve are naturally the same thing.

Q. I see. What is the reason for the bankers using two different titles for two different sets of figures, if that answer is correct?—A. Mr. Slaght, banking is a delicate business, in a way, from the standpoint of confidence.

Q. It has been a mysterious business to some people. You say it is a delicate business.—A. From the standpoint of confidence.

Q. Delicacy requires two designations for the same thing, then. Let us understand that. What is the delicacy that forces that?—A. Well, I might put it this way. One particular institution in a certain area might have some quite difficult times, due to being in a community where there had been a series of crop failures. Consequently their losses in that one particular year might be quite large.

Q. I can understand that.—A. And therefore rather than have those appear in any one year, it has been the practice in banking over the years to have a certain inside stand-by, so that there will not appear to be any drastic movements in their reserves.

Q. Could you tell me—

Mr. JAQUES: May I ask a question there, Mr. Chairman. Are these inner reserves disclosed?

The WITNESS: They are not disclosed, no.

Mr. SLAGHT: No.

Mr. JAQUES: You might say they are hidden reserves.

Mr. SLAGHT: Some people call them that.

The WITNESS: Some people call them hidden; some people call them secret.

Hon. Mr. HANSON: Inner reserves.

By Mr. Slaght:

Q. Although they are not disclosed, they are the same thing in effect, you have told this committee, as the reserves you do disclose?—A. They are the same thing; but for reasons that have developed over the years it is considered sound to discriminate.

Q. Why hide them from the government auditor?

Hon. Mr. HANSON: Are they?

The WITNESS: Mr. Slaght, the government inspector general and the Minister of Finance have access to all of the figures for all of the banks; and that has always been the case, to my recollection. The Minister of Finance has the picture of every bank, including the inside reserves, and the Inspector General also.

By Mr. Slaght:

Q. With regard to the Bank of Commerce, you have told me of the $10,000,00, reduction in reserve fund for the purpose of restoring inner reserve. Will you tell me the hidden or secret reserves of the Bank of Commerce that they have piled up during the years and tell me what you call the ordinary reserves? Let us have the two, please.—A. Well, Mr. Slaght, I do not think you should ask me to disclose the hidden reserves. May I inject this. You will notice that in 1933 we had to take $10,000,000 from our outside reserve and put it into our inside reserve. I think you can conclude from that that at that particular time our inside reserve must have been pretty well thinned down.

Q. Yes. But why secrete it, if you have shareholders who are entitled to know what is going on in your manipulation of your reserve? And I do not use the term offensively.—A. Please do not.

Q. Why secrete it from the shareholders? Let us have that first.—A. Mr. Slaght, I do not think the shareholders have ever asked for that information. I think they fully understand that that is the practice, and they are quite satisfied.

Q. I see. There may be a measure of truth in that; but let me suggest to you that that shatters your answer, or perhaps it was not yours. Somebody volunteered the other day that the chief concern of the chartered banks was the general public and not their own shareholders. What do you say to that question?—A. I think that of necessity the chief concern of a chartered bank must be to the public, because we have to make our living by satisfying the public; and a satisfied customer will eventually produce dividends.

Q. But as between the public who are not shareholders of your bank, and the shareholders of your bank, this is a hidden fund, the amount of which you do not want to give us to-day, which belongs to your shareholders and not to the public?—A. Quite right.

Q. Quite right. I should like to facilitate you in this way. Again I want to be free from any suggestion that I am picking out the Bank of Commerce or any one particular bank. But can you and Mr. Tompkins, working together—and you are president of this association—for your ten chartered banks give me the hidden reserves of all of them and let them be disclosed to this committee? And if not, why not?—A. Mr. Slaght, Mr. Tompkins has had those figures for many years, and the Minister has had them for many years; and we are quite willing to leave it in the Minister's hands.

Q. Yes. Then may I take it that you consent—although a moment ago you did not want to; perhaps it was because it was your individual bank, and I can understand that—if we, a parliamentary committee, need your consent, to the secret coming out as to how much hidden reserves the ten chartered banks have hidden away in the last fifty years; and you are authorizing now, as I understand it, the government inspector, Mr. Tompkins and the Minister of Finance to disclose it to the peoples parliamentary committee?—A. Mr. Slaght, I do not think we should be asked to disclose that.

Q. I am going to press for that, I may warn you. I now ask you why the representatives of the people in parliament, who are being asked to renew your charter for ten years, without which you cannot do business, should have hidden from them the secret hidden reserves which I suggest to you represent profits they made out of the taxpayers. Why hide it?—A. Mr. Slaght, the figures are given to the Minister. I am sure that all of the members of this committee have confidence in the Minister and are satisfied to leave it in his hands.

Q. My friend, it is not a matter of confidence in the Minister at all. Parliament did not appoint the Minister to conduct this inquiry, if I may put it to you. Parliament appointed this committee to conduct this inquiry and desired this committee to have the facts, with no hidden secrets by the bankers. Can you offer any other reason why these hidden reserves should not once and for all be disclosed?—A. Mr. Slaght, whatever the laws are, we will comply with them.

Q. That is not good enough. Have I your consent, as far as you can give it as president of the Canadian Bankers Association, for the ten banks to authorize Mr. Ilsley and Mr. Tompkins—and we do not want any battle with them about it—to disclose that hidden secret to this committee?—A. In the first place, as president of the Bankers Association, I know nothing whatsoever about any of the reserves of any other chartered bank.

Q. I am not pressing you to give your own, because I do not want to single you out. Will you tell me as president of your Bank of Commerce?—A. General manager.

Q. I beg your pardon?—A. I am general manager.

Q. I am sorry. As general manager, then, will you tell me what earthly reason there is for hiding this reserve unless it is to deceive parliament and the public as to the big profits you are making?

Hon. Mr. HANSON: There is an innuendo there.

Mr. SLAGHT: It is an innuendo, but not intended to be a nasty one. But if there is a reason, I think it is due to this banker that he should give the reason, and I want to give him every chance to give it.

The WITNESS: Well, Mr. Slaght, do not the figures rather demonstrate that those reserves cannot be very large when they were drawn down in 1933?

By Mr. Slaght:

Q. Are you asking me as a member of the committee to take an answer that they cannot be very large or they need not be very much, and not give me the truth about what they are?

Hon. Mr. ILSLEY: Mr. Slaght, would you have any objection to Mr. Tompkins giving the reason now for the non-disclosure of the inner reserves?

Mr. SLAGHT: I prefer that I get the banker's reaction first, and then fall in with your suggestion, sir. But may I first have the president of the ten banks tell us why they have been hiding them?

The WITNESS: Mr. Slaght—

Mr. SLAGHT: And then Mr. Tompkins can say anything he likes.

The WITNESS: Not of the ten banks. You are very flattering, Mr. Slaght.

Mr. SLAGHT: I beg your pardon?

The WITNESS: You said I was president of the ten banks. That is very flattering, but it is not the case.

Mr. SLAGHT: Oh, you know what I mean.

Hon. Mr. ILSLEY: Mr. Slaght, if you will permit me to say so, you are using such terms as "hidden secrets" and "secrets that have been hidden over the years."

Mr. SLAGHT: The witness has acquiesced.

The CHAIRMAN: Please let the Minister finish his remarks.

Mr. SLAGHT: I beg your pardon.

Hon. Mr. ILSLEY: I think it is in the public interest—and I would respectfully suggest that it is—that at an early stage after you used that language, we should revert to the Inspector General of Banks to give the reason why there has been no disclosure over the years.

Mr. SLAGHT: Yes. I think we should have it at once. I do not want the press to get any wrong impression.

Hon. Mr. ILSLEY: No.

Mr. SLAGHT: But, Mr. Minister I prefer first, if you do not mind, to have an explanation from the witness this being the gentleman concerned by what is disclosed when I found that little item in the return of inner reserves. I think he ought to have a chance, for the banks, to tell us why they are inner and he says hidden, and he does not want to tell us. Now, why?

Hon. Mr. HANSON: He has told you.

Mr. JACKMAN: Confidence of the depositors.

Mr. SLAGHT: If the committee desire me to permit somebody else to interrupt this examination, and permit the president of the association to decline to answer, all right. If he says he cannot tell us why, I will have to take his answer. Then we will go elsewhere.

Hon. Mr. ILSLEY: I think he has pretty well answered.

Mr. SLAGHT: If he has well answered it, what do you want somebody else for?

Mr. GRAHAM: Mr. Chairman, speaking on my own behalf, I thoroughly agree with the Minister that the committee's deliberations will be benefited by having the reasons that the Inspector General appointed by the government, cares to give to the committee. It goes to the matter of weight, and I should very much like to know the reasons.

Mr. SLAGHT: I have such a high regard for the Minister's views that I am going to bow to his suggestion; but I do say that we have not had, or at least I have not had a satisfactory answer from the president of the association as to why they should be hidden and remain hidden from this committee. Let him give us the last word that he can give us and let us have Mr. Tompkins.

The WITNESS: I think that what I have said is as far as I can go.

By Mr. Slaght:

Q. That is as far as you can go. You cannot help us any further. You still persist that in your opinion that ought not to be disclosed to this committee?—A. That is my opinion.

Q. That is your opinion?—A. Yes.

Hon. Mr. HANSON: Mr. Chairman, I move that the Inspector General be asked to give those reasons.

Mr. SLAGHT: I second the motion.

Mr. MCGEER: Mr. Chairman, if I may be permitted to say a word, I do not want the suggestion to go out that I am acquiescing in this witness being through because this new witness comes on.

Mr. SLAGHT: There is no suggestion of that, I take it.

Mr. MCGEER: I now have reference to this specific item of inner reserves. Whatever answers Mr. Tompkins may make now, that does not preclude us from going into further examination of this banker or any other banker.

Mr. SLAGHT: No. I do not think Mr. Ilsley intended that. May I put a question or two to Mr. Tompkins. You have heard the chairman of the Bankers' Association?

Mr. TOMPKINS: The president.

Mr. SLAGHT: Thank you, the president. You have heard him say that he does not want to disclose to this governmental committee the inner reserves which he has told me are hidden reserves or secret reserves that even the shareholders are not allowed to know. Do you agree with him or not?

Mr. TOMPKINS: I do.

Mr. SLAGHT: You agree with him?

Mr. TOMPKINS: Yes.

Mr. SLAGHT: So coming to Mr. Tompkins, we are going to find another stone wall. You are not prepared to give this committee the amount of the inner or hidden reserves of the ten chartered banks made over the last fifty years. Is that your position?

Mr. TOMPKINS: I should like to make a general statement on that.

Mr. SLAGHT: I will permit you to do that in a moment. But your position is you do not want to disclose that?

Mr. TOMPKINS: I do not think it is desirable.

Mr. SLAGHT: I am going to let you give the reasons in a minute. Now may I ask you this. Those hidden reserves arose out of profits from the taxpayers and customers of the bank?

Mr. TOMPKINS: To a large extent.

Mr. SLAGHT: To a large extent. What other source did they come from?

Mr. MACDONALD *(Brantford City)*: The taxpayers?

Mr. SLAGHT: All right; from the people of Canada who do banking business, and we have heard a good many do.

Mr. MACDONALD *(Brantford City)*: Customers of the banks.

Mr. SLAGHT: From the people of Canada who do business with the ten chartered banks and that would be all the people of Canada who do commercial banking in Canada. That hidden reserve came out of their pockets, properly if you like.

Hon. Mr. HANSON: Mr. Chairman, I rise to a point of order. I made a motion that Mr. Tompkins be now asked to make a statement, and not that we have a speech from my brother Slaght.

Mr. FRASER *(Peterborough West)*: I second that motion.

The CHAIRMAN: I think Mr. Slaght seconded it.

Mr. SLAGHT: I resent the honourable member for York-Sunbury saying that I have made a speech. I have directed a question to him every time I have approached Mr. Tompkins.

The CHAIRMAN: Suppose we have a statement from Mr. Tompkins.

Mr. SLAGHT: Very well.

Mr. JAQUES: I think he has made it. He could not disclose it.

Mr. SLAGHT: Oh, no. That is not fair. Let us be fair to Mr. Tompkins in whom I have great confidence and for whom I have great respect. Now, Mr. Tompkins, the floor is yours. Why hide these reserves from us?

Mr. TOMPKINS: Mr. Chairman, I rather anticipated that this question would be asked, and I was wondering at one stage or the other as to whether I should interject myself in the discussion.

Mr. SLAGHT: You are in it now.

Mr. TOMPKINS: I am in it now, and I am prepared to make a general statement. This is a question that has occupied the attention of our banking committees on various occasions during previous revisions of the Bank Act. I object to the terms "hidden" or "secret" reserves; I prefer to call them inner reserves, because there is nothing sinister or evil in them. They are set up for the purpose of good and prudent banking. That is my first statement.

Mr. FRASER *(Northumberland)*: They are necessary reserves.

Mr. TOMPKINS: Yes, they are necessary reserves, prerequisite, if you like, to good and prudent banking. Now, may I proceed from there. Knowing that this question would be raised I made some extensive notes on it and I would like to make a statement and then the hon. member for Parry Sound or any other members of the committee who wish to question me may do so and I shall be quite willing to try to answer their questions.

Inner reserves are in the nature of precautionary reserves, set aside from time to time out of the current earnings or capital or non-recurring profits, over and above the reserve funds and undivided profits shown by the balance sheets of the banks. They are drawn upon when necessary, more particularly in years when ordinary earnings are not sufficient to provide for losses of various kinds, and they constitute a cushion against abnormal or unexpected losses in loans, investments or other assets and for unforeseen contingencies in general In that way they serve as a species of insurance in the interests of both depositors and shareholders of the banks. It should be borne in mind that specific losses in banking frequently extend over a long period and cannot always be estimated with strict accuracy from year to year nor allocated accurately in the final result to specific years.

The amount of these reserves is deducted from loans, investments or other assets in monthly and annual statements, the result being that such assets are shown after allowance for shrinkage, or at what would be normally called conservative values.

Now, similar reserves are carried by banks in Great Britain and the United States and they are no secret so far as public discussion is concerned; but certainly no details of their extent have ever been disclosed, just in the same manner as details of industrial companies, reserves for inventory and other purposes are not always disclosed precisely in published statements.

Mr. MACDONALD (*Brantford City*): Do you know if they have been demanded by any parliamentary committee in any other country?

Mr. MCGEER: They were demanded and they were disclosed.

Mr. TOMPKINS: Similar reserves were carried by banks in Great Britain and the United States and in many other countries.

With regard to the suggestion that this information be disclosed by a public statement, this has been discussed in the committee—in the Banking and Commerce Committee of the House of Commons in 1923 and 1933 and on various other occasions, and if the necessity arises for referring to those occasions I have opinions from other authorities which relate to that particular matter.

Mr. JAQUES: Can you give us the reference?

Mr. TOMPKINS: I will in a moment, Mr. Jaques. I have always felt strongly—and any opinions I use are shared by the most responsible authorities, much more responsible than I am—that the extent of such reserves should not be so disclosed. Fluctuations therein and particularly substantial reductions during lean years would be liable to misinterpretation by a considerable section of the public who do not fully understand the purpose of these reserves in the first place; and any disproportionate change in individual bank figures, so far as publishing them is concerned, would certainly be likely to lead to unfair interpretations of an individual bank's position against some other bank.

Mr. SLAGHT: Is that because of the size of them?

Mr. TOMPKINS: Not necessarily; it relates also to the extent of the operations of a bank, the number of its branches and various other special phases of their business as compared with bank A or bank C or bank Z.

I emphasize again that these are in the nature of a stabilization factor in banking, and the impression that is sometimes created, and we have heard it mentioned in various quarters, that they reach some fantastic figure is certainly not in accordance with the facts.

Mr. SLAGHT: Would it not be a good thing to clear that up?

Mr. TOMPKINS: Just a moment. This is evidenced, if in no other way, by the fact, as the President of the Canadian Bankers' Association has mentioned, that the banks found it necessary in those very distressful years of 1931, 1932 and 1933, as the result of conditions which arose in those years—certain of the banks found it necessary to reduce those reserves, published reserves, in order to restore the inner provision they had against unexpected losses. I might say there that those reductions in the published reserves of the banks from 1933 were by no means peculiar to Canadian banking; we have a very fine precedent in the action which was taken by British banks, as a result of Britain going off the gold standard in 1931, to reduce very substantially their published reserves, and the banks in the United States acted in a similar way.

I make this general statement that I consider—and I know what they are—I must necessarily know if I am to assess the financial position of the banks as a whole—that the existing reserves of the banking system in general are entirely reasonable, having regard to the present and prospective risks in the banking business.

Mr. MACDONALD (*Brantford*): Who else has that information?

Mr. TOMPKINS: It is available to the minister through me; outside of the individual banks we are the only ones who are entitled to know it. I should say the minister and the deputy minister and myself.

Mr. MACDONALD (*Brantford*): And the Governor of the Bank of Canada?

Mr. TOMPKINS: Not necessarily. You will, perhaps, observe that there is a provision in this Act making provision for certain information regarding the banks being made available to the Governor of the Bank of Canada in addition to the Minister of Finance and the Deputy Minister of Finance. I have always been strict in the statutory limitations placed upon me in that respect, but I welcome, and I think it is only right, that the Governor of the Bank of Canada should have access to the information which is available to me in the course of my examinations.

Hon. Mr. ILSLEY: The legal position now is that the Governor of the Bank of Canada is not entitled to this information unless it is communicated to him by the Minister of Finance.

Mr. MACDONALD (*Brantford*): The Minister of Finance is empowered to communicate that information to the Governor?

Mr. SLAGHT: Does he know?

Hon. Mr. ILSLEY: I do not know whether he does or not.

Mr. SLAGHT: If you have never communicated it—unless Dr. Clark has —perhaps for the present you could tell us whether the Governor does or does not know? It might be a safeguard to the public if he knew, even if we are not to know.

Mr. TOMPKINS: I can answer that. At the moment the Governor does not know.

Mr. SLAGHT: The Governor does not know? That is another secret.

Mr. MACDONALD (*Brantford*): So I take it that the only people who know what these reserves are are the directors of the particular banks, the Inspector General, the Deputy Minister of Finance and the Minister of Finance.

Mr. TOMPKINS: That is correct.

Mr. FRASER (*Northumberland*): Before Mr. Tompkins proceeds will he tell the committee whether these reserves are written out of profits before or after taxation.

Mr. TOMPKINS: Before taxation.

Mr. FRASER (*Northumberland*): In other words—

Mr. TOMPKINS: In other words, I should, perhaps, make this very general statement; I think the same situation prevails as in Great Britain—

Mr. FRASER (*Northumberland*): I do not think we are interested in that.

Mr. TOMPKINS: I would like to quote it as a matter of guidance if for nothing else—as an example.

Mr. SLAGHT: We will have to tell you what the Archbishop of Canterbury says about banking.

Mr. TOMPKINS: I haven't very much respect for the Archbishop of Canterbury in this regard, if I may say so in this committee.

Mr. FRASER (*Northumberland*): Let us get back from the church to the bank. It seems to me to be extremely vital to this committee to know, Mr. Tompkins, whether these reserve items are written as an operating cost or whether they are written into these contingent reserves after taxation, and excess profits tax have been paid.

Mr. SLAGHT: He said before.

Mr. FRASER (*Northumberland*): After or before?

Mr. TOMPKINS: I am endeavouring to put it this way, Mr. Chairman: there is recognition of the need for reasonable reserves of this character before arriving at net profits for taxation purposes. That is what I am endeavouring to say in a general way.

Mr. KINLEY: Are they not written back again to liquidate the account?

Mr. TOMPKINS: Very frequently; losses are taken in some years.

Mr. KINLEY: You get the money afterwards; they are written back.

Mr. TOMPKINS: Losses are taken in some years and losses are provided for in some years which do not ultimately prove to be sufficient. These reserves are set up as I said a moment ago for the purpose of looking after those situations in succeeding years. That is the justification for them, but as far as—

Mr. SLAGHT: Christmas never comes in that business.

Mr. MACDONALD (*Brantford*): What is the difference between the ordinary reserves and the so-called secondary reserves?

Mr. TOMPKINS: By the ordinary reserves, I presume the hon. member refers to the published reserve fund of the bank?

Mr. MACDONALD (*Brantford*): Yes.

Mr. TOMPKINS: Those are published from month to month in connection with a bank's statement.

Mr. MACDONALD (*Brantford*): What is the purpose of those reserves? What are they used for?

Mr. TOMPKINS: They are simply book entries on the books of the bank; partially, as already indicated by statements filed, constituted partly by premiums paid, actually paid by shareholders on issues of stock.

Mr. CLEAVER: Are these inner reserves taxed or not?

Mr. TOMPKINS: I made a general statement, Mr. Cleaver, that recognition was given to the need for these reserves for taxation purposes, the same as is done in England.

Mr. CLEAVER: I take it your answer is that they are not taxed?

Mr. TOMPKINS: Not necessarily all.

Mr. FRASER (*Northumberland*): I would like to get this point clarified before this committee. In the usual system of accounting—

Mr. SLAGHT: I rise to a point of order. At the behest of this gentleman who has popped up now I yielded and I was quite glad to have Mr. Tompkins make an uninterrupted statement, and I suggest that we carry out the course the committee agreed on and allow Mr. Tompkins to make his statement and then we can cross-examine him.

The CHAIRMAN: I agree with you, Mr. Slaght, and I suggest that we allow Mr. Tompkins to finish his statement.

Mr. FRASER (*Northumberland*): Mr. Chairman, on Mr. Slaght's point of order, and in order to get this record clear so that the committee as individuals and collectively will understand the situation, I submit to you that it is imperative that we clear up this one point at this juncture.

Mr. SLAGHT: Oh no, no; what is so imperative about it?

The CHAIRMAN: I still rule that Mr. Tompkins ought to continue his statement.

Mr. TOMPKINS: I merely wish to add to my remarks—

Mr. FRASER (*Northumberland*): How long will it be before I will be able to ask questions again?

Hon. Mr. HANSON: Now, just a minute, please.

Mr. TOMPKINS: I would like to conclude my remarks by saying that I consider the inner reserves of the banks are reasonable, having regard to present and prospective risks in the banking business. I think that is a fair statement. I was also going to add, but perhaps it is superfluous, that these reserves are the moneys of the shareholders.

Hon. Mr. HANSON: Are what?

Mr. TOMPKINS: Are the moneys of the shareholders and could be paid out to the shareholders in the form of additional dividends.

Mr. SLAGHT: But they did not even know they were there.

The CHAIRMAN: Suppose we allow Mr. Tompkins to continue.

Mr. TOMPKINS: The hon. member from Parry Sound suggests that the shareholders cannot get this information; it is always open to them to request it at any annual general meeting of any bank, they can ask for information regarding their reserves, their policies in general and the various other matters that come up at such meetings; so I trust I do not need to labour that point.

Mr. MCGEER: And it is always open to the shareholders to vote that down.

The CHAIRMAN: Let Mr. Tompkins finish.

Mr. TOMPKINS: I would not attempt to impose my views against the majority.

Mr. MCGEER: No.

Mr. TOMPKINS: And I also wish to emphasize, as the minister himself indicated by the information which he placed on *Hansard* earlier this year—that the total earnings, that is to say the total earnings including whatever was set aside for this reserve, was equivalent to only 6·03 per cent of the equity, or the shareholders' investment, as represented by the capital, reserve funds and undivided profits of the banks.

The CHAIRMAN: Mr. Slaght has the floor.

Mr. CLEAVER: Mr. Slaght, would you mind me asking one question?

Mr. SLAGHT: Certainly; if you mean one.

Mr. CLEAVER: Are the excess or any reserves ever transferred to general reserves and if so, are they taxed when transferred?

Mr. TOMPKINS: Not in my own experience, sir. I have been in this particular post now for almost twenty years and there has never been an adjustment of that kind in that period.

Mr. CLEAVER: I am afraid that I am going to have to ask leave to ask a second question, unless Mr. Slaght objects?

Mr. SLAGHT: No, go ahead; make it two.

Mr. CLEAVER: It is this: to what point would you in your permission permit any reserves to climb before you would say to the banks: now these are totally unnecessary, they must be transferred to general reserves and they must be taxed?

Mr. TOMPKINS: I think that is a very proper question, Mr. Chairman. I could not answer it by any rule of thumb.

Mr. CLEAVER: You can relate it to the stock subscribed.

Mr. TOMPKINS: What I wish to emphasize is this: that one has to consider not only the total loans, but the character of the loans, the different industries, shall I say, and the other different types of loans.

Mr. CLEAVER: The volume of risk on loans?

Mr. TOMPKINS: The volume of the risk; and the same consideration applies equally to the volume and the risk of the different types of investments of the banks. At the moment I cannot think of a situation existing where an unreasonable amount would—

Mr. McCann: What is the amount of the reserve set aside?

Mr. Tompkins: There is nothing set.

Mr. McCann: What is the practice?

Mr. Tompkins: There is no rule of thumb.

Mr. Slaght: It is the whim of the directors of the bank?

Mr. Tompkins: Not necessarily.

Mr. Slaght: Who passes on it first?

Mr. Tompkins: The directors of the bank.

Mr. Slaght: The directors of the bank?

Mr. Tompkins: Naturally.

Mr. Slaght: And who has any power to veto their resolution as to setting aside say ten millions or fifty millions?

Mr. Tompkins: I suggest that there is a moral authority at least which rests with the department of finance.

Mr. Slaght: Leave the moral authority out of it at the moment. We are asked to revise the Bank Act. That is legal authority. But there is nobody but the directors of an individual bank who can veto there. Let us take it a little further, let us disregard the Bank Act for the moment, who could veto their decision in that regard? You could not?

Mr. Tompkins: It is not in the statute at the moment.

Mr. Slaght: It is not in the statute, don't you think it should be?

Mr. Tompkins: I am not so sure.

Mr. Slaght: You are not so sure; then if I understand your answer you believe in their having authority to pass over to reserves as much of their entire capital in one year as they want to—

Mr. Tompkins: That is jumping to conclusions.

Mr. Slaght: You do not want this committee to know. You have no power to stop them if they do take too much; and the tax collector of Canada would suffer if they took an unreasonable amount. Perhaps I should ask you, why do you suggest that at least yourself or the Minister of Finance, or the head of the Bank of Canada, who is supposed to have control and who does not even know—why should not we, or someone of these authorities have the right to say you are putting aside too much this year.

Mr. Tompkins: That is a matter of opinion. But as I was endeavouring to convey to the committee, in my opinion at least, they would and have been and are being used reasonably, they are trustees—

Mr. Slaght: Oh, I know; they say they are trustees for this one and trustees for the other, and trustees for the future; but we have a duty to the public to perform here. However, I have your view on record; you do not think anybody should be allowed to stop them and that in any given year they should be allowed to pass over it to the inner reserve paying no taxes on it and not disclosing it to their shareholders nor giving an accounting to parliament even; and that is the situation you think we should perpetuate and still renew their charters; is that it?

Mr. Tompkins: That is it.

Mr. Slaght: That is it. All right.

Mr. Tompkins: Yes.

Mr. Slaght: Now, I have just a few questions, I will not keep you long. You agree with me that under the British North America Act, Section 91, under our constitution the control of currency banks, the incorporation of banks and the issue of paper money is vested in the dominion of Canada?

Mr. TOMPKINS: That is elemental.

Mr. McGEER: No, no, constitutional.

Mr. SLAGHT: However, that is the provision of the British North America Act?

Mr. TOMPKINS: I do not wish to quibble about the constitutional issue.

Mr. SLAGHT: Will you agree with me that we have transferred away from the Dominion of Canada into the power of the chartered banks the power to create money?

Mr. TOMPKINS: May I say this, I do not know what you are leading up to, but if it is in the realm of what is a technical description of money—

Mr. SLAGHT: You and I are quite agreed about that, it is a medium of exchange; does that suit you?

Mr. TOMPKINS: Very good.

Mr. SLAGHT: And we have taken away from parliament what the constitution vested in parliament and given it to the chartered banks: the right to create the medium of exchange; which I suggest to you is either currency or bookkeeping entries.

Mr. TOMPKINS: No, I would suggest to you that that authority is vested in the Bank of Canada.

Mr. SLAGHT: I beg your pardon?

Mr. TOMPKINS: That still remains the power of the Bank of Canada.

Mr. SLAGHT: You say that still remains a power of the Bank of Canada?

Mr. TOMPKINS: Yes.

Mr. SLAGHT: Well then, we have taken away from you to that extent your ordinary means of earning, I mean from the technical standpoint as far as the shareholders are concerned, one-quarter of one per cent. However, that is a right which was given specifically by the British North America Act to parliament and parliament alone, and that was given over to your bank. That is the result of it, is it not?

Hon. Mr. HANSON: That is a fact you assume, it is not even proven.

Mr. SLAGHT: This gentleman knows more about it than you do, Mr. Hanson.

Mr. TOMPKINS: I know very little about it.

Mr. SLAGHT: Who was the chairman of this committee in 1934 when the members endeavoured to get this secret information and apparently could not; who decided to refuse it, did you?

Mr. TOMPKINS: I do not suggest—

Hon. Mr. HANSON: If the hon. member for Parry Sound wishes to know it, I was the chairman of the committee.

Mr. SLAGHT: Then you were the chairman of the committee which stopped this information being given?

Hon. Mr. HANSON: I was the man who acted as chairman. I did not stop the Committee from getting it.

Mr. SLAGHT: Is that correct? Your recollection is very good.

Mr. TOMPKINS: It is not intended as an evasion at all.

Mr. SLAGHT: Did I hear some people back there?

Mr. KINLEY: I said "Is this a police court?"

Mr. SLAGHT: My friend can practice in the police court. I have not for thirty years. He knows more about it than I do.

Mr. KINLEY: You have got a long memory.

The CHAIRMAN: Order, please.

Mr. SLAGHT: Then, Mr. Tompkins, have I struck the chairman of that committee who refused it ten years ago?

Hon. Mr. HANSON: I object to that. I did not refuse anything ten years ago. The committee did.

Mr. SLAGHT: I said the chairman of the committee.

The CHAIRMAN: Order, please.

Hon. Mr. HANSON: I was chairman of the committee and I refused nothing.

The CHAIRMAN: Order, please.

Mr. SLAGHT: If my friend will not interrupt me I will proceed.

The CHAIRMAN: Pardon me just for a minute. We have taken up now about three minutes trying to find out who was chairman of the Banking and Commerce committee in 1934, and we all know who he was. Let us proceed.

Mr. SLAGHT: I do not think all the committee knew it. They all know now.

Mr. McGEER: The public do not know, and the public are interested as well as this committee.

The CHAIRMAN: I think the public know quite a bit.

Mr. McGEER: And they are going to know more. We hope you will not stop them from knowing more.

Mr. SLAGHT: Let me ask you this. Do you agree with me that under the constitution, that right having been vested in the Parliament of Canada, we have given to some private individuals a co-right to exercise what the B.N.A. Act gave solely to parliament. We have given part of it away?

Mr. TOMPKINS: Is that not still within the jurisdiction of parliament?

Mr. FRASER *(Northumberland)*: I rise to a point of order. I was taken to task a few minutes ago because I asked Mr. Tompkins a question relevant to the subject on which he was being questioned. Now the examining counsel has broadened his scope to the extent that we have got who was chairman of the Banking and Commerce committee ten years ago, and who has the right to issue credit. On a point of order I submit to you I have the right, as a member of this committee, to put to Mr. Tompkins the question I had in mind a few minutes ago.

The CHAIRMAN: With your permission, Mr. Slaght, for the interruption?

Mr. FRASER *(Northumberland)*: You are ruling, not Mr. Slaght; you are the one who is ruling.

Mr. SLAGHT: I have a few further matters but if Mr. Fraser was deprived of asking a question let him ask it, but then I should like to continue my examination.

Mr. FRASER *(Northumberland)*: My question. Mr. Tompkins, is this. In connection with these hidden or necessary reserves my first question is, is it the practice and accepted custom to deduct these hidden reserves or necessary reserves from your profits before taxation?

Mr. TOMPKINS: I think I answered that in effect before. There will be years when losses will be very much in excess of other years, but the practice is, as I understand it, to give effect to the necessity for reasonable reserves over a period to take care of losses in banking which cannot be attributed to one particular year.

Mr. FRASER *(Northumberland)*: Then my second question is this. Is it the custom of the banks to carry the balance of the unconsumed reserve for the current year into the following year?

Mr. TOMPKINS: Sometimes, and sometimes they are reduced from year to year.

Mr. FRASER (*Northumberland*): Mr. Chairman, may I point out to the witness that in the usual industrial and commercial accounting system in the returns made to the department of taxation, if an item is carried in the current year to take care of bad debts of that particular year and is not consumed by the bad debts occurring in that particular year then the balance of the item must be written in to the profit and loss account. What I want to get clear is this. Is it permissible as far as the Department of Taxation and the customs of the chartered banks to accumulate from year to year necessary reserves that are set aside, or, as the hon. member for Parry Sound said, anticipated by the directors annually and thus create an enormous and very large necessary reserve?

Mr. TOMPKINS: I think if you will examine my answers as printed you will find I have answered that almost wholly already. One cannot go into the details of the calculations of profits and of taxation from year to year but, as I said before, the necessity from the point of view of prudent and proper banking is recognized by the taxation authorities in determining the amount of tax. How anyone is going to allocate losses which, let us say, come to finality in some particular year, to other particular years in which the particular loss may have been incurred is another thing. That is the difficulty in banking as compared with a great many other businesses.

Mr. FRASER (*Northumberland*): Then, accepting your answers the ultimate result is that this necessary reserve you have not yet disclosed has been accumulated exempt from taxation from year to year on the anticipated losses reckoned or determined by your management or executive from year to year?

Mr. TOMPKINS: I think that has been the general effect.

Mr. FRASER (*Northumberland*): The general effect, and the factual position is that the accumulated necessary or hidden reserves of the bank constitute an item on which the government of Canada has not collected taxes. Is that correct?

Mr. TOMPKINS: As I say, they vary from year to year, and some years they will be reduced. It is very difficult to answer that in a broad sense.

Mr. FRASER (*Northumberland*): If I have followed you clearly in your last two sentences this hidden reserve has accumulated out of untaxed profits to the amount that the hon. member for Parry Sound is now asking you to disclose?

Mr. TOMPKINS: To some extent.

Mr. FRASER (*Northumberland*): Then, Mr. Chairman, may I direct to the witness this question? In his considered opinion, owing to the nature of the banking business, do the banks receive from the taxation department a preferred position to other concerns doing business in Canada?

Mr. SLAGHT: Certainly.

Mr. TOMPKINS: I would not think so, speaking generally. I would not think so. I cannot follow through all their calculations and details, but I would say they receive fair consideration in comparison with other businesses.

Mr. FRASER (*Northumberland*): Mr. Tompkins, I submit to you respectfully that it does not even take a mentality of one-quarter your capacity to follow through this calculation—

Mr. TOMPKINS: You honour me.

Mr. FRASER (*Northumberland*): —that year after year you charge out of profits prior to taxation what the directors consider is a necessary reserve to take care of contingent liabilities? That is correct?

Mr. TOMPKINS: Quite true.

Mr. FRASER (*Northumberland*): You carry over from year to year—and it does not synchronize with the policy adopted by the taxation department as to industrial or commercial businesses—the balance of this reserve unconsumed by losses in the current year until you have created this fund? Is that right?

Mr. TOMPKINS: I wish to emphasize the fact once again that in subsequent years these very amounts you have set aside are drawn upon for losses which extend back over three, four or five years.

Mr. FRASER (*Northumberland*): You can just as well make the statement, "Where does the fire go when it goes out", because what you are saying now in import is that this reserve may be necessary in 1945 or 1946?

Mr. TOMPKINS: As a result of losses made over two, three, four or five years.

Mr. FRASER (*Northumberland*): A bad account in 1942 in an industrial concern might result in a loss in 1945, but they are only permitted to wipe off their bad accounts for the current year.

Mr. TOMPKINS: I am not being examined on the exact procedure of the taxation department.

Mr. FRASER (*Northumberland*): I quite realize that, but I think it is very important to this committee, and to the public, to know whether this hidden reserve of yours has been created out of profits prior to taxation.

Mr. SLAGHT: He has said so three times.

Mr. FRASER (*Northumberland*): Is that correct?

Mr. TOMPKINS: Yes.

The CHAIRMAN: I think Mr. Slaght has the floor unless he prefers to yield it.

Mr. CLEAVER: I thought I had an answer to my question a moment ago but the witness has now qualified it. If I may I should like to ask a further question.

Mr. SLAGHT: Suppose you wait; I have a few questions, if you do not mind.

Mr. CLEAVER: I only have one question.

Mr. SLAGHT: If it is one question then ask it.

Mr. CLEAVER: Mr. Tompkins, I understood you to tell me a moment ago that the amount set aside for this inner reserve had not been taxed. Now I understood you to tell Mr. Fraser that some only of the inner reserve had not been taxed. Would you please tell the committee what part of the inner reserve has been taxed?

Mr. TOMPKINS: What I was attempting to say was that it might work out in that way with certain inner reserves.

Mr. CLEAVER: Please explain to the committee how it could work out.

Mr. TOMPKINS: Suppose in the current year, let us say this year, $500,000 were set aside as a reserve for nothing specific, and in a subsequent year, one or two years afterwards, some portion of that were needed for losses which had been sustained in previous years. To that extent, of course, those reserves would have been necessary. A series of calculations would be necessary to arrive at that.

Mr. CLEAVER: I do not get that point at all unless the entire inner reserve which was already tax-free was exhausted. I cannot see how any of your inner reserve would be taxed.

Mr. TOMPKINS: I am afraid I cannot explain it any better.

Mr. CLEAVER: Just a minute. I think we can get an answer on this, and I want an answer, if I may. Any inner reserves that any bank sets aside for any one year are not taxed. Is that right?

Mr. TOMPKINS: Well, you have to split this up in two sections. Let me give the committee, if I may, a brief description which may be illustrative of the practice that is followed by the banks. A bank comes to the end of its fiscal year, or close to the end of its fiscal year. It revalues its loans, investments and so forth, and it arrives at what it considers are necessary provisions for losses, subsequent losses in loans, investments and other assets. Over and above that, it may have $50,000 or $100,000 or any amount which you care to use as an illustration, which is not specifically assigned to expected losses in those particular assets. To that extent those are hidden reserves. But as I say, they may prove necessary in subsequent years for the purpose of providing for losses which could not be anticipated over the year in which the calculations were made.

Mr. CLEAVER: I concede that at once. I still do not see the point. If you permit the banks to accumulate hidden reserves, and you do not in any year tax them on those hidden reserves, then I say that the Dominion of Canada never gets any taxes out of the hidden reserves unless they are entirely exhausted and you make a transfer from the general reserve to bolster up the hidden reserve, the general reserve having already been taxed.

Mr. SLAGHT: He agrees with you on that. That is decided now.

Now, Mr. Tompkins, you told us three gentlemen who are in on the secret and what they are. You told us that you know that the learned Minister knows and the Deputy Minister of Finance knows and Governor Towers of the Bank of Canada does not know. I ask you, does Commissioner Elliott, the Commissioner of Taxation, know what these hidden reserves are?

Mr. TOMPKINS: I think you would have to ask him that question.

Mr. SLAGHT: No. You can tell us who are in on the secret and who are outside.

Mr. TOMPKINS: I do not know.

Mr. SLAGHT: You do not know. But as far as you are concerned, you have never disclosed them?

Mr. TOMPKINS: I have never been called upon to disclose them.

Mr. SLAGHT: You have never been called upon to disclose them. That is a good answer. Have you power to disclose them to him and not to us?

Mr. TOMPKINS: No, I have not.

Mr. SLAGHT: You have no power to disclose them. All right.

Mr. TOMPKINS: Mr. Slaght, in that connection, and I think it is very relevant to the subject—

Mr. SLAGHT: Well, if you like. But I accept your answer and agree with you.

Mr. TOMPKINS: I wish to make it clear to the committee.

Mr. SLAGHT: Give us the section. We may want to amend this section, which is perhaps of ultra importance.

Hon. Mr. HANSON: What is the section of the Act?

Mr. SLAGHT: He is going to refer us to the section under which he dare not disclose the information to the Commissioner of Taxation, and I assume you dare not disclose it to the Minister of National Revenue, the Honourable Colin Gibson, who just now occupies that office.

Mr. TOMPKINS: The section is section 145 of the present Act. It reads as follows:

> "The Inspector or any person appointed or employed under section fifty-six of this Act who discloses to any other person, except the Minister and the Deputy Minister of Finance, any information regarding a bank, its business or affairs, commits an offence against this Act."

Mr. McGEER: There is a section which prohibits you from disclosing this information. That is the one?

Mr. TOMPKINS: That is the one.

Mr. SLAGHT: Yes. That is the one. Section 145.

Mr. McGEER: Where is the section which empowers the bank to have a hidden reserve?

Mr. TOMPKINS: There is no specific section in the Act. That is a matter of banking practice.

Mr. McGEER: They have no legal power to do that?

Mr. TOMPKINS: No. That is a matter of good, sound, prudent banking practice.

Mr. SLAGHT: Mr. Tompkins, as far as you are concerned, and you are, so to speak—

The CHAIRMAN: Order, order, gentlemen, please. It is hard to hear Mr. Slaght.

Mr. SLAGHT: I suggest, Mr. Tompkins, that you regard your position as that of watch dog of the people of Canada with regard to banking practice, so to speak.

Mr. TOMPKINS: I think that is a fair description.

Mr. SLAGHT: That is a fair description. And you are, by the Act, as it stands now, forbidden to disclose the amount of these reserves which are put away without taxation, to Mr. Fraser Elliott, the Commissioner of Taxation, or to the Minister of National Revenue?

Mr. TOMPKINS: As the Act stands.

Mr. SLAGHT: Yes, as the Act stands. Do you not think it would be a good idea if we amended the Act, and not only permitted but compelled you to disclose to the Minister of National Revenue and the Commissioner of Taxation the hidden profits that the banks are putting away?

Mr. TOMPKINS: From what I know of the practices—and it is only limited knowledge—of the Department of National Revenue, they have access to every bit of information in connection with the banks.

Mr. SLAGHT: But if they came to you, you would say no?

Mr. TOMPKINS: I would say no, because I am prohibited.

Mr. SLAGHT: You gave three or four reasons why you thought—and I want to respect your reasons, but to explore them for a moment—that we ought to keep these things hidden and that this committee ought not to know. The first one, as I gathered it hurriedly, was that because the committee of ten years ago asked for this and did not get it and did not insist upon it, this committee ought not to press it. That was one of the reasons?

Mr. TOMPKINS: No.

Hon. Mr. HANSON: Give me the reference for that, Mr. Slaght. I am not so sure that you are right.

Mr. SLAGHT: I am not either. But he gives that reason.

Hon. Mr. HANSON: Where is the reference of ten years ago?

Mr. SLAGHT: We cannot all talk at once.

Mr. TOMPKINS: Mr. Chairman, I was attempting only to show that the subject was not a new one, that it had been discussed on previous occasions, not only in 1934, but in 1923 and in 1913.

Mr. SLAGHT: All right. Will you withdraw that, as far as you are concerned, as being a valid reason for saying that this committee ought not to have it, simply because one or more previous committees were refused it?

Mr. TOMPKINS: I think that is a matter for argument.

Mr. SLAGHT: That is a matter for argument. You will not go along with me on that?

Mr. TOMPKINS: No. I will not go along with you on that.

Hon. Mr. HANSON: I should like to make this observation, Mr. Chairman. I do not recall, and I cannot find it in the index, where this subject was under discussion or that there was any refusal.

Mr. TOMPKINS: It was under discussion, but I cannot say from memory what the reference is.

Mr. SLAGHT: Perhaps in the adjournment you will be kind enough to look up that reference and give it to Mr. Hanson, because he is especially interested in it. That is the first reason that we should have it. Your second reason is this. You said that, "I feel strongly they should not be disclosed because the public would get a false idea about it" or "might get a false idea about it."

Mr. TOMPKINS: Yes.

Mr. SLAGHT: You are not prepared to trust the public, then, to know the truth?

Mr. TOMPKINS: I trust the public in a very large measure, but I do suggest—

Hon. Mr. HANSON: He has some reservations.

Mr. TOMPKINS: I do suggest there are some things that the public very often draw wrong conclusions from.

Mr. SLAGHT: The public may be more trusting than perhaps some of the members of our committee are. I just want to understand. One reason you put forward to this committee is that the public might misconstrue it. They might look too big. Is that it? Therefore what would happen then? Would the public demand from their members a revision of the Bank Act, perhaps?

Mr. TOMPKINS: No. I had reference more particularly to the fluctuation that must necessarily occur from year to year in reserves of that kind; and that if they were published as part of their annual published statement, that reductions in those reserves would be looked upon in the nature of a reflection upon the judgment of the banking system, in regard to the quality of their loans and other things of that kind. That is what I had in mind.

Mr. SLAGHT: May I put it to you quite frankly, the reason being that if the public saw the millions of dollars that were not taxed which were piled up year after year and put away, they might think that is a bad system, because no other merchant can do it. He has got to disclose what he is doing.

Mr. TOMPKINS: No. I was not referring to that angle of the question at all.

Mr. SLAGHT: All right. I will pass on from that if you were not.

Mr. MCGEER: What angle was he referring to?

Mr. SLAGHT: Somebody suggested—

The CHAIRMAN: Order, please. Allow Mr. Slaght to continue.

Mr. SLAGHT: Somebody suggested asking you what angle you were referring to, that the public cannot be trusted.

Mr. TOMPKINS: I attempted to describe—

Mr. SLAGHT: Somebody once said, "The public be damned." You would not go that far in this matter, would you?

Mr. TOMPKINS: No, not by a long way.

Mr. SLAGHT: No.

Mr. TOMPKINS: If I may interject, I should like to say this, although it is not quite apropos of this argument. When it comes to trusting the public, I have very great confidence in the public.

Mr. SLAGHT: So have I.

Mr. TOMPKINS: You will recall the very distinct situation that prevailed in Canada when the United States' banks were closed for one week in 1933.

Mr. SLAGHT: If you do not mind, unless the committee wants you to go on—

Hon. Mr. HANSON: Let him finish.

Mr. TOMPKINS: I am only offering this as an illustration.

The CHAIRMAN: Order, please, order.

Mr. TOMPKINS: I am only offering this as an illustration. Perhaps it is not quite parallel.

Mr. SLAGHT: The committee wants to hear it. Go ahead.

Mr. TOMPKINS: In that period there was not a flutter inside of Canada, and I think it is to the eternal credit of the good sense of the Canadian people that they kept their heads in that period and did their banking normally, when the United States' banks were closed up for one week.

Hon. Mr. HANSON: Yes, and because the government put the resources of the country behind the banks.

Mr. KINLEY: That is all right—

The CHAIRMAN: Let Mr. Slaght continue.

Mr. SLAGHT: Then, having received that from you, the first was ten years ago, they would not give it because you could not trust the public; now the reason is—

Mr. TOMPKINS: No.

Some hon. MEMBERS: No, no.

Mr. SLAGHT: Does that mean that you think it would be better to trust the public with the truth; I hope that we—

Mr. TOMPKINS: It is one thing to say it is dangerous, and it is quite another thing to say that you do not trust them.

Mr. SLAGHT: Then I ask, why you do not trust them. You and I are trusting the public; surely it would not be dangerous to let the public know the truth?

Mr. TOMPKINS: No, I would not say that.

Mr. SLAGHT: What is the word you want to use there?

Mr. TOMPKINS: All right, let me put it this way; let us suppose from a purely hypothetical angle—

Mr. SLAGHT: I don't quite get that.

Mr. TOMPKINS: —that the reserves of a given bank, the reserve referred to as an inner reserve; I do not like the use of the words "hidden" or "secret".

Mr. SLAGHT: No, I can understand that.

Mr. TOMPKINS: Let us say it was $2,000,000 and in a given year we reduced it by $1,250,000 and the public saw that in a published statement of that bank, they might say that that bank is making a lot of bad loans and that sort of thing, and as a result they would lose confidence in that bank.

Mr. SLAGHT: That is what was in your mind?

Mr. TOMPKINS: That is exactly what was in my mind.

Mr. SLAGHT: Coming to reason number three, you think that this committee ought not to know the truth; and I did not catch you, whether you do not trust us or whether it would be dangerous for us to know the truth. Why shouldn't we know, coming back to that?

Mr. TOMPKINS: Far be it from me to suggest that the committee should not be trusted.

Mr. SLAGHT: Why should not parliament know?

Mr. TOMPKINS: I think you get the point there, Mr. Slaght.

Mr. SLAGHT: Take the committee first; if we know, parliament is going to know.

Mr. MACDONALD (*Brantford City*): The answer to the former question is the answer to that.

Mr. TOMPKINS: I think it is, that is what it would come to.

Mr. SLAGHT: Quite so.

Mr. TOMPKINS: As I said before, in regard to the committee, I think it would not be in the public good.

Mr. SLAGHT: Do you mean parliament should not be trusted with the knowledge of how much the banks have hidden in reserve?

Mr. TOMPKINS: Parliament can do almost anything.

Mr. SLAGHT: We know that. Now, I suggest to you I would like to know some particular reason, if you have one, why this committee and then why parliament should not know the truth about this? What is the answer to that?

Mr. TOMPKINS: I think I have elaborated it to the fullest extent.

Mr. MACDONALD (*Brantford City*): I think that is a rather catchy question. Whatever parliament knows the public knows. The witness has told us why he thinks the public should not know and then Mr. Slaght is coming back and asking why parliament should not know when he knows that when parliament is told the public are told also.

Hon. Mr. HANSON: It is a matter of policy, is it not, after all, whether it should be made known?

Mr. SLAGHT: There is a mysterious fund of "X" millions of dollars; I don't want you to make a slip now and let it out.

Mr. TOMPKINS: Don't worry, I won't.

Mr. SLAGHT: Not if you are intent on it. This mysterious fund, if I may call it so in fairness—

Mr. TOMPKINS: I object to the use of the word "mysterious".

Mr. SLAGHT: I only used the word "mysterious" because you will not disclose it to this committee or parliament; and if that fund has been piling up for—fifty years is it not?

Mr. TOMPKINS: No, I would not say that. It would vary in different institutions.

Mr. SLAGHT: Yes, but how many years? Am I safe in saying thirty years, ten years, how long has it been piling up?

Mr. TOMPKINS: My knowledge goes back over twenty years.

Mr. SLAGHT: In your experience of twenty years it has been piling up?

Mr. TOMPKINS: But during that twenty years there has been something like $29,000,000 transferred from published reserves.

Mr. SLAGHT: $29,000,000, and that is all that has ever been taken out as far as your experience goes over the past twenty years?

Mr. TOMPKINS: That is taken out of the published reserve funds in order to restore the inner reserves.

Mr. SLAGHT: I know; that is where we got that very interesting little word, from this one item in your report.

Mr. TOMPKINS: I am very happy to know that.

Mr. SLAGHT: I know you are, and I do not agree with you; however, that is another matter.

Mr. TOMPKINS: Well, we can always agree to disagree.

Mr. SLAGHT: That has been piling up continuously with the exception of the $29,000,000 taken out in 1933.

Hon. Mr. HANSON: That was not taken out of this at all.

Mr. SLAGHT: Yes, it was.

Hon. Mr. HANSON: No, it was taken out of the published reserves.

Mr. SLAGHT: It was? I thank you. Then may I put it this way, that there has been nothing taken out of the inner reserves?

Mr. TOMPKINS: Of course there has been. Over the years there have been various amounts for the purpose of covering losses which could not be anticipated in a given year.

Mr. SLAGHT: In any event it has not been taxed. Now then, I think I am through. I wonder if you would know of any objection to having the minister or the deputy minister disclosing this hidden amount to this committee or to parliament?

Mr. TOMPKINS: I think they will have to answer for themselves.

Mr. SLAGHT: Yes, they may answer for themselves. Might I ask the minister, or the deputy minister, if they would care to express themselves as to whether or not they will disclose it to this committee or to parliament?

Hon. Mr. ILSLEY: I am not prepared to disclose that now. I would want to give that consideration. I might want to put it up to the committee to give them time to think it over and to sum up all their views and formulate a judgment as to what they think they ought to do in this situation.

Mr. SLAGHT: I think that is quite fair, Mr. Minister.

Hon. Mr. ILSLEY: This is a new thing, you see.

Mr. SLAGHT: I do not want to spring anything on you; perhaps you would give it your consideration?

Mr. GRAHAM: Let the witness answer.

Hon. Mr. ILSLEY: The situation is not entirely clear. This is something which has never been done in the history of banking in this country nor, so far as we can find out, in the history of banking in any country, and it is a very grave and serious proposition, and I will have to think out just what my duty is. It may be that I should take the responsibility myself of saying yes or no, or it may be that I should leave it to the committee, or it may be that I should leave it to some different body, like parliament as a whole in secret session. It is a very serious proposal.

Mr. SLAGHT: Of course it is.

Mr. MACDONALD (*Brantford City*): I think before a decision is reached we should have the evidence. If there are people who think it should not be disclosed, let us hear their evidence. If there are people who think it should be disclosed, let us hear their evidence. Then, we can weigh the evidence and come to a conclusion.

Mr. SLAGHT: That is a very reasonable suggestion. In the meantime, the minister will have an opportunity of giving it consideration. But may I respectfully point out to you that we are asked in this committee to recommend or to refuse to recommend a renewal of the charters of these banks under existing conditions.

Mr. MCGEER: Or amendments to the Act.

Mr. SLAGHT: Yes, or amendments to the Act, if they are desired. I have great faith that the minister will give this matter careful thought and in due course let us know his decision; then perhaps the committee will have to deal with it. Might I ask this: do you suggest it would be within the authority of the minister, if the committee directed him to give the information, to still refuse to give it?

Hon. Mr. ILSLEY: That is what I understand the present position to be.

Mr. SLAGHT: On what do you rely for that?

Hon. Mr. ILSLEY: I do not know whether I am right or wrong about that.

Mr. MACDONALD (*Brantford City*): Does a section of the Act to which Mr. Tompkins referred prevent the minister from giving us that information?

Hon. Mr. ILSLEY: No, sir, it does not. I have not given as much consideration to this as perhaps I should have in advance; but I do think there is a rule that when a minister of the crown states that the divulging of certain information is not in the public interest there is no power anywhere to compel him to divulge that information.

Mr. SLAGHT: That may be.

Hon. Mr. HANSON: Except that the minister may appeal to his electors and they may throw the minister out.

Mr. SLAGHT: For my part I cannot see any public interest other than in the truth. It is not fair to discuss it now, and I want to leave it with you and later on we will talk about it.

Hon. Mr. ILSLEY: You are on the merits; on what I should decide now?

Mr. SLAGHT: Quite so.

Hon. Mr. ILSLEY: You are simply asking me to express myself and say what I think my powers as minister are, and that is apart altogether from how I should exercise them?

Mr. SLAGHT: I do not want to press that.

Mr. MACDONALD: This committee could recommend a change in the Act which would require the banks to give that information.

Hon. Mr. ILSLEY: Oh, certainly.

Mr. SLAGHT: I have just this further question.

Mr. GRAHAM: May I say this. We undoubtedly appreciate the minister's position. Personally I can appreciate it, but in addition I presume you have this fact, that no former finance minister ever saw fit to do so?

Mr. SLAGHT: Oh.

Mr. GRAHAM: Is that not correct?

Hon. Mr. ILSLEY: Certainly, that is correct.

Mr. SLAGHT: Who are these giants of former finance ministers who kept it from the public? Let us put their names on the record. If they were applied to and refused I think the hon. member has a point. Perhaps he will furnish this committee with the names of the former finance ministers of Canada who, being asked to give this information to parliament, refused to do so. That will be enlightening. Would you mind if we concluded for the present with the witness, and I will come back, if the committee pleases.

Mr. MCGEER: I should like to ask this witness some questions.

Hon. Mr. HANSON: So would I.

Mr. SLAGHT: It is ten minutes to six, and I suggest it is time to rest, Mr. Chairman.

The CHAIRMAN: No, let us proceed.

Hon. Mr. HANSON: I want to ask this witness a few questions.

Mr. CLEAVER: Before Mr. Tompkins leaves the box I have a question.

The CHAIRMAN: Mr. McGeer has a question he wishes to ask.

Mr. McGEER: I think every member here, including the chairman of the committee, should have in mind the civic reception for the Prime Minister at 6 o'clock tonight. I just wanted to ask one question, and that is that it was my understanding that at one time these hidden reserves were investigated and disclosed?

Mr. TOMPKINS: No, not to my knowledge—public disclosure?

Mr. McGEER: Yes.

Mr. TOMPKINS: No.

Mr. McGEER: That was at the time there were some very substantial losses in the banks in Mexico and other places.

Mr. TOMPKINS: No.

Mr. McGEER: I am just putting my information to you, that not only was the subject disclosed but it was subject to a special investigation by special auditors appointed by the government?

Mr. TOMPKINS: Not to my knowledge.

Mr. McGEER: You do not know anything about it.

Hon. Mr. HANSON: May I ask this witness one or two questions, and may I preface it by the statement that I dislike the word "inner" in the descriptive part of this reserve because it connotes something hidden or sinister. May I suggest to you it is an insurance reserve?

Mr. TOMPKINS: That is what I said in my statement.

Hon. Mr. HANSON: That is the proper term. Now, it is not taxed but the banks could insure against that loss, could they not,—theoretically, at all events?

Mr. TOMPKINS: I stated in my initial remarks—

Mr. McGEER: A precautionary reserve.

Mr. TOMPKINS: Yes, quite so, and I also said they serve as a species of insurance in the interests of both the depositors and the shareholders.

Hon. Mr. HANSON: Would it not be better to call them straight insurance reserves?

Mr. TOMPKINS: That is a question of terms.

Hon. Mr. HANSON: Would it not be open to the banks to insure against these losses, and to charge that up as an operating expense?

Mr. TOMPKINS: That is quite true. They do not insure against that.

Hon. Mr. HANSON: But they could do it, and that would be an operating expenditure.

Mr. McGEER: Where have they got power to do anything like that in the Bank Act?

Hon. Mr. HANSON: They do not need to have power. However, that is a legal question. We will not get into a discussion on that.

Mr. TOMPKINS: May I cover the point? I am not intending to get into the legal aspect, but I think their powers to insure against this risk would be the same as insuring against any other risk.

Hon. Mr. HANSON: Exactly; it is a power which would extend to the carrying on of the business of banking. Then, an individual might set up a fund in addition to insurance in his own business, could he not?

Mr. TOMPKINS: Yes.

Hon. Mr. HANSON: And that would be an untaxable item, would it not?

Mr. TOMPKINS: So far as I know.

Hon. Mr. HANSON: If it were called upon from time to time to take care of a situation?

Mr. TOMPKINS: So far as I know.

Hon. Mr. HANSON: There is one other question. Part of that reserve comes from surplus earnings?

Mr. TOMPKINS: Exactly.

Hon. Mr. HANSON: Those amounts which are delegated from time to time from surplus earnings to the bank's published reserve are always taxed? They come after taxation?

Mr. TOMPKINS: Yes. You are referring to the amount from profits irrespective of the amount of premiums paid on new stock?

Hon. Mr. HANSON: Yes, because the premiums paid on new stock automatically go to the reserve, but the amount of this fund that is set up as a shareholders' reserve—

Mr. TOMPKINS: Out of profits.

Hon. Mr. HANSON: Out of profits—that is after taxation in every case, is it not?

Mr. TOMPKINS: Correct.

Mr. BLACKMORE: I wonder if the witness would tell us who has the power to determine in any given year whether or not a given bank is going to take some money out of its published reserve and transfer it to the hidden reserve? Who desides that point? Do the directors of the bank decide it?

Mr. TOMPKINS: The initiative lies with the directors of the bank. From a purely statutory point of view there is no particular section of the Bank Act that governs the directors' decision in the first instance, but that sort of operation comes within my purview and I can express my approval or disapproval as the case may be.

Mr. BLACKMORE: They have to refer to you for permission to transfer?

Mr. TOMPKINS: I do not mean to say that, but I may express my approval or disapproval of what they have planned, or they might consult me with regard to the operation before it is concluded.

Mr. BLACKMORE: Must they show you their inner reserves are exhausted before they can transfer any money from the public reserve?

Mr. TOMPKINS: Well, in practice it works out about that way.

Mr. JAQUES: I just want to ask one question. What is the difference between a hidden reserve and a rest fund?

Mr. TOMPKINS: A rest fund consists, as we have attempted to show by the exhibits filed, partly of premiums paid on new stock issued and partly from the profits earned by the banks. As I said in my opening statement the inner reserves constitute a fund over and above that.

Mr. JAQUES: Over and above the rest fund?

Mr. TOMPKINS: Over and above the rest fund for the purpose of providing for these various unknown or unforeseen losses which occur in the ordinary course of banking.

The CHAIRMAN: Is it your pleasure we adjourn until to-morrow morning until 11 o'clock?

The committee adjourned at 6 o'clock p.m. to meet again on May 26, 1944, at 11 o'clock a.m.

May 26, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: I have received a submission in brief from the League for Economic Democracy. I submitted it to Mr. Blackmore yesterday and he went over it rather hurriedly. I understand he desires to move that the submission in brief—it is a very short one—be published in our transactions.

Mr. BLACKMORE: Mr. Chairman, I so move.

Hon. Mr. HANSON: I should like to know what it is first.

The CHAIRMAN: It is a very short statement.

Hon. Mr. HANSON: If it is the type of stuff I get regularly, and that regularly goes into my wastepaper basket, I do not think that the country should be put to the expense of printing it. We have all received this stuff over the past few months, and I think we know what it is.

Mr. BLACKMORE: May I submit that anything the member for York-Sunbury would throw in the wastepaper basket in regard to finance would probably be very worth while.

The CHAIRMAN: Order, please. Mr. Hanson, may I suggest that until it is printed the members will not know whether to receive the deputation. They ask to be heard and have submitted something that will not take many pages of our Hansard. It does seem to me that it should be printed and then the members can read it and determine whether they wish to have the League's representative appear.

Hon. Mr. HANSON: I would move an amendment to Mr. Blackmore's motion, that the brief and the request of this League be referred to the steering committee for their consideration and report back to the main committee.

Mr. BLACKMORE: In support of my motion may I say this, that evidently the financial authorities of this dominion do not know what to do about the situation that confronts them. They do not know what to do about the debt; they do not know what to do about taxation; they do not know what to do about unemployment. If there is anyone in this great crisis who has an idea he has an idea surely this committee ought to hear what he has to say.

The CHAIRMAN: Mr. Hanson, I have great regard for your opinion in this matter, but how are we to get it before each member of the subcommittee unless it is printed?

Hon. Mr. HANSON: I have said all I want to say. I think the proper course is to leave it to the steering committee.

The CHAIRMAN: You have heard the amendment. All those in favour of the amendment please say aye.

Hon. Mr. HANSON: Aye.

The CHAIRMAN: You have heard the original motion. All those in favour please say aye. I declare that the ayes have it.

Hon. Mr. HANSON: Which aye?

The CHAIRMAN: The last aye.

Mr. RYAN: Mr. Chairman, with your permission, at 6 o'clock last night we were discussing bank reserves, and before we go on with the discussion I should like to read into the record a statement made by the Minister of Finance when he presented bill 91 to the house. Have I that permission?

The CHAIRMAN: Is it a short statement? I think we are all familiar with the statement. It has been printed in Hansard?

Mr. RYAN: It has been printed in Hansard but I think it would be a good idea to read it.

The CHAIRMAN: That it should be reprinted in our Hansard?

Mr. RYAN: In this record.

The CHAIRMAN: What is your pleasure? All in favour say aye. (Motion agreed to.)

The CHAIRMAN: Proceed.

Mr. MACDONALD (*Brantford City*): Is it the complete speech of the minister?

Mr. RYAN: Not the complete speech, just a part of the speech in regard to reserves. Certain questions were asked yesterday, and I think that perhaps this statement made by the Minister of Finance would answer those questions.

Mr. SLAGHT: We are not through on that topic with Mr. Wedd. Perhaps you would rather put it in afterwards?

Mr. RYAN: Do you have any objection to my reading it at the present time?

Mr. SLAGHT: Not if the committee wish it.

Mr. MACDONALD (*Brantford City*): The committee agreed it should be read.

Mr. RYAN:

> For the reasons mentioned, the Bank of Canada has effective control of the total volume of bank credit outstanding. It exercises that control through its control over the cash reserves of the chartered banks. These reserves are made up of Bank of Canada notes and deposits with the Bank of Canada. They are watched closely and are expanded or contracted as the public interest may seem to require. The Bank of Canada can reduce them by selling some of its large holdings of government securities. It gets paid for such securities by a cheque drawn on a chartered bank, which when presented for payment, results in a reduction in that bank's deposit with the Bank of Canada. Conversely, if the Bank of Canada wishes to expand bank reserves—in order to promote an expansion in bank deposits or bank credit—it can do so very easily by purchasing government securities on the open market. It pays for such securities by a cheque drawn upon itself which is deposited in a chartered bank by the person or business firm selling the security, and when the chartered bank presents the cheque to the Bank of Canada it gets an increase in its deposits with the Bank of Canada—or takes out Bank of Canada notes to hold in its reserves.
>
> This process of control of bank reserves, and thereby bank deposits and bank credit, is well known to many members of this house, but I felt it should be reviewed here to make clear beyond any doubt that already the government has effective control over the total volume of money and credit.

There is an important thing.

> We have the control we need for all essential purposes of monetary policy. Moreover, we have it in an exceedingly simple form which enables us to exercise over-all control without interference in the granting of individual credits or the transfer of deposits or any of the other business transactions of an individual bank. Any one bank is free to compete for all the business it can get—because it can attract deposits and thereby cash reserves away from the other banks. It is free to exercise sound

business judgment in the selection of its risks and the choice of its customers. Hence the credit control we exercise is a sensible form of national economic planning and direction in matters of broad policy, free from the dead hand of bureaucratic interference in private affairs. I only wish such simple and effective mechanisms of national control and stimulus were available in other equally important fields of economic activity.

There is just a short part here. It will not take a minute.

We must, and we do, have control of the cash reserves of the banks, so that the total volume of all bank credit can be controlled—and conditions of depression and crisis avoided.

That is another important thing.

Given that, I think we can trust the enterprise of the banks to lend where opportunities for sound loans are available, because of the incentive to get their loanable funds earning a more attractive return than is possible under the only alternative of investing in securities.

I thank you, Mr. Chairman.

Hon. Mr. HANSON: I suggest to my friend that does not go to the issue before the committee. The issue is this question of these inner reserves. I want to ask Mr. Wedd one or two questions in relation to that.

The CHAIRMAN: Mr. Hanson, as I recall it Mr. Slaght had the floor.

Hon. Mr. HANSON: All right.

Mr. SLAGHT: I would gladly yield to my senior friend but for the fact I cannot be here next week and I should like to finish.

The CHAIRMAN: Mr. Slaght has the floor. Mr. Hanson has asked to follow Mr. Slaght. Mr. Noseworthy has asked to be next in order, and Mr. Blackmore has asked to follow Mr. Noseworthy. If that is your pleasure, gentlemen, I would suggest that we proceed now in that order.

Mr. MCGEER: I understood I had the examination of Mr. Towers on the Bank of Canada report, and I had not completed that when we adjourned.

The CHAIRMAN: You will be given an opportunity later on, but it seems to me that these gentlemen have not asked for any favours before — — —

Mr. MCGEER: I do not ask for any favours. The only thing is that parliament referred the report of the Bank of Canada to the committee for consideration, and I thought I was going to take it up in that order. However, I am perfectly willing to follow your plan.

The CHAIRMAN: You will be given an opportunity later on.

S. W. WEDD, President of the Canadian Bankers' Association and General Manager of the Canadian Bank of Commerce, recalled.

Mr. SLAGHT: Mr. Wedd, may I see if you and I agree about this, that you are here in two capacities; in one sense you are here as chairman, is it, of the Bankers' Association?—A. President of the Bankers' Association.

Q. President of the Bankers' Association, and you happen to be General Manager of the Canadian Bank of Commerce?—A. Yes.

Q. I take it that each of your ten banks is coming to parliament this year seeking a franchise by way of renewal of an existing franchise?—A. That is right.

Q. And that being so, just before I go into some details, may I invite you, speaking for myself, to give us what you were not apparently willing yesterday to give us, the inner or hidden reserves which are part of the profits, and which have not been disclosed?—A. Mr. Slaght — — —

Q. Perhaps you feel you should take the same attitude?—A. I would prefer to take the same attitude.

Q. I just wanted to see whether there was any change over night in the attitude. Then, we have been told, I think by Mr. Tompkins—and perhaps Mr. Ilsley and Dr. Clark assented, but they are not here now—at all events I got the impression yesterday that the only people who know these hidden reserves are Mr. Tompkins, the Minister of Finance and the Deputy Minister of Finance, and I was inquiring whether Mr. Towers knew as Governor of the Bank of Canada. Can you help me on that?—A. I could not say whether he knows or not.

Q. So far as you know he does not know?—A. As far as I know he does not know.

Q. Then, may I direct your attention to the section of the present Bank Act which is chapter 24 of 24-25 George the Fifth in 1934. That is the law we are working under now, Section 112 deals with returns required to be made by banks. Perhaps Mr. Harvie will make that available. I might say to the members that bill 91, which you all have, contains an almost identical section to 112. It is moved along to—no, it is not. It remains 112 still. The marginal note shows that there are no material changes proposed in this amendment.

Mr. MACDONALD (*Brantford City*): 112 is different in the new bill.

Mr. SLAGHT: My friend says it is different. The marginal note is "no material change".

Mr. MACDONALD (*Brantford City*): The marginal note refers to 112 to 118.

By Mr. Slaght:

Q. Let us direct ourselves to the existing law, and later we will come to the discussion of the individual sections. Section 112 deals with returns. Have you got 112 of the present Act before you?—A. Yes, I have.

Q. So that the committee may know what it is it has to do with monthly returns, and 112, subsection 1, reads:—

> The bank shall, within the first twenty-eight days of each month, transmit or deliver to the Minister a return in the form set forth in schedule H to this Act: provided, however, that the Governor in Council shall have power from time to time to make such amendments and additions to the said schedule as he may deem expedient.

Do you note that?—A. I note that.

Q. Before we go to the form, may I ask you whether, so far as you know, the Governor in Council has made, by order in council, any amendments to this section 112?—A. Not that I know of.

Q. I do not know of any.

Mr. TOMPKINS: May I break in there, Mr. Slaght, to make this clear to the committee?

Mr. SLAGHT :Yes, certainly.

Mr. TOMPKINS: When the Bank of Canada commenced business, there were certain amendments that were necessary as a result of that changed condition, and that was done by order in council; but the general effect was not to change in any material degree the description of either assets or liabilities.

Mr. SLAGHT: Thank you very much. Would it be too much trouble for you to make available to the committee at a subsequent sitting a copy of the order in council which changed section 112?

Mr. TOMPKINS: I shall be very glad to.

Mr. SLAGHT: Because when we end our labours I am going to ask the committee to amend section 112.

Mr. TOMPKINS: I will be glad to.

Mr. JAQUES: I do not see where Mr. Slaght read that, Mr. Chairman. According to this Act, bill 91, it says, "Deliver to the Minister and to the Bank of Canada a return." I did not hear Mr. Slaght say, "to the Bank of Canada."

Mr. SLAGHT: No. It is not in here. That is the proposed change which you will find in the bill.

Hon. Mr. HANSON: You are referring to the present Act?

Mr. SLAGHT: You are referring to the Act that was brought down in the house for us to deal with here, Mr. Jaques; that is the new Act, the amended bill 91.

Hon. Mr. HANSON: Yes. But this is the Act you are reading from?

Mr. SLAGHT: I am reading from the existing Act, the unamended Act. That is chapter 24 of the statute.

By Mr. Slaght:

Q. Mr. Wedd, will you turn your mind to clause 2.—A. Before we go on, if you do not mind my interrupting, in clause 4 it says, "After the date on which the Bank of Canada is authorized to commence business."

Q. Quite so; and that has now been put in here in a proper way.—A. Yes.

Q. But at that time the Bank of Canada had not been set up. May I make that clear to the committee. The witness reminds me that in addition to being required to send it to the Minister, clause 4 of the present Act provides that, "After the date on which the Bank of Canada is authorized to commence business the bank shall transmit or deliver to the Bank of Canada a copy of the return required by subsection (1) hereof within the time prescribed thereby." Our proposed amendment takes care of that by inserting it in subsection (1). Now I read you subsection (2), Mr. Wedd, which reads, "Such return shall exhibit the condition of the bank on the last juridical day of the month last preceding." I suggest to you that that return in the form in which it is made does not exhibit the condition of the bank. What do you say to that?—A. Mr. Slaght, I say that it does exhibit the proper condition of the bank.

Q. The proper condition of the bank?—A. Yes.

Q. Will you tell me this. From the report to the shareholders that your various banks make, the ten banks, could a shareholder read it and find out how much of his profits you directors had set aside in the hidden reserve fund?—A. That is not apparent from the statement. But, Mr. Slaght, the statement calls for the securities to be reported at the estimated market value and the loans to be reported with the estimated losses provided for. That is schedule H.

Q. Yes, but it calls for something else. Will you turn to schedule H, at page 91 of the existing law. It says, "Return of the liabilities and assets of the .... Bank on the .... day of ...., 19 ...." One of the returns you are bound to make is item 16, "Rest or Reserve Fund". Do you see that?—A. Yes.

Q. In reporting the rest or reserve fund, what do you insert there? Do you insert the true reserve fund which includes the secret reserve or do you insert the reserve fund that you in the Bank of Commerce have put in at $20,000,000 and which does not include the hidden item?—A. We include the published reserve fund, rest or reserve fund.

Q. Then in your bank let us see what is done. Will you turn to the report of your bank?

The CHAIRMAN: Order, please, gentlemen. We find it hard to follow the proceedings.

Mr. SLAGHT: The members should have received this through the courtesy of the chairman. It is a copy of the annual statement of each bank.

The CHAIRMAN: Pardon me, Mr. Slaght, but may I say to members that it is very hard to follow proceedings when there is so much conversation. Proceed, Mr. Slaght.

Hon. Mr. HANSON: We are talking of the Bank of Commerce now?

Mr. SLAGHT: Yes.

Hon. Mr. HANSON: What page?

Mr. SLAGHT: I am referring to the Bank of Commerce annual report which the members should have. If you will look at page 4 of your report—

Hon. Mr. HANSON: Page 4 of the statement?

Mr. SLAGHT: Yes, of the statement.

Mr. JACKMAN: It is on the liability side.

Mr. SLAGHT: Yes. I just want to see what they say as to the reserve. It is on the liability side, yes. I thank you, Mr. Jackman. I have it now.

By Mr. Slaght:

Q. You show your shareholders what your liabilities are, and there, under the item of "Reserve Fund" you show the Bank of Commerce to hold a reserve fund of $20,000,000?—A. That is right.

Q. That is right. You told me yesterday there was no real difference between the so-called inner or hidden reserve and the open reserve. Do you recall telling me that?—A. Mr. Slaght, that was a loose statement, really.

Q. It was a loose statement. Well, correct it if you wish to.—A. I would say that the inner reserve is specifically for potential and possible losses; the other reserve is for unforseen circumstances such as wars and the like, that we have not yet been able to provide for.

Q. But as far as your shareholders know from your annual report, there is nothing to tell them how much of their profits you have passed over into the hidden reserve?—A. I think it is very proper for them to assume that we have made a careful valuation of our assets and that with those assets, like anybody else's assets, you occasionally have to write off amounts as not being sure as to whether you are going to collect them or not.

Q. I am not so interested in what you think they ought to assume, as I am in seeing that you disclose to them, as the statute says, the true condition of the bank or rather the condition of the bank.

Hon. Mr. HANSON: Do you suggest these are profits?

Mr. SLAGHT: Certainly. Mr. Tompkins told us that yesterday.

Hon. Mr. HANSON: They are not profits.

Mr. SLAGHT: They are moneys gained through a corporate body, as a result of profitable operations of the bank; and therefore they are profits and set aside out of profits to a hidden reserve.

Mr. TOMPKINS: May I interrupt and say a word here?

Mr. SLAGHT: All right.

Mr. TOMPKINS: I also made it clear that those reserves were deducted from the relative assets in the banks' statements with the result that those assets were shown at a net figure.

Hon. Mr. HANSON: Yes.

Mr. SLAGHT: Quite so. If I may divert to Mr. Tompkins, with the approval of the committee, the place you show those hidden reserves or rather that the banks show them is in an item which is operating expenses, so to speak.

Hon. Mr. HANSON: No.

Mr. TOMPKINS: No.

Mr. SLAGHT: It is mixed up along with operating expenses.

Mr. TOMPKINS: No. I was referring to the method of bookkeeping, if you like, in dealing with the compilation of the monthly statements; and the deducting of those reserves from certain assets had this effect, that they quoted those assets at a net figure which was supposed to represent a conservative valuation of the assets.

Mr. FRASER (*Northumberland*): It affects your profit and loss statement.

Mr. SLAGHT: Certainly.

Mr. TOMPKINS: Indirectly, perhaps.

Hon. Mr. HANSON: Is that not mentioned in here at 10, 11 and 17 on the assets side of the bank?

By Mr. Slaght:

Q. I am going back to Mr. Wedd, if the committee pleases.—A. Mr. Slaght, may I read the report of the shareholders with respect to net profits?

Q. Yes. It is on page 8?—A. Yes.

Q. I was coming to that. Read that, if you will.—A. Very well.

> Net profit for the year ended 30th October, 1943, after deducting Dominion Government taxes, including tax on note circulation, amount to \$2,009,519.27 (of which \$121,730.39 is refundable under the provisions of the Excess Profits Tax Act) and after appropriations to Contingent Reserve Fund, out of which fund full provision for bad and doubtful debts has been made, \$2,777,019.70.

Q. Quite so. That item is carried in your bank at \$2,777,019.70. You show fairly and properly in arriving at net profit the exact amount you pay to the government in taxes?—A. Quite right.

Q. You conceal in this item the amount that has been appropriated to the contingent fund. Why do you not put that in here?

Hon. Mr. HANSON: They are not required to under the statute.

Mr. SLAGHT: Is that the answer?

Hon. Mr. HANSON: I am saying that.

Mr. SLAGHT: Mr. Hanson is suggesting that to you.

The WITNESS: Mr. Slaght, I do not think it is necessary to report that figure, or desirable.

By Mr. Slaght:

Q. Or desirable. In other words, you do not want your shareholders to know it.—A. Not at all.

Q. I beg your pardon?—A. Not at all.

By Mr. Macdonald (Brantford City):

Q. It is only the shareholders you do not want to know it?—A. This brings it right around to the other question of the disclosure of inside reserve, and we think that it is not desirable to discuss the question of inside reserve.

By Mr. Slaght:

Q. Nor to pay taxes on that?—A. Mr. Slaght, that is an unfair question, I think.

Q. What is unfair about it? We heard yesterday you escaped taxation on profits set aside for the shareholders. What is unfair about asking you whether that is one of the reasons?—A. Our banks—

Mr. JACKMAN: That is not a correct statement.

The WITNESS: Our banks submit a return to the Commissioner of Taxation showing the position of our earnings, and I submit that statement is invariably correct.

By Mr. Slaght:

Q. Let me see. You suggest to me that it is incorrect to say that, by this method of handling it, you escape taxation?—A. I think that it is incorrect to say that.

Q. That is incorrect. We will leave your answer there.

Mr. JACKMAN: Not available to shareholders.

Mr. SLAGHT: And does not want the shareholders to know.

The CHAIRMAN: Order. Just a minute.

Mr. SLAGHT: Let me suggest—

Hon. Mr. ILSLEY: Just a minute. The witness said, "Not at all" at one stage, which was a most ambiguous answer, I thought. I do not know what he means.

Mr. SLAGHT: Let us clear that up.

Hon. Mr. HANSON: He denied the assertion.

Hon. Mr. ILSLEY: That is the way I took it, but Mr. Slaght is taking it the other way.

Hon. Mr. HANSON: Mr. Slaght is reaffirming his understanding.

By Mr. Slaght:

Q. Let me put it this way so that the witness will have a full opportunity. The result of what you have put out in your annual report to the shareholders is to conceal from them the amount that the directors have put into that hidden reserve. Is that not true?—A. Mr. Slaght, we report to the shareholders that appropriations have been made to a contingent fund.

Q. You report to them?—A. And all the shareholders are apparently satisfied with that report.

Q. They are satisfied with that report?—A. And if at any time they ask for it, why that is their privilege.

Q. You say that at any time they ask for it that is their privilege; did you ever have one ask for it, let us say last year?—A. Not to my recollection.

Q. Then if I became a shareholder of your bank I suppose I could secure this amount of the hidden reserve, could I?—A. Mr. Slaght, we would welcome you as a shareholder.

Q. Would I be welcome if I asked you to disclose to me these hidden reserves?

Hon. Mr. HANSON: You mean the volume of it?

Mr. SLAGHT: Certainly; how could you tell whether a bank was making money or not unless you knew what their profits were.

Mr. JACKMAN: Their concealed profits.

The WITNESS: Not concealed profits.

By Mr. Slaght:

Q. How do you get the money you store in the hidden reserves?—A. Gross earnings; and you never know what your real earnings are until all your loans have been paid for and settled up.

Q. What is the source of your gross earnings other than what you get from the profits accruing on your banking activities?—A. There is no other source.

Q. Gross earnings furnish the money that is going into your hidden reserves; you suggest that the hidden reserves do not constitute a profit?—A. I say it does not constitute a profit.

Q. Does it give you a very profitable feeling then?—A. It does.

Q. It gives you a very profitable appreciation, but it does not constitute a profit. Well, that is the philosophy we are getting from you. Then let me ask you this; I suggest to you (and I do it to procure your answer so that the committee may know) that so long as you hide a part of your reserves you are securing a special monopolistic privilege, if not interfered with by the proposed amendments, which the ordinary taxpayers do not possess at all. What do you say to that?—A. I say that we submit a return to the Commissioner of Taxation the same way as any other corporation.

Q. Take a widow who is working for a living and earning say $100 a month; under our tax system as you perhaps know that at the source her employer takes from her so much each month and sends it in to the tax collector.

Hon. Mr. HANSON: You don't blame the banks for that do you?

Mr. SLAGHT: No, I don't blame the banks for that but I do point out to this president that in the case of the widow she cannot take $10 and keep it free of taxation in case she was going to be sick or something. The system of taxation operated in this country is to deduct at the source (with respect to those who are workers) to deduct at the source; and it does not permit them to have a reserve free from taxation on their profits or earnings at all and you have that freedom from taxation.

The WITNESS: I submit that we have not been and should not be singled out from any other corporation.

By Mr. Slaght:

Q. Any other corporation?—A. Any other corporation.

Q. Will you name any other corporation that hides from its shareholders the amount of its revenue produced in operations that are by way of profit, that hides from the shareholders what that is and that does not have to pay taxes on it?

Hon. Mr. HANSON: It is not a profit, it is part of the gross earnings.

By Mr. Slaght:

Q. Well, part of the gross earnings if you like (if you insist on interrupting me and making it necessary for me to tell you again); really, gross earnings is the profit secured on the operations of the business in the first place; the gross profit, is not that right?—A. The gross profit.

Q. And then if you take a chunk out of the gross profit and put it in a hidden reserve—do you keep a special box in the vault for these hidden reserves, something like that?—A. We might.

Q. I put to you the case of a simple taxpayer, a railway man, a bricklayer, or anyone else, who earns a hundred dollars a month. Our taxes require his employer to take it out of his gross earnings; it does not allow for or give him a chance to steal $10 of it which is not taxed; and I suggest to you when you look at these two situations your bank companies are in a preferred monopolistic position; what do you say?—A. Mr. Slaght you have to join with us all the other companies in Canada.

Q. Do I?—A. I submit that you do.

Q. Can you name of your own knowledge as a banker with a great many company clients a single company in Canada outside of your banks that hide from its shareholders in its annual report an amount, an item of money from gross earnings and does not pay taxes on it to the tax department? Can you name me one company?—A. Mr. Slaght, if I named you any one it would be a breach of confidence between a customer and the bank.

Q. Now then, I am getting some interesting information. You have some customers who have that privilege; is that your assertion?—A. That is not my assertion.

Q. Then may I suggest to you that you have not got a customer that has such a privilege; what do you say to that?—A. I say that you are twisting this situation around.

Q. You untangle it. Now I have given you two very clear questions; first, that you have not a customer who gets this monopolistic privilege, that you, the banks, are the only ones who enjoy such a privilege in respect to hidden reserves. If there is such a customer, let us call it company X. . . —A. Would it not be proper to say that any bank doing a business, carrying investments and having obligations and accounts receivable, should be entitled to set aside reserves as against depreciation in inventory, and also for all kinds of contingent liabilities?

Q. Only if they disclose the amount, Mr. Witness.—A. To their shareholders or the public.

Mr. MACDONALD: No, to their shareholders.

The WITNESS: I would not know as to that.

By Mr. Slaght:

Q. Can you name me a company that is now doing that?—A. I think sir that if I made an investigation I could probably find quite a number.

Q. Perhaps, if it would not be a breach of confidence, if you could indicate to us any company that makes returns of this kind, which has two sets of reserves, one an inner as it were and one an open one, which it conceals it from its shareholders in its annual report and it is not taxed on it; I would be interested to know, because I think we had better amend the Tax Act so that it will cover cases of that kind. And now, take the case of the workman that I have told you about getting $100 a month; you agree with me that it is not right for him to hide any part of his gross earnings and escape taxation on it, has he?—A. What is that again?

Q. The workman who is earning $100 a month has no right to hide any part of his earnings, his gross earnings, and escape taxation on it?—A. Quite right.

Q. And a merchant doing business down here, when he makes his returns, he has no provision whereby he can hide part of his gross earnings and escape taxation, has he?—A. I think, sir, he is entitled to evaluate the goods on his shelves at the estimated market value.

Q. Of course he is.—A. That is what the banks do.

Q. You are suggesting that that is an answer to my question, are you?—A. Yes I am.

Q. Because he values the goods on his shelves, the merchandise he has on hand?—A. That is what the banks deal in.

Q. You say that is what the banks deal in?—A. Yes, that is what the banks deal in, they deal in securities.

Q. And you are putting it to us now as a committee that the banks deal in a commodity?—A. We deal in securities and bills receivable, that is our merchandise.

Q. Would you object in the future—it doesn't matter if you do not want to let us know how much has piled up—would you object in the future to our amending this Act so as to compel the disclosure, to make it available in your annual report to the shareholders so that the public may know how much of a hidden reserve you are setting up each year?—A. Well, Mr. Slaght, it has been the practice of banks for many many years not to do that, and I think that I have no reason to change the view of my predecessors or myself.

Q. You would still rather not disclose it?—A. Yes.

Q. I see. Do you agree with Mr. Tompkins? He told us yesterday what his understanding of the matter is. You know as a director of the Bank of Commerce that you gentlemen, the directors, sit down and without any restriction whatever except your good common sense fix the amount you are going to hide away in the hidden reserve.—A. In the first place, I am not a director of the Bank of Commerce.

Q. I see; you attend these directors meetings when these matters are dealt with?—A. And I make suggestions for their consideration.

Q. Then by reason of attending these meetings of directors you have been there—no doubt you were there in the meeting last year when it was decided how many millions they were going to put into that hidden reserve at the time, were you not?—A. Millions begin to roll into large figures. I suggest that I was there when it was decided what appropriation should be made.

Q. Yes, and you are merely using a truism when you say that millions mean large figures. Well, we will take it that way, that there is nobody who has any power and will leave the act as it is to say to you gentlemen you are putting away too much for your shareholders in that pot?—A. Legally, possibly not; but very definitely the Minister of Finance knows what they are and it would be under his control.

Q. He told us yesterday that he had not yet had an opportunity of looking into this matter. I do not know whether he has done so since or not or whether he has someting for us at this time. Has the Minister of Finance ever checked your bank, or any of your ten banks, in that respect?—A. I could not say whether they did check our bank or not. Presumably they had the figures and decided not to check our bank or any other bank.

Q. If you wound up your banks say to-morrow morning, you would have a nice surplus there of $20,000,000 on top of your capital of $30,000,000, so your shareholders would benefit by this hidden reserve in the distribution of the assets, would they not?—A. Mr. Slaght, there would be no way of appraising that because you do not know how the majority of the loans are going to pan out.

Q. Mr. Tompkins told us yesterday that for nineteen years these reserves have been piling up; do you agree with that?—A. I think that, sir, is an unfair statement.

Mr. Tompkins: May I interject; I did not I do not think use those words; I said that my knowledge of the conditions of the banks extended over a period of nineteen or twenty years.

Mr. Slaght: Yes, sir.

Mr. Tompkins: And, as Mr. Wedd puts it himself, as suggesting that if you wound up the bank to-morrow or otherwise on a given date, it would be a matter of final result as to what losses would be suffered in the way of loans and investments and other assets which would be required to be taken out of your hidden reserves. You might find that they would not be totally required and there might be something left, or you might find that they would all be required for the purpose of effecting a general winding up.

Mr. Slaght: Did you not tell me yesterday that at the end of each fiscal year the banks set aside an amount estimated at what their losses actually were in that year?

Mr. Tompkins: Quite true.

Mr. Slaght: And having done that you told us also that there is a fund in excess of that which has been piling for nineteen years.

Mr. Tompkins: What I intended to convey was not that, if that is what I conveyed I did not put it very clearly. What I intended to convey was that in a given year there might be an amount in excess of that; or there might be no real deficit after making all these computations. What I mean by that is that it involves a lot of calculations; they might be larger in one year; up in one year and down in another.

Mr. Slaght: I put it to you that it was much larger last year, at the end of 1943—and you know the amounts although in your statement you were very careful to avoid a disclosure of it—and I suggest to you that at the end of nineteen years of your own personal knowledge of it that it is much larger now than it was when it started; what do you say to that?

Mr. TOMPKINS: I would say in a general way that that is correct.

Mr. SLAGHT: That is that over a period of nineteen years this amount has been increasing.

Mr. TOMPKINS: Not continually.

Mr. SLAGHT: Well, not continually; I am content with your answer; and it is, I put it to you, considerably larger last year than it was nineteen years ago.

Mr. TOMPKINS: Somewhat larger, yes.

Hon. Mr. ILSLEY: The assets of course are greater also.

Mr. TOMPKINS: Probably I should elucidate that by saying this, that the volume of business and the risks of the banks not only with respect to their loans and their investments but their general risks are greater.

Mr. SLAGHT: You mean, they are increasing.

Mr. TOMPKINS: Therefore there is the necessity for something greater as they operate from year to year.

Mr. SLAGHT: Now, just before I say this—I want to creep up on you as closely as I can but don't you let slip what the amount is—I suggest to you that it is in the millions; what do you say?

Mr. TOMPKINS: I do not know whether you are referring to one million or eight.

Mr. SLAGHT: I did not refer to either one million or eight million, because you would know what is in my mind; but I had regard to this, that these ten banks have a healthy reserve which runs into millions—you know what millions means?

Mr. TOMPKINS: Let me answer that by saying that it is in excess of one million.

Mr. SLAGHT: Would you say it was below $5,000,000?

Mr. MACDONALD *(Brantford City)*: I object to that.

Mr. TOMPKINS: I am not going to be tripped that way.

Mr. SLAGHT: All right, we will stop there.

Mr. MACDONALD *(Brantford City)*: I am interested particularly in the safety of the depositors of the bank, and I want to see that the taxpayers' money, the depositors' money is protected. If the policy of the government is that the inner reserves are not to be disclosed then I suggest that that is an improper statement, Mr. Chairman; that it is improper that any question should be asked as the amount of that. When this committee is through with its deliberations and has heard all the evidence, it can decide whether or not in the interest of the depositors it is advisable that this reserve should be or should not be disclosed.

Mr. BLACKMORE: Let us see if we can get this point clear; where a bank has a loss in its operations in a given year, as I understand it, that loss is taken out of the money set aside in this special reserve or this hidden reserve for that year; and that the amount by which the losses exceed the sum set aside would be taken from the published reserves and added to the reserve?

Mr. TOMPKINS: Oh, no; the hon. gentleman is wrong there. What I intended to convey, if I did not put it clearly, was that in preceding years the banks might have set aside something without allocating it to a particular item and in subsequent years this varying reserve might be drawn upon by losses incurred in subsequent years.

Mr. Blackmore: Did you give the idea that at certain times additional moneys were taken from the published reserves and added to the hidden?

Mr. Tompkins: That is a matter of record already.

Mr. Blackmore: That is what I thought. I think that covers the matter.

Mr. Tompkins: I was using that illustration merely to point out that those inner reserves, as they are termed, have not reached the fantastic figure that many people imagine.

Mr. Chairman, before Mr. Slaght continues, it might facilitate the deliberations of the committee if I complied with Mr. Slaght's request of a few minutes ago and filed the particulars of the changes in the schedule that was mentioned as the result of the commencement of business of the Bank of Canada—the order in council.

Mr. Slaght: The order in council which brings us up to date when you add this to the section—yes, I thank you. What exhibit will that be, Mr. Chairman?

The Chairman: Exhibit 18.

Mr. Slaght: Those are the changes made by order in council to the Bank Act in 1934.

Mr. Tompkins: Correct.

Mr. Jaques: I did not understand Mr. Macdonald's objection. Was the purpose of his statement to indicate that if those inner reserves were disclosed the amount would prove to be so small that the shareholders would be in a panic; is that the idea?

Mr. Slaght: No, it is the depositors he is interested in.

Mr. Jaques: I should say the depositors.

Mr. Slaght: He is championing the depositors this morning.

Mr. Jaques: Is he suggesting that the inner reserves are so small that if they were disclosed—

Mr. Slaght: You will have to cross-examine Mr. Macdonald on that.

Mr. Macdonald (*Brantford City*): If Mr. Jaques has any doubt as to whom I am interested in I might inform him and members of this committee that I am interested in the bank accounts of the small man, of the working man. Now, in the city of Brantford there are thousands of working people, a good many of whom have money in the bank, and my only interest is that their money in the banks should be safely protected. I have no interest in Mr. Jaques' friends if they are not poor people; I have no interest in Mr. Slaght's people if they are wealthy people; my only interest is in the working man. That ought to put my position clearly before this committee.

Mr. Slaght: You are getting very exclusive.

Mr. Macdonald (*Brantford City*): I will be very happy to be in that exclusive class.

Mr. Slaght: Let me visualize the future of those thousands of working men in Mr. Macdonald's consitutency of Brantford, and I will ask you, witness —he will be interested, perhaps, in this—why it is that your bank can take part of your gross earnings and escape taxation and the working man has to pay in full on his $100 and have it deducted at the source. Perhaps that will help you and my friend from Brantford.

Hon. Mr. Hanson: Mr. Chairman, I think we are getting nowhere fast.

The Chairman: Mr. Slaght, just a moment, may I say that there are three or four people who would like to go on this morning, and it seems to me that we have gone around in circles for the last ten or fifteen minutes.

Mr. Slaght: May I remind you, Mr. Chairman, that I was dragged into the circle by the gentleman over here.

The CHAIRMAN: Please try to resist temptation.

Mr. MACDONALD (*Brantford City*): On a point of privilege, Mr. Slaght has suggested that I do not think the banks should pay taxes. I have made no such suggestion; but if after hearing the evidence we are satisfied that the banks should pay taxes on these inner reserves then I will be the first to support the proposition. I am sure he does not want to put my position improperly.

Mr. SLAGHT: No. That will be good news for the Brantford factories.

The CHAIRMAN: Order, please. Go on, Mr. Slaght; let us make some headway.

Mr. SLAGHT: I am now getting very close to getting through.

By Mr. Slaght:

Q. Mr. Wedd, I want to know if you will agree with the statement of the Minister of Finance which has been referred to appearing on *Hansard* in 1942. I quote from *Hansard* of the 15th July, 1942—I think it was on the 15th of July, 1942 that he made this statement on the floor of parliament, and there is a little difference of opinion whether he is right. I think he is:—

> Everyone familiar with the working of the banking system knows that the moment the banks get their hands on additional cash—I mean by that Bank of Canada notes, or deposits by the Bank of Canada which are convertible into Bank of Canada notes—when the banks get those reserves in their hands powerful forces are set in motion to get the banks to buy securities themselves, to make loans themselves, so that the deposits of the chartered banks will be seven, eight, nine or ten times as great as their cash reserves. That lies at the base of their whole profit-making activities; the way they make money is by lending more money than they have.

Do you agree with that?—A. I believe that was covered in a brief memorandum.

Q. Do you agree with that, because this is mysterious to me—"when the banks get those reserves in their hands powerful forces are set in motion to get the banks to buy securities . . ." You know that because you are the head of the banking system; is that true?—A. I will have to give you a memorandum on that, Mr. Slaght, because it leads into such intricate conversation that I could not follow it myself.

Q. May I put it in a negative way and say you would not say it is not a true statement?—A. If the minister made it, definitely not.

Q. I am with you and I am with him entirely on this; there are three of us now. Then he goes on to say, "powerful forces are set in motion to get the banks to buy securities themselves, to make loans themselves, so that the deposits of the chartered banks will be seven, eight, nine or ten times as great as their cash reserves. That lies at the base of their whole profit-making activities; the way they make money is by lending more money than they have." Is that a true statement?—A. I think that is putting it, perhaps, in a way I would not do it.

Q. That is the same minister—the man in whom you have such confidence —who made that statement.

Hon. Mr. ILSLEY: Mr. Slaght, you have the habit of suddenly stopping at that point instead of reading the rest of the quotation.

Hon. Mr. HANSON: It takes it out of the context.

Hon. Mr. ILSLEY: Yes.

Hon. Mr. HANSON: That is clever.

Hon. Mr. ILSLEY: Because I make it clear that when I talk of what they have I am talking of what they have in legal tender.

Mr. SLAGHT: Cash reserves.

Hon. Mr. ILSLEY: Exactly. And if you recall, Mr. Towers said he agreed with that with the addition of three words "in legal tender". Now, the fact that those three words "in legal tender" are implied is made perfectly clear by what follows; and, therefore, you should not stop there.

Mr. SLAGHT: I suggest you, perhaps, revised your statement in *Hansard* and did not put any words in there.

Hon. Mr. ILSLEY: I have no objection to the statement if you read it all.

Mr. SLAGHT: All right. "That lies at the base of their whole profit-making activities; the way they make money is by lending more money than they have. What they have is their cash reserves; and unless a bank has out several times—six, seven, eight, nine or ten times—its cash reserves, it is not being profitably, or from a banking point of view, properly conducted."

By Mr. Slaght:

Q. Do you agree with that?—A. I agree.

Q. The minister says that is a true statement as a whole, and I am asking the witness if he agrees with that?—A. I agree with that.

Q. You do?—A. Yes.

Q. And I think you told me yesterday—or perhaps it was Mr. Tompkins who told me—that you would agree with Mr. Towers when Mr. Towers said in 1939:—

> Question: "But there is no question about it that the banks do create that medium of exchange?"
>
> Mr. Towers: "That is right. That is what they are there for."
>
> Question: "And they issue that form of medium of exchange when they purchase securities or make loans?"
>
> Mr. Towers: "That is the banking business, just in the same way that a steel plant makes steel."
>
> Question: "When $1,000,000 worth of bonds is presented (by the government) to the bank, a million dollars of new money or the equivalent is created?"
>
> Mr. Towers: "Yes."
>
> Question: "It is a fact that a million dollars of new money is created?"
>
> Mr. Towers: "That is right."

Do you agree with that? A. Well, we are getting a long way off from what I can clearly talk about. We take deposits from people and in due course we lend out the proceeds of those deposits and we lend out under the law up to 95 per cent of the proceeds of those deposits. Now I want to ask you, sir, if you would not direct questions of this kind to Mr. Towers who elaborated on this matter a few days ago.

Q. I will comply with your request and take another item from the list of the subject-matter in which I am interested with you, and that is this: would you take your Bank of Commerce statement and see if I have analyzed correctly in this respect—at pages 4 and 5? At page 4 near the foot you have there set out the government securities that your bank has in its vault; in other words, the government securities on which the Bank of Commerce has advanced money to the government. Near the foot of the page there is a series of these, and I will read them and add them up. Page 4, assets: "Dominion and Provincial Government direct and guaranteed Securities maturing within two years, not exceeding market value, $320,000,000." I will use round figures. Do you see that item?—A. I do.

Q. And you lump the dominion and provincial securities together; you do not separate them?—A. No.

Q. You will separate them for this committee if you need to in the future? —A. Yes.

Q. I suggest to you that not more than 5 per cent of that $320,000,000 are provincial securities and that the great bulk is dominion securities; what do you say?

Mr. TOMPKINS: May I interject something there? You expressed a desire before the subcommittee last week, as I recall it, for a breakdown of these particular figures.

Mr. SLAGHT: Yes. Give us the Bank of Commerce figures, that will be helpful.

Mr. TOMPKINS: No; I am not giving you the Bank of Commerce figures, I am giving you the banks as a whole as of March 31.

Mr. SLAGHT: Give us those.

Mr. TOMPKINS: I will quote in round figures.

Mr. SLAGHT: Now, first you are going to give us the total dominion and provincial securities in the ten chartered banks held on the 31st March of this year?

Mr. TOMPKINS: Of the total in their published statement in assets item No. 14 Schedule, Dominion and Provincial Securities maturing within two years, the total was $1,796,000,000, of which $171,000,000 was provincial direct and guaranteed securities. Of the total in item 15 Schedule, a longer term, and published in their statement at $1,010,000,000, $127,000,000 approximately was in the provincial direct and guaranteed category.

Mr. SLAGHT: That is very helpful.

Hon. Mr. HANSON: That is 10 per cent and 12 per cent respectively.

Mr. TOMPKINS: It totals $298,000,000 approximately out of a grand total in those two categories of $2,806,000,000.

Hon. Mr. HANSON: Ten per cent in the one case and 12 per cent in the other case.

Mr. TOMPKINS: Approximately.

Mr. SLAGHT: An average of 11 per cent would be provincial.

Mr. MCNEVIN: Your estimate was 50 per cent too low.

Mr. SLAGHT: Yes, it was 50 per cent too low, Mr. McNevin is kind enough to point that out to the committee.

That being so, coming back to page 4 at the foot of the page, your next item is: "Other Dominion and Provincial Government direct and guaranteed securities, not exceeding market value $147,000,000. We start with $320,000,000 and there is $147,000,000 more which are not separated, but we will do that in a minute; and these two total up to $467,000,000, and if you take 11 per cent off it would amount to—Mr. Hanson, you are good at figures?

Hon. Mr. HANSON: $51,000,000.

Mr. SLAGHT: $51,000,000 off. That leaves us Dominion of Canada securities that the Bank of Commerce had in its vault on March 31 last at approximately $416,000,000.

The WITNESS: That will be near enough for practical purposes.

By Mr. Slaght:

Q. That is all I want. Now, I suggest to you that the Dominion of Canada is by far the biggest customer you have to whom you lent money, and that the money you lent to them exceeds the money that you lent to all the little fellows—little or big—as shown by this statement?—A. Quite right.

Q. Let us get the figure on that. Turn to page 5 of your annual statement. Perhaps a copy of this annual statement could be marked as an exhibit, Mr.

Chairman. It need not be published in full. Then it will be before this committee later. Could that be done? Exhibit 19 would be the Canadian Bank of Commerce annual report, if we may.

The CHAIRMAN: What is your pleasure?

Mr. MCGEER: I so move.

(Motion agreed to.)

Mr. MCNEVIN: Could we not have a similar statement for all banks included with them? Then they would be together.

Mr. SLAGHT: You move what you want in that respect. I want this in. I have no objection to their all going in.

Mr. MCNEVIN: I would move that a statement showing the totals for the ten chartered banks, of which Mr. Slaght is giving one-tenth approximately, be filed.

Hon. Mr. HANSON: Mr. Tompkins has given that.

The CHAIRMAN: Are you satisfied, Mr. McNevin, with the statement that Mr. Tompkins has already filed?

Mr. TOMPKINS: It is only in relation to these two particular items in the assets.

Mr. MCNEVIN: The motion covers the total assets and liabilities of all ten chartered banks, but we can take that up later. Let him go ahead.

Mr. SLAGHT: You withdraw your motion?

Mr. MCNEVIN: Yes.

By Mr. Slaght:

Q. Now then, on page 5 last year under assets I find current loans and discounts in Canada, not otherwise included, estimated loss provided for, $214,000,000 roughly?—A. That is right.

Q. So we find that the business you had with the Dominion of Canada in lending them money at interest is $416,000,000 roughly, and may I take it that with all the commercial customers added together, little and big, the business you did last year was $214,000,000 or, at least, at that date it was that amount? —A. At that date it was that amount. Conditions are abnormal, of course.

Q. Yes, they are indeed, and I am going to ask a question or two on that and then I am through. Conditions are abnormal, and you are doing twice as much banking business on loans to the Dominion of Canada as you are to industry, big and small?

Mr. FRASER (*Northumberland*): The government is borrowing for industries to-day.

Mr. SLAGHT: That is a phase of it. I think that is a very fair interjection.

Mr. FRASER (*Northumberland*): The government is borrowing for industry; they are taking the place of industrial borrowing.

The WITNESS: It has to quite an extent, I understand, but I do not know.

By Mr. Slaght:

Q. And especially so during the war; I think we all know that. That will put Mr. Fraser's comment on the record. I concur with that. That has been a tendency which has increased during the war, to lend less to the individual industrial borrower and more to the government. The trend has been up. Your statements will show that, will they not?—A. They will show that. Mr. Slaght, is it proper to interject a remark at this time?

Q. Anything you like.—A. The borrowings of the government from the banks, also the securities of the government which we have purchased, the rate which we have been able to obtain on those securities is very low.

Mr. FRASER (*Northumberland*): It is a servicing rate.

By Mr. Slaght:

Q. Then, I suppose we can say that the government, who are paying you interest on $416,000,000, at that date are your biggest customer?—A. Our biggest customer—I should amend that by saying our biggest borrower.

Q. That is what I meant to say. And being your biggest borrower you will agree with me that the government means the people of Canada?—A. I agree.

Q. So that the people of Canada are your biggest borrowers and you are making certain money out of lending them money, of course?—A. To the government?

Q. Yes.—A. Yes, we do.

Q. Now, I am going to invite you once more, and then sit down, to tell here and now to your biggest borrowers how much of the profits you make out of them you put away in a hidden reserve and do not pay taxes on? We are here in the capacity, if I may be so bold, of your biggest borrower.—A. In the first place, Mr. Slaght, I do not admit we put away money and do not pay taxes on it. In the second place I have not any breakdown of the figures. I have gross earnings, of course, on these various items.

Q. Why do you not show gross earnings in your annual return to your shareholders?—A. It has not been the practice.

Q. If you did then we could take a pencil and find out the hidden reserve, if you put the gross earnings in there?—A. The gross earnings were tabled by the minister of all the banks together on the second of May.

Q. And that is at page 2620, is it not?—A. Yes.

Q. And the gross earnings as tabled by the minister are $144,500,000?—A. That is right.

Q. Just a million less than your total capital. That is all the ten banks. Then he broke them down into three items of earnings for the banks, did he not?—A. Yes.

Q. And he showed interest and discount on loans of $60,000,000 odd; interest, dividends and trading profits on securities, $48,000,000 odd, and wrapped up in that is the interest you get from the Dominion of Canada on the borrowings they have made from your bank and others?—A. That is right.

Q. And the third item is exchange, commissions, service charges, and other current operating earnings, $35,000,000 odd. You were good enough to break that down yesterday. That is a total of $144,500,000?—A. That is right.

Q. Now, will you show me how I can take the minister's statement there and find out the hidden reserve, because I tell you I cannot and nobody else can.

Hon. Mr. HANSON: Then, you have answered your own question.

Mr. SLAGHT: I want to see if the witness agrees with me.

By Mr. Slaght:

Q. There is a statement given to parliament, placed on Hansard, in order to show the condition of the banks. Do you suggest that any man can take that statement and find the hidden reserve?—A. I think that any thinking man has to suggest to himself that there were losses on doing business.

Q. I did not ask you that at all. We are away past that. Can anybody take that statement placed on Hansard and ascertain what the hidden reserves are of the ten banks? The answer is "no", is it not?—A. You should join with your question the remarks made under clause 15 in this particular statement, average annual amount required for losses, etc.

Q. Just while we are on this statement, look at item 10 in expense items showing what the banks pay for expenses. Item 10 is "All other current operating expenses", $20,000,000?—A. Quite right.

Q. Do you see that?—A. I do.

Q. Current operating expenses. Now, I suggest to you that if you would break that down for us you would find hidden in that $20,000,000 item under the guise of an operating expense this hidden reserve that you set aside?—A. No.

Mr. TOMPKINS: No, definitely not. Mr. Slaght, may I interject there? Again I go back to the question of your request for certain breakdowns in this respect. I may say I have been working on that. I have been in communication with the banks by letter and by telephone, and there is some difficulty because of the fact that their bookkeeping methods and practices are not entirely uniform.

Mr. SLAGHT: I can appreciate that.

Mr. TOMPKINS: I intend in due course, and I hope next week, to submit to the committee the major items in connection with that $20,000,000 you have just quoted; if it will be helpful.

Mr. SLAGHT: While we are on that—

Some Hon. MEMBERS: Let him finish.

Mr. TOMPKINS: If it will be helpful, since you have referred to this specific question of service charges—I thought I had my figures here but I am not quite sure whether I have or not.

The CHAIRMAN: Tell us what they are.

Mr. TOMPKINS: I think my memory is reasonably good on this point, and the service charges included in item 3—I take it you have the statement before you?

Mr. SLAGHT: Right.

Mr. TOMPKINS: Of the total of $35,200,000 are $3,200,000, or somewhere between 9 and 10 per cent of that total.

Mr. SLAGHT: You will be kind enough to file your statement when it is completed?

Mr. TOMPKINS: It is simply a total. I am not giving individual bank figures.

Mr. SLAGHT: That total is in. That is all I need.

Mr. TOMPKINS: I am dealing specifically with that one particular item of service charges, and as I have said already I intend to submit in due course the major items in item No. 10.

Mr. SLAGHT: All other current operating expenses?

Mr. TOMPKINS: Yes.

Mr. SLAGHT: If someone will be kind enough to give Mr. Tompkins this statement on Hansard at page 2620 then we will get it cleared up quickly.

Mr. TOMPKINS: I have it right here.

Mr. SLAGHT: Look at that statement. Will you pick out in that statement the particular item in which the hidden reserve called "X" is covered?

Mr. TOMPKINS: Well, it is not quite possible to do it in just the terms that you suggest.

Mr. SLAGHT: Well, do it the best way you can.

Mr. TOMPKINS: But the fact is if we take first of all the average figure in the first column, we come to a point where we find that the net amount of current operating earnings, plus item 14, which relates to capital profits, including non-recurring profits, total $14,300,000. Am I right?

Mr. SLAGHT: Yes.

Mr. TOMPKINS: $15,300,000, I should say.

Mr. SLAGHT: Yes.

Mr. TOMPKINS: Of that there was an average for those particular fifteen years, an experienced average of losses totalling 13·8 million dollars.

Mr. SLAGHT: Pardon me. May I correct you there and say that is not actual losses; that is earnings available for losses?

Mr. TOMPKINS: No. You are confusing that entirely with the other item, which is item 13.

Mr. SLAGHT: Yes?

Mr. TOMPKINS: And that is not indicated. Of course, I quite agree that there might be some confusion in the minds of some as to what it is, but item 15 is the actual experience of the banks for the last fifteen years, the average annual loss.

Mr. SLAGHT: All right. Just before we leave that, and then I am quite through, I invite you to pick out the item in the statement placed on *Hansard* which would even tell anybody that there was a hidden reserve. There is not any, is there?

Mr. TOMPKINS: There is not any what?

Mr. SLAGHT: Any item in the statement placed on *Hansard* at page 2620, which would indicate to anybody that there was a hidden reserve held out by the banks?

Mr. TOMPKINS: The total hidden reserve of the banks?

Mr. SLAGHT: Or even that there is one?

Mr. TOMPKINS: Not specifically.

Mr. SLAGHT: No, not at all. Read any item that indicates that to a business man who wants to know; read any item there that indicates that the banks are holding out a hidden reserve, because this was put before parliament as an exposé of the banks' annual operations.

Mr. TOMPKINS: The object of this statement was to convey to the public a better appreciation than what they already had of what the costs of banking are.

Mr. SLAGHT: Yes.

Mr. TOMPKINS: And it was put in the form in which it is reported with that express purpose in mind.

Mr. SLAGHT: You agree with me that there is nothing by way of an item on this statement that indicates there is a hidden reserve? Are we agreed on that?

Mr. TOMPKINS: No; not specifically, no.

Mr. SLAGHT: Not specifically, no.

Mr. MACDONALD *(Brantford City)*: Or any other way?

Mr. SLAGHT: Or any other way? I invite you to tell us that. I do not know what you mean by, "not specifically, no." My assertion, as a question, is this: There is not any statement there that shows that.

Mr. TOMPKINS: It seems to me that we are getting back to the point that Mr. Towers suggested the other day, when he said "This is where I came in." I mean, you cannot get back to a specific item. I have already indicated my reasons for thinking that it is not desirable to disclose that item.

Mr. SLAGHT: I see. You had to do with the preparation of the statement placed in *Hansard* at page 2620?

Mr. TOMPKINS: I had something to do with it, certainly.

Mr. SLAGHT: And bearing in mind that it was not desirable for parliament to know that there was a hidden reserve, you did not disclose that fact in that statement?

Mr. TOMPKINS: Quite true.

Mr. SLAGHT: Quite true. That is a serious answer and a serious question. I do not want to be unfair and hurried in this matter. My question is this. Bearing that in mind, in preparing a statement to be presented to parliament you prepared it in a manner that would conceal the fact that the banks had a secret and hidden reserve system.

Mr. TOMPKINS: No. I object to that question entirely. The statement was prepared very carefully. It is a correct statement as it stands, and I stand by all the figures in it.

Mr. SLAGHT: But you stand by it also and like it better because, as you have told us, your view is it ought not to be disclosed; and you are unable to show in that statement itself where that fact is disclosed.

Mr. TOMPKINS: For the very reasons I have already explained.

Mr. SLAGHT: For those very reasons you have explained. You thought it was desirable not to disclose it?

Mr. TOMPKINS: Yes.

Mr. SLAGHT: Yes.

The CHAIRMAN: Is that all?

Mr. SLAGHT: That is all.

The CHAIRMAN: Gentlemen, we have a little quandary here; at least, the chairman has. Mr. Noseworthy agreed to give way to Mr. Hanson for five minutes, and I have a note from Mr. Fraser asking Mr. Hanson to give way for two minutes.

Hon. Mr. HANSON: I agree on that, but I do not want to be limited to five minutes. I suggest this. I am quite willing to give Mr. Fraser two minutes, but I suggest that we have heard Mr. McGeer and Mr. Slaght for literally hours, and the other members of this committee have not had the opportunity that they ought to have. The chairman has been very patient with these gentlemen, but our patience is running out.

The CHAIRMAN: Yes.

Mr. MCGEER: Mr. Chairman, let me say this—

The CHAIRMAN: Please, Mr. McGeer, just a minute. Mr. Noseworthy asked to follow Mr. Slaght. I understood from you, Mr. Hanson, that you wanted just five minutes. Mr. Noseworthy, and I spoke to him, agreed to give way for that time. Suppose we proceed with Mr. Fraser.

Mr. FRASER (*Northumberland*): Thank you, Mr. Chairman. I spoke to both Mr. Hanson and Mr. Noseworthy because I just wanted to place on record, after Mr. Slaght's cross-examination, one or two facts. Mr. Slaght asked Mr. Webb if he knew any commercial companies who carried forward contingent reserves as the banks do. Mr. Wedd, in his position as general manager of the Canadian Bank of Commerce, of course, made the obvious reply. I hold in my hand the annual statement of the Canadian Canners and I find that they, as an industrial company, do carry forward the same type of reserve, investment and contingent reserve, $1,600,000. It is a customary item to carry forward in industry as well as banking.

The next point that I wish to put on the record is this. It does not seem to me that this committee is so much interested in the private and internal accounting of the private banks of Canada—

The CHAIRMAN: The chartered banks.

Mr. FRASER (*Northumberland*): Yes, the chartered banks of Canada, as they are in whether the government collects the taxes on the contingent reserve carried out of profits. The chartered banks are in practically the same position, doing business as private companies, as a mining company doing business under a franchise from a province in the dominion. I submit, and submit emphatically to this committee, that what we are interested in, as Mr. Macdonald said, is the security and solidity of the banking system of Canada; and that we have no right, any more than the shareholders who are satisfied with the reports made by the general manager at the shareholders' meeting, to delve into the accounting or what they consider after years of practice in banking, is advisable for a hidden reserve or a contingent reserve to protect their depositors and their borrowers to that extent. I thank you very much for giving me this opportunity to speak.

The CHAIRMAN: All right, Mr. Hanson.

Mr. SLAGHT: I ask Mr. Fraser if he will put this Canadian Canneries statement on the record as an exhibit?

Mr. FRASER (*Northumberland*): Surely.

Mr. SLAGHT: Because that discloses that the Canadian Canneries did disclose to their shareholders the exact amount of their hidden reserve.

Hon. Mr. HANSON: Oh, no. It is not broken down.

The CHAIRMAN: All right, Mr. Hanson.

Mr. MCGEER: Mr. Chairman—

The CHAIRMAN: Mr. Hanson has the floor.

Mr. MCGEER: I rise to the question of this exhibit which has been referred to being put on the record, if it is not going in as an exhibit.

Mr. SLAGHT: Mr. Fraser has agreed that it should go in as an exhibit.

Mr. FRASER (*Northumberland*): I will give you another copy. This is my own private copy.

Mr. SLAGHT: Will that be exhibit 21?

The CLERK: Exhibit 20.

By Hon. Mr. Hanson:

Q. Mr. Wedd, the only point I wish to refer to at this stage of the proceedings is the charge, if I may so dignify it, of Mr. Slaght that the banks have a special privilege with respect to this question of inner reserve, which I desire to call insurance reserve in my own mind, at all events, and that the banks escape taxation. I observed a moment ago that, in reply to Mr. Slaght, you denied the charge that the banks did escape taxation on that reserve?—A. Quite right.

Q. That insurance reserve.—A. Our tax returns are submitted to the Commissioner the same as any other corporation's.

Q. Yes. My understanding of this item is that it is to take care of operating losses, ascertained and unascertained, or future operating losses. That is what this is set up for?—A. A loss on a bad debt or a bad investment is an operating loss.

Q. Yes, of course. And under the law you are entitled to charge it off against earnings; not against profits but against earnings?—A. We think so.

Q. Yes. And that is the law of the income tax department. That is what you understand it to be?—A. That is the law.

Q. And if you did not do that, you would be overstating your net profits, if you carried it in there, would you not?—A. I would think so.

Q. Gross depreciation reserve?—A. Yes.

Q. According to a statement made by the Minister of Finance in *Hansard* (page 2620) there is set out under item 15, the item of expenses which the banks do charge, that is collectively the banks charge 13·8 millions a year; and is that the average that might be required for losses or specific provision for losses on loans investments and assets less recoveries and so forth during the fifteen financial years ending with the year to which the report relates?—A. Yes.

Q. So that there has been disclosed to the public what the average annual losses and anticipated losses are?—A. Of all banks, that is right.

Q. Of all banks, now then referring to your statement on page 8 of the report of the directors to the shareholders at the annual meeting, you specifically say in these terms what the net profit is, after appropriation to the contingent reserve fund and after both the risks for all possible debts have been made, I suggest to you that the words "contingent fund" used here is another name for these inner reserves. Am I right?—A. You are right.

Q. So that you disclosed to the shareholders and to the public and to the taxpayers the amount so set aside?—A. Yes.

Q. So that you have disclosed to the whole world that you have a contingent reserve aside from what is known as rest; the only thing is that you do not disclose the actual amount involved?—A. That is right.

Q. That is the practice of the bank and the law does not require you to do so?—A. That is right.

Q. But I do suggest this to you, that in your returns—perhaps I should not ask this question—that in the returns you make in accordance with the provisions of the Income Tax Department's regulations, those returns like mine I hope are correct, and you make disclosures to the Tax Department of such figures as are set aside in this contingent reserve upon which you do not pay taxes?—A. The figures are available to the commissioner.

Q. They are available so that if they want to go into them, they can go into them?—A. At any time.

Q. And they are charged with the administration of the law regarding taxes?—A. That is my understanding.

Q. And your obligation is to satisfy them and their duty is to see that you do not escape taxation; is that correct?—A. That is my understanding.

Q. Now then, Mr. Slaght's charge really amounts to this, an important part of the government is not doing its duty to the other taxpayers of this country—

Mr. SLAGHT: Not at all, I made no such suggestion.

Hon. Mr. HANSON: I suggest that that is a very fair inference to draw from what you said.

Mr. SLAGHT: I made no such inference.

Hon. Mr. HANSON: I would say that you did so charge and I would say that this is a very fair interpretation of your statement, and it is a fair deduction from the position which my learned friend has taken; however, I am content to leave it there, it is a matter I suppose of argument and judgment.

By Hon. Mr. Hanson·

Q. Now you have said that you do not escape taxation. I have set up what I believe is the modus operandi, I think you co-operate with the Tax Department?—A. Quite right.

Q. Do you desire to place on record now or at a future time any further reasons in connection with this as an answer to Mr. Slaght?—A. Possibly not in answer to Mr. Slaght but to clarify the situation generally.

Q. To clarify the situation?—A. It might be helpful to the committee if I were permitted to prepare a memorandum, and perhaps in collaboration with one or two of my associates.

Q. I think you ought to be given an opportunity to do that. I would like to be assured that the taxpayer of this country that the banks are not only complying with the tax law as I have to, as the wage earner has to—for whom Mr. Slaght has shed metaphorically so many tears—that we all obey the laws of this country regarding taxes.

Mr. SLAGHT: We all have to do that, whether we like to or not is another thing.

Hon. Mr. HANSON: So I think you ought to do that and put it on the record.

By Hon. Mr. Hanson:

Q. The point I want to make is this, that the banks disclose to their shareholders that there is an additional reserve, and that the banks do disclose to the tax department what the amount of that is if they desire it; they have the right to know and to see that the public revenues are protected, have they not?—A. That is my understanding of it.

Q. I think that is my understanding too. Now what does happen when you draw upon these reserves and in setting them up at the end of the year?—A. I do not quite follow you.

Q. Well, I will come to it. If you have a fair proportion of losses in a given year, as I understand your statement and the statement of the Inspector-General of the banks, what you do is to set aside what in your judgment will be an appropriation sufficient to take care of any decline in the value of securities or other losses that might be contemplated. I believe Mr. Slaght made mention of the point that it was growing and the answer to that is this; is this the answer—I will put it in the form of an interrogative: Is it not a fact that the bank's assets are expanding, that their other obligations are expanding, that their business is expanding, and you try to observe a proper ratio?—A. That is a proper statement. Mr. Tompkins brought that out.

Q. Yes, I thought so. Now, I call your attention further to the form of the bank's statement in schedule H of the present Bank Act, which I do not think has been altered by order in council; at least, I assume that it has not been altered by order in council; my understanding of Mr. Tompkins' statement with respect to alterations, the ones which were made by order in council and which have now been filed, were related to the initial opening of the Bank of Canada.—A. That is correct.

Q. And they have nothing to do with the filing of the usual statements detailed in subsection H; I mean, the information required under the old section 112 and 113 of the Bank Act?

Mr. TOMPKINS: They did alter the wording of certain sections.

Hon. Mr. HANSON: Which one?

Mr. TOMPKINS: Will the hon. gentleman tell me to which one he was referring?

Hon. Mr. HANSON: I am referring to sections 10, 11 and 17; these are the only ones I am interested in.

Mr. TOMPKINS: On assets?

Hon. Mr. HANSON: On assets; have they been changed?

Mr. TOMPKINS: No, in that respect there is no change.

Hon. Mr. HANSON: No change by order in council. Now, I draw your attention to the statement which is required by Schedule H, Mr. Wedd, and the statement of the return of assets contained on page 91, Items 10, 15 and 17: Section 10—Dominion and provincial government direct and guarantee securities maturing within two years, not exceeding market value.

Mr. TOMPKINS: As a matter of fact, Mr. Hanson, there has been a little change in the order there.

Hon. Mr. HANSON: I am looking at the Bank Act as presently existing, in the Bill.

Mr. TOMPKINS: The order in council referred to made a slight change.

Hon. Mr. HANSON: What did the order in Council change there?

Mr. TOMPKINS: What was that one again?

Hon. Mr. HANSON: Section 10, that relates to the short-term government securities.

Mr. TOMPKINS: The way it reads now it is Section 14; "dominion and provincial government direct and guarantee securities maturing within two years, not exceeding market value".

Hon. Mr. HANSON: It is the same section with a different number?

Mr. TOMPKINS: Quite right.

Hon. Mr. HANSON: I am reading from the present act, chapter 24 of the revised statutes of 1934; that item itself has not been changed?

Mr. TOMPKINS: It has not been changed, just the number.

Hon. Mr. HANSON: And it has now become number 14, is that it?

Mr. TOMPKINS: That is right, it is number 14.

Hon. Mr. HANSON: And number 11 is now number 15?

Mr. TOMPKINS: Number 15 is "dominion and provincial government direct and guarantee securities, not exceeding market value."

Hon. Mr. HANSON: And number 11 has become number 15; is there any change in number 17, other current loans and discounts in Canada, estimated loss provided for—that is under what?—A. Twenty-one—current loans and discounts in Canada not otherwise included.

Q. Let us refer to these as 14, 15 and 21, and not 10, 11 and 17. I direct your attention to the words, "Not exceeding market value", at the end of 14 and 15. That is to give you a leeway in marking down your provincial and dominion securities of both categories to a point where you believe they are safe. Is that what it is?—A. To a point where we believe they could be marketed.

Q. It is the maximum, you see, "not exceeding market value". You must not put them above market value, but you are by inference, I suggest, entitled to be on the safe side and to enter their value below the market value actually if you so desired

Mr. TOMPKINS: It is a ceiling.

Hon. Mr. HANSON: Quite right.

By the Hon. Mr. Hanson:

Q. What is the practice in that respect?—A. The practice in our bank is to carefully consider what those various securities could be marketed at in the quantity we are holders of.

Q. So that the result would be that with the large volume you would have you would probably enter these at slightly below the existing quoted market value?—A. The quoted market?—no, the possible real market.

Q. Would that be a place where you would with propriety include something of this insurance reserve?—A. That is what I contended with Mr. Slaght.

Q. That is the practice in the valuation of these securities, both long and short term, and under 21, your current loans and discounts in Canada, that you value them conservatively, and it is in these items you are able to build up an insurance reserve?—A. That is an appropriate place for the insurance reserve to be used.

Q. Is that the practice?—A. That is the practice.

Q. And not otherwise?—A. Not otherwise.

Q. That is all I want to ask. You will file a memorandum in defence of the taxation position?—A. The inner reserve generally and its implications with respect to taxation.

Q. What I should like to know—and I think we are all interested in knowing—is if this statement—I will not say charge but it sounded to me like a charge—that the banks are in a preferred position with respect to taxation and that they, in fact, escape taxation, is the fact? I think the public is entitled to know it. I think the banks should show us what the position is.

The CHAIRMAN: Mr. Noseworthy.

Mr. NOSEWORTHY: Mr. Chairman, I have just a few questions I should like to direct to the witness.

The CHAIRMAN: Let us have less conversation, please, so we can hear.

Mr. NOSEWORTHY: I might say at the outset for the benefit of the witness that in contrast to the questions raised by Mr. Slaght, Mr. McGeer, Mr. Hanson, and so forth, mine will be very elementary.

Hon. Mr. HANSON: I have an elementary mind. I am not a theorist like you. I am very practical.

Mr. NOSEWORTHY: I am not a monetary expert or a banking expert. My chief experience with banks has been in an endeavour to keep my account within a range where my cheque will not come back N.S.F. Like Mr. Macdonald and others I am naturally interested in the service that the bank renders to the working class people, the great mass of the common people of the country. Much has been said in the committee about the importance of the bank to that class. I should like to get from the witness, and on the record, a statement showing just how important the banking system is to, let us say, 90 per cent of our population in comparison with its importance to the remaining 10 per cent. I wonder if the witness has available the number of deposit accounts. I am thinking particularly of the notice deposits, or savings deposits. Probably that is information which should not be revealed.

Mr. TOMPKINS: It is already filed.

Mr. NOSEWORTHY: Or is it public information?

Mr. TOMPKINS: It is already filed.

By Mr. Noseworthy:

Q. Will the witness give us the total number of deposit accounts in his bank?—A. Mr. Noseworthy, if you want the total number of deposit accounts for all of the banks that is a matter of public record on the 31st of October, 1943.

Q. Would you care to give them for your own bank?—A. I would have no objection to that. This is for notice deposits?

Q. Yes, for notice deposits.—A. 853,000; that is in round figures.

Q. And the total amount— A. I beg your pardon; it is 929,000. The 853,000 is those of $1,000 or less.

Q. And the total amount of all those deposits?—A. At the 31st of October, 1943, the total amount was $380,000,000.

Q. And then if we break down these deposits—I think you have already stated this—the number of those with $1,000 or less is?—A. 853,000.

Q. And the total amount of these accounts of $1,000 or less?—A. $114,000,-000, an average of $134

Q. An average of $134 each. What percentage are those accounts of the total, of all the deposits?—A. That is in number, about 91 per cent.

Q. In amount?—A. That is 91 per cent in number.

Q. And in amount?—A. In amount about 30 per cent—no, wait a minute, 19 per cent—no, just a minute, 30 per cent.

Q. 91 per cent of your deposit accounts in number account for 30 per cent of the— A. Of the total amount.

Q. In these deposit accounts. The number then from $1,000 to $5,000, if you have that breakdown?—A. That is getting into the realm of more detailed figures, and I do not think it is particularly useful to go above that figure, but I should like to add that this gets to the point where there are corporations and trust companies with depositors of their own and provincial governments, and so on, the Canadian National railway, C.P.R., and the like.

Q. With savings account deposits?—A. It might easily happen there would be savings accounts for corporations, and the figure for the banking system as a whole is on the record.

Q. The figures I have here are from the Bank of Canada statistical summary for December, 1943. If the witness has a copy there he will be able to indicate whether I am correct in these figures or not. I would just like to put them on the committee's record. The details I have before me in this Bank of Canada statistical summary as of December, 1943, give the total number of notice deposits as 4,662,100, and the total amount of those deposits as $1,961,200,000. In the breakdown accounts of $1,000 or less number 4,280,400.—A. That is my understanding.

Q. Of course, it is understood that does not represent the same number of individuals. There may be individuals with more than one account?—A. Yes, with accounts in several banks.

Q. That by number is 91·8 per cent of the total?—A. That is right.

Q. The amount of deposits in those same accounts is $617,300,000, and the percentage of the total is 31·5?—A. That is right.

Q. In the $1,000 to $5,000 class the number of accounts is 342,800 and the percentage by number is 7·4. The amount is $671,100,000, and the percentage of the total 34·2.—A. That is what the statement shows.

Q. From $5,000 to $25,000 the number of accounts is 35,800, ·77 per cent of the total. The amount of those deposits is $308,900,000, or 15·7 per cent of the total deposits.—A. It says 15·8 in the figure I have here, but that is near enough.

Q. From $25,000 to $100,000 there are 2,400 accounts, or ·051 per cent of the total. $105,400,000 is the amount of the deposits or 5·4 per cent of the total deposits. Over $100,000 there are 700 accounts or ·015 per cent.

Hon. Mr. HANSON: Would you tell we what you are reading from?

Mr. NOSEWORTHY: A statistical summary published by the Bank of Canada in January.

Hon. Mr. HANSON: It is a matter of record.

Mr. TOMPKINS: Tabled in parliament also.

Mr. NOSEWORTHY: I want that on the record. The amount of those deposits is $250,800,000, and the percentage of the total is 12·3. In order that we might have a picture of the relative importance of the banks to the masses of the people I wanted to get those figures. We note that in all chartered banks a little more than 91 per cent of all the accounts have less than $150 each in them. I think the average I worked out is $144. In the seven hundred accounts of $100,000 and over, with the total of $250,800,000, I worked out that the average of each one of those accounts is $358,286, as compared with the $144 in the 91 per cent of the deposit accounts. What I wanted to ask the witness is, if he will tell us just what type of depositors have these seven hundred accounts of $100,000 and over. Just what type of men or firms and so forth have those?—A. Large institutions practically entirely, Mr. Noseworthy.

Hon. Mr. HANSON: Insurance companies?

The WITNESS: Insurance companies, trust companies.

The CHAIRMAN: And the government?

The WITNESS: The government naturally; and railroads.

By Mr. MacDonald (Brantford):

Q. But not many individuals?—A. No, not many individuals.

By Mr. Noseworthy:

Q. There are not many individuals included in that?—A. No.

Q. I suppose those large deposit accounts of these institutions largely represent what these companies, shall we say, or institutions, have gathered up by way of profits?

Hon. Mr. HANSON: Not necessarily; it might represent reduction in inventories.

The WITNESS: Not necessarily at all, because with an insurance company, it would be on behalf of what would be roughly four to five million insurance policy holders.

By Hon. Mr. Hanson:

Q. It might represent reduction in inventories on the part of manufacturing concerns?—A. Right.

Mr. NOSEWORTHY: Pardon me again for my elementary questions. I am wondering why institutions of that kind will have such large sums of money on deposit in the banks with such small returns as the banks pay by way of interest on deposit accounts.

Mr. FRASER (*Northumberland*): To take care of current operations.

The WITNESS: I would say that perhaps the opportunity to invest or to buy additional stocks is not nearly as apparent as it was before the war.

Hon Mr. HANSON: Hear, hear!

By Mr. Noseworthy:

Q. You are suggesting they are simply left there because there is not a suitable market?—A. There is not normal activity.

Mr. KINLEY: Perhaps it is to pay taxes when they come due.

Hon. Mr. HANSON: That might be a good answer.

By Mr. Noseworthy:

Q. May I ask as my next question what the bank does with its deposits?—A. Well, we went into the question of bank deposits at quite some length before. The proceeds of the deposits are invested in loans and investments; and by law a certain percentage is carried in reserve in the Bank of Canada.

Mr. FRASER (*Northumberland*): Loaned to the government for somebody else to work with.

The CHAIRMAN: Order, please.

By Mr. Noseworthy:

Q. In other words, then, this money is left in the bank and loaned by the bank while these companies are waiting to find more suitable markets for investment?—A. That is what would happen, to loan by way of government securities purchased or perhaps we might say loaned to the government.

By Mr. Fraser (Northumberland):

Q. There would be operating balances there?—A. Yes, there would be operating balances.

Q. Current and operating balances?—A. Yes.

Q. And I suppose that a large part of these deposits go into government securities?—A. The percentage is brought out, Mr. Noseworthy, at the date of our balance sheet. I think Mr. Slaght figured it out. It was about $400,000,000 of government securities which we have purchased as against some $215,000,000 current loans and discounts in Canada, and other loans.

Q. In other words then these large concerns, these institutions, as well as the banks are indirectly dependent upon the investment in government securities for a large part of their earnings?—A. Well, I would not say the savings bank interest is a very large part of anybody's earnings; I mean institutional earnings.

Q. It is because the banks invest their money in government securities that the bank is able to take their deposits and service them and pay interest on them?—A. That is correct.

Q That would be a fair statement?—A. That is correct.

Q. You made a statement I think in answer to a question asked by Mr. Slaght yesterday when he was discussing the question of whether or not the government should borrow directly from the Bank of Canada, and he was trying to make the point I take it that the people of Canada would save in interest charges by that arrangement; I think your answer was those who were not bank depositors or bank customers?—A. That was my answer.

Q. That was your answer?—A. Yes.

Q. But is it fair to say that those who are bank customers would be affected in relation to the amount of money they had, or the extent or size of their transactions with the bank?—A. Mr. Noseworthy, I have never worked out that calculation. I would not be able to answer.

Q. Is that a fair assumption or not?—A. I do not really think that I should make a statement because it would be made so loosely that it would not have any useful purpose.

Q. You are not prepared to say that the people, with the small deposits in the banks, would be the least affected?

Mr. FRASER: At the same ratio.

By Mr. Noseworthy:

Q. You are not prepared to say it would be the same ratio; you would say that there would be some relation at least between the size of the deposits?—A. There would be bound to be; but with respect to the large depositors, it would be safe to say that they would be the largest sufferers—if you want to put it that way.

Mr. FRASER: The small account gets the greatest service pro rata?

The WITNESS: Definitely.

By Mr. Noseworthy:

Q. Just one other question that I want to sak on this point, Mr. Chairman: we are all concerned about the security of the banks. There has been a great deal said about the importance of that security to the depositors. Let us take that 91 per cent of the depositors who have on an average of $144 in all the banks; and the question of security, that is the safekeeping of their deposits is important?—A. Very.

Q. Very important, even though those deposits may only average $144; but you would say that it is still more important to them that they have a better system that will play its part in providing employment in the general economy of the country so that employment can be provided, adequate incomes provided for the 91 per cent. What I am thinking of is this, the ability to provide employment, adequate incomes, security from want, is more important to that 91 per cent with the average of $144 in the bank than the safekeeping of that $144?—A. Mr. Noseworthy, I hardly think that is a banking question; is it? It comes into the realm of policy.

Mr. MACDONALD *(Brantford City):* But if the banks are unsound there cannot be any security.

By Mr. Noseworthy:

Q. You will admit this that the banking institutions do play a very important part in the economy of the country?—A. We think so, sir.

Q. You know, you are ready to admit that the banking system is a very important factor?—A. I think it is a very important, sound and efficiently-operated system.

Mr. NOSEWORTHY: I see it is one o'clock, Mr. Chairman.

The CHAIRMAN: It is the understanding of the committee that Mr. Noseworthy has the floor when we resume.

We stand adjourned until 11 o'clock Tuesday morning next.

The Committee adjourned at 1 o'clock p.m. to meet again on Tuesday, May 30, 1944, at 11 o'clock a.m.

May 30, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, since our adjournment your subcommittee met and has some suggestions to make with regard to the conduct of the proceedings.

(The Chairman read the report of the subcommittee)

Those are the suggestions. The committee realizes they may or may not work well, but we thought them worth trying out. Does that recommendation meet with your approval?

Hon. Mr. HANSON: Mr. Chairman, I was on the subcommittee and I desire to make this observation. I do not entirely agree with it. I think that this committee might just as well get down to business as soon as possible, and that we ought to get down to business. I realize that certain members desire to have some general discussion. I think that can be brought up incidental to sections of the bill. My own view is that we ought to take up the consideration of the bill forthwith, and have these discussions incidental to the appropriate sections. If there are no appropriate sections—and we must remember what the order of reference is—I suggest that the topics these gentlemen want to discuss would be out of order here, and that the House of Commons is the proper place in which they can discuss policies relating to monetary reform and what not. I think we must realize that it is now the 30th of May and that if we are to get this government measure through—and I have no doubt the government are absolutely committed to that position—we ought to begin the discussion of the bill.

Mr. KINLEY: Mr. Chairman, I was a member of this committee. The resolution before you was moved by the hon. member for York South, seconded by the hon. member for Lethbridge and we all agreed to the resolution.

Hon. Mr. HANSON: I did not assent.

Mr. KINLEY: I do not think there is much difference of opinion, Mr. Chairman. I suggest that we pass the resolution and then decide how we will divide the time. It seems to me it will be very reasonable if we take up the bill for the first hour; then I think hon. members would have something definite and concrete to debate. During the second hour we can deal with so-called academic, economic features of it that some members want to bring forward. But as it is, I feel I would have to vote for the resolution that you have read, because I agreed to it in committee.

Mr. MCGEER: Mr. Chairman, when this bill came before parliament it took the course bills of a similar character in other years have taken. It was, of course, passed on second reading and referred to the Banking and Commerce Committee. In due course it will be reported from this committee to the House of Commons, there to go through the committee of the whole.

I should like to draw hon. members' attention to the speech of the Honourable the Minister of Finance which is found in *Hansard* at page 2609, when he was referring the Bank Act to this committee for consideration. He said:—

> That act in turn was the product of a rich background of a half-century's practical experience with, and legislative regulation of, a banking system which had been transplanted from Scotland and adapted to the special needs of the British colonies in North America.
>
> The wisdom of this device of decennial revision of our banking legislation is, I think, obvious. It provides regular opportunities, at reasonable intervals, for a full-dress review of the efficiency with which the

> banks are serving the needs of the public and for making such amendments to the law as changing conditions seem to require. The sense of responsibility with which parliament has acted in these periodic inquests has been commented upon by foreign observers.

Now, why this hurry to get down to the bill before we have any review at all of what we are here to do in the judgment of the Minister of Finance; and I presume his judgment was based upon former experience. But in any event, the situation before this committee to-day has no precedent. We are for the first time in the history of Canada's Banking and Commerce Committee reviewing a new system of finance. We are for the first time reviewing the operation of our banking system around the public utility, the publicly-owned institution, the Central Bank of Canada. It is not merely a case of going on from where other Banking and Commerce committees have left off. This is a review of a system which has only been in operation since the Bank of Canada Act was passed in 1934. It does seem to me that this committee has an opportunity to review the operations of that new system, and to confirm the success of its system and its practice or to make an examination with a view to making improvements.

There is another situation that I think members of the committee in the main will agree with me on and it is this. Our whole structure of internal and external economy has been shaken to its very foundations by the present world conflict. We look out upon a period of reconstruction, as we call it. It is not a period of reconstruction for Canada, because Canada has had more objective construction development during the war period than it ever enjoyed before in its history. We have industrialized the Dominion of Canada since the war commenced. We have industrialized a vast proportion of our population. We face conditions over the next decade that will tax every bit of ability that we can produce, to find ways and means of securing ourselves in the developments that are inevitable. Being firmly convinced that was so, I thought that a good place to start was with the report of the Governor of the Bank of Canada, who has warned our parliament and warned this committee. He told this committee when he appeared before it that we are face to face with adjustments of unprecedented magnitude and that they are urgently in need; voluntarily sitting in his place at the witness table of this committee he warned that he was afraid that there was a dangerous complacent assumption that the adjustments would come about automatically. I thoroughly disagree with the proposals of the former chairman of the Banking and Commerce Committee, and I say one of the condemnations of that committee, whose work was repudiated in the election of 1935, is to be found in the manner in which important details were swept away and not considered or investigated when he was chairman of the Banking and Commerce Committee. I object to that procedure being adopted now and I think that the proper thing for this committee to do is to move to get the evidence, which I think the Minister of Finance has suggested, as to how our system is working, where it is efficient and where it is weak. Then when we have that evidence before us, we can sit down as a committee and consider whether or not we will confirm the legislation as it exists, the amendments as proposed or offer other amendments that would improve our present banking system and provide for the needs that we have got to face if we are not going to have our people throughout this dominion go through another period of disastrous depression and suffering as they did from 1930 on.

The CHAIRMAN: Mr. Kinley, do I understand that you moved concurrence in the report of the subcommittee?

Mr. KINLEY: Yes, although I think perhaps the mover and the seconder should move concurrence.

Mr. NOSEWORTHY: I second it.

The CHAIRMAN: Do I understand that is carried?

Some Hon. MEMBERS: Agreed.

Motion agreed to.

Mr. GRAHAM: Mr. Chairman—

The CHAIRMAN: Before we go on, may I take just a minute to say that I have a letter from the United Farmers of Canada. If you do not mind, I will just read it:—

> As the Banking Act is up for revision this year, we respectfully request that we be given an opportunity to present our viewpoint in connection with this important matter.
>
> Enclosed, please find a copy of a memorandum which we have prepared for submission to the committee. We should be glad to have an opportunity for a representative to appear in person to present and support this memorandum and if we receive your request to send a representative, we will make every effort to do so.

Mr. GRAHAM: Did you propose to read the memorandum, Mr. Chairman?

The CHAIRMAN: Not to-day.

Mr. GRAHAM: Coming from the province of Saskatchewan, I believe that any body as representative as the body whose letter you have just read, should be given an opportunity to present its viewpoint. I would move that an invitation be extended to the United Farmers of Canada, Saskatchewan section, to appear, and that their memorandum be placed on the record. (See Appendix A.)

Mr. BLACKMORE: I second the motion.

The CHAIRMAN: What is your pleasure?

Some Hon. MEMBERS: Carried.

Motion agreed to.

The CHAIRMAN: I have another letter, a further letter from the Canadian Retail Federation. It reads:—

> In accordance with instructions received from Mr. A. L. Burgess—the Clerk of your committee—we are attaching herewith copy of the brief which we have prepared.
>
> If your committee decide to hear this brief, we will appreciate your advice by return as to the date, especially because Mr. Jackson has appointments pending in New York and Washington which he is unable to finalize until we hear from you.
>
> Your help in this regard will be greatly appreciated.

Mr. MACDONALD (*Brantford City*): Mr. Chairman, is it the intention to read the brief at this meeting?

The CHAIRMAN: Not at this meeting, Mr. Macdonald.

Mr. MACDONALD (*Brantford City*): I think that this organization is very representative of the retail merchants of Canada, and Mr. Gilbert Jackson is an outstanding economist. I think that we should avail ourselves of the opportunity of having him at this committee, and I would move that he be invited to come and address the committee.

The CHAIRMAN: Will you also move that the brief as presented be printed in the record so that, before his appearance, we will have an opportunity to know what it is about?

Mr. MACDONALD (*Brantford City*): Yes.

Mr. BLACKMORE: I second the motion.

The CHAIRMAN: Is that your pleasure?

Some Hon. MEMBERS: Carried. (See Appendix B)

Motion agreed to.

The CHAIRMAN: At the last meeting Mr. Noseworthy had the floor, and I think Mr. Noseworthy is entitled to go on with his examination as if we had not passed this resolution limiting the number of speakers or the time of speakers.

Then, I may add, it was the intention that Mr. Blackmore, who made way, I think, for several other speakers, to follow on. So that to-day, at any rate, I suggest that we do not adhere to our resolution.

Mr. GRAHAM: Mr. Chairman, just before Mr. Noseworthy gets down to the work of the committee, could I secure some information? Fortunately or unfortunately I have to leave for my home at the end of this week.

Mr. MACDONALD (*Brantford City*): Fortunately for your home but unfortunately for us.

Mr. GRAHAM: But there is one phase of the amendments that are before us—

The CHAIRMAN: Just pardon me a minute. Mr. Noseworthy, is this interruption with your permission?

Mr. NOSEWORTHY: I was going to suggest that we carry out our resolution. It will be quite agreeable to me if in this particular session you carry out the recommendation of the steering committee. I can come on in the second hour.

The CHAIRMAN: That is all right.

Mr. BLACKMORE: As seconder of the motion I would support Mr. Noseworthy, I think we should go on as we planned to do.

The CHAIRMAN: That is all right. You have the floor for fifteen minutes.

Mr. GRAHAM: I am not asking for the floor under the rule, Mr. Chairman. I am merely asking on this particular section for certain information that I think the committee would like to have, particularly those of us who represent agricultural constituencies. Under section 88, certain new paragraphs (f), (g), and (h) of ss. (1) have been inserted and the explanatory notes opposite page 46 indicate that "the government proposes to introduce collateral legislation under the title of the Farm Improvement Loans Act to guarantee a bank against losses up to a specified proportion of the aggregate loans made by the bank for these purposes." Those of us who, as I say, are particularly interested in the amendments that will facilitate the loaning of money by the chartered banks to our primary producers, the farmers and fishermen, would of course like to have before us the corollary legislation of the Farm Improvement Loans Act, and I should like to ask the Minister of Finance, if I may, if it is expected that that particular bill will be before the house in time for us to have that when we are giving consideration to amendments to section 88?

Hon. Mr. ILSLEY: Well, at the rate we are progressing it certainly will be; that is, if the rate of progress in the house speeds up a little. The bill is ready. The resolution is on the order paper, and it is up to the stage of discussion in the house. As soon as we get through the war appropriations bill, I expect and hope that we will take it up. It may be that something else of an urgent nature may come in between, but my present expectation is to go on with it just as soon as we get through with the War Appropriation Act.

Mr. PERLEY: Mr. Chairman, I am also one from the west. Mr. Graham has stated he is going west on either a fortunate or unfortunate business. I happen to be one of those who is going to make a visit that may be similarly described. I agree with him that this is very important. I should like to have had this bill of proposed legislation in order to make comparisons and to deal with it when we are considering the amendments to section 88. If the war appropriation measures or estimates get through in the next day or two, will the Minister undertake that they will proceed in the house right away on that bill?

Hon. Mr. ILSLEY: What is that?

Mr. PERLEY: As soon as you get through with the War Appropriations Bill, through the different departments, will you undertake that this bill will be introduced?

Hon. Mr. ILSLEY: That is my intention. The plans of other colleagues will have to be considered, but I certainly intend and expect to introduce that bill as soon as the war appropriation is finished.

Mr. PERLEY: Mr. Chairman, I wonder if you could give us any indication this morning as to how many more witnesses we may expect to appear before this committee before we take the bill proper and the clauses of the bill.

The CHAIRMAN: I wish I could answer the question, but it is impossible.

Mr. PERLEY: I think it is very interesting to know what will be our procedure and policy with respect to the calling of witnesses. You mentioned this morning already that there are two organizations that want to appear and make representations. There are a great many more of these bank managers who would be available. Do you propose to call the general manager of each one of the banks or is Mr. Wedd going to speak for all the banks?

The CHAIRMAN: Of course, that intention is in the hands of the committee, not the chairman. That depends upon the wish of the committee. As we proceed I suppose it will be developed.

Mr. KINLEY: Considering what Mr. Hanson has said before our resolution was passed I think there is considerable virtue in what he said about getting along with the bill. I remind you that the principle of that bill was adopted in the second reading in the House of Commons on the 11th of May. We dealt with two important amendments, one by Mr. Coldwell asking for nationalization of the banks of Canada and another by Mr. Blackmore which would take away from the banks the issuing of currency and credit. Both of these resolutions were defeated by large majorities. Mr. Blackmore's resolution was defeated by vote of 107 to 20 and Mr. Coldwell's by vote of 112 to 15.

Some members did not vote but there was a large majority in favour of the principle of the bill, which is the preservation of the present banking system in Canada. This bill 91 contains 104 pages. This is the tenth meeting of the committee. We have spent all the time since the first meeting dealing with rather academic matters as to the economics of banking which I venture you can get in any textbook of grade 10 in the common schools of Nova Scotia. It seems to me we have had long enough time to discuss these rather academic matters.

Many of us want to get along with the bill. In the steering committee many of us found that to be reasonable and some did want to continue these discussions on academic matters, taking the second hour of the committee and leaving the first hour for the members who wanted to deal definitely with certain matters in the bill.

Mr. McGEER: I think that is hardly a correct statement of the discussion of the steering committee. I was at that committee meeting, and I did not hear any such discussion.

Mr. BLACKMORE: Hear, hear.

Mr. McGEER: What I understood the discussion of the steering committee to be as to the matter which has been dealt with—and I think it was Mr. Kinley who put it up—was that some members of the committee had matters of interest, and they did not like to be shut off by members who want to have an extended examination. Therefore, it was agreed that any member could speak for the first hour, but there was no suggestion that we go on with the consideration of the bill before we have the evidence in.

Mr. KINLEY: Perhaps I am overstating that a little.

Mr. McGEER: I would say very definitely.

Mr. KINLEY: The point is that we were going to take the first hour and give each man ten minutes—

Mr. McGEER: It was extended to fifteen.

Mr. KINLEY: Fifteen minutes, as a new suggestion to the committee, and let us have something definite to deal with—

Mr. McGEER: Let us not try to railroad this bill through.

The CHAIRMAN: Just a minute please; nobody is attempting to railroad the bill through.

Mr. McGEER: I hope not.

The CHAIRMAN: We are allowing every form of discussion which is required, but we have to remember that over the greater part of Europe democracy lost its life because it talked too much and did too little.

Mr. McGEER: And because it had a vile banking system similar to what we have, and if you are going to interject that kind of discussion I will say if you go on with this kind of thing you are going to precipitate conditions in Canada that have swept over Europe.

The CHAIRMAN: I think we are proceeding rapidly to do that.

Mr. McGEER: If the chairman of this committee is going to take the attitude that this committee is talking too much and doing too little then that is a reflection upon the members of this committee who are here to investigate the facts.

The CHAIRMAN: It may be a reflection on some of them.

Mr. McGEER: We are not taking that.

Mr. McNEVIN: I should like to observe that we have already spent half an hour to-day in talking too much and doing too little. I think we had better get along and get something done.

Mr. MACDONALD (*Brantford City*): The talking has not been done by the chairman.

Mr. McGEER: It has not been done by me.

Mr. KINLEY: As far as I am concerned, if I were going to make a confession of faith it would be that I am not prepared at this critical time in the history of this country to throw away the ladder on which we climbed to such a high place among the countries of the world with regard to our monetary action and our industrial endeavour.

Then, there is the matter of the rate of interest. Do not forget that banks can charge 7 per cent and this bill gives them only 6 per cent, and until we pass the bill they can continue charging 7 per cent. There should not be any undue delay, and if by any chance we do not pass the bill the banks can still go on charging 7 per cent.

Then, Mr. Chairman, there is the matter of dealing with fishermen and farmers. I am anxious to see to it that the people I represent, and the general public of this country, have a better banking service, and the quicker we can do it the better it will be.

There are other matters which are important. One of them is the matter of small loans. A great deal has been said about that. I think the argument about that by some members of the committee has been subtle. I think they endeavoured to make out there is an effort to give the banks more interest instead of lower interest. In 1939 we passed section 23 called the Small Loans Act. That gave a rate of 2 per cent a month for small loans. I want to say that I do not like this kind of business for the banks of this country, and so far as I am concerned I do not think there is any need for it in the province of Nova Scotia. The man who is entitled to credit should be able to go to the bank, say with a friend as endorser, and should come in under the general rule with interest the same as other people get. That is a matter for discussion.

Others think that the banks are too prosperous. I should like to go over what their stock has been worth for the last ten years to see if the public think the banks are getting more prosperous by what they pay for their stock. That is a test. I am going to ask the banks to bring us records of the high and low sales of bank stocks during the past ten years.

There is a story that you only amend this Bank Act every ten years. I do not agree with that. I think we can amend the Bank Act any year we like but that we must amend it once in ten years, renew the charters once in ten years. We are here for a specific purpose, and that is to consider the bill. There are three bills before this committee. There is the bill for the Industrial Development Bank, there is this bill and there is a bill relating to the incorporation of a bank in the province of Alberta. All those deserve consideration, and we are sensible people. At least, I think we know what we want, and if we have this bill before us for the first hour and let the people with theories take the second hour I think we will get along very well. I think Mr. Hanson's suggestion that we get along with the bill is a suggestion which ought to be taken seriously by the committee.

Mr. Blackmore: Mr. Chairman, in reply to what Mr. Kinley had to say may I point this out, that never in the history of our country, or in the history of the world, has a generation been faced by such confounding difficulties as face the present generation. I am sure every member of this committee is very anxious to discharge his full responsibility, but may I just draw to the attention of the committee one or two small matters which ought to be conclusive evidence that something very far-reaching and deep-reaching must be done at this stage of our history. As to what that is we have never had a hint of a pronouncement from the Minister of Finance, from the governor of the Bank of Canada, from the Deputy Minister of Finance, from the president of the Bankers' Association, or from any other man who is supposed to be able to speak with authority on these matters. Not a single word has been said as to what is to be done about this situation.

It therefore becomes evident to me that the task of this committee is to find out what to do. How we can do that without calling witnesses and finding out first of all whether there is any witness in Canada who does know, and if there is not a witness among the so-called financial experts who knows, whether we can find the man who does, how we can decide these matters without having called such a witness I fail to see. How we can call witnesses of that sort when we are buried in a bill which may of itself be utterly useless at this stage of our program is more than I can see. May I just draw to the attention—

Mr. Macdonald (*Brantford City*): Has there been any suggestion—

The Chairman: Order, please.

Mr. Blackmore: I did not interrupt my hon. friends.

The Chairman: Please do not interrupt Mr. Blackmore.

Mr. Blackmore: If a lot of these people would do less talking and more thinking they would get along a lot better.

Mr. Macdonald (*Brantford City*): That just refers to the rest of us?

Mr. Blackmore: That is right, and I will take the full responsibility of letting me talk, and you do the thinking. In the first place may I draw your attention again to one or two things in the report of the Bank of Canada? Might I read on page 11, and direct the attention of the members to the paragraph which I propose to read:—

> In making these comments I do not wish to suggest that public debt could be increased at the present rate for an indefinite period without placing intolerable strain on our economy.

As Mr. McGeer has pointed out that constitutes a solemn warning. Has anything been said in this country by anyone in recent years showing how we can arrest the development of this debt? If so, I wish someone would draw the remarks to my attention.

Hon. Mr. HANSON: May I ask a question?

The CHAIRMAN: Order, please.

Mr. BLACKMORE: Yes, just as long as they are intelligent.

Hon. Mr. HANSON: I hope they are.

Mr. BLACKMORE: I hope they are, too. Go ahead.

Hon. Mr. HANSON: I do not think I need to apologize to you.

Mr. BLACKMORE: Well, I believe you do.

Hon. Mr. HANSON: I ask you this; is not the very topic you are referring to one which is a matter of public policy to be dealt with in the House of Commons, and has not the government by bringing in this bill, and the House of Commons by giving second reading to it and adopting the principle of this bill, negatived the idea that should be a subject matter of discussion before this committee? I hope that is intelligent.

Mr. BLACKMORE: May I answer the question? The hon. member has been in this house a good many more years than I have. I have been a member of the house for eight years. During that time I have discovered it is next to impossible in the House of Commons to carry on an investigation of any problem with any kind of hope of arriving at a conclusion or even a thorough understanding. The hon. member must know that, and to undertake to discuss these matters having to do with the problem of debt in the House of Commons is to undertake a thing which on the face of it is utterly absurd. May I go on with the quotation? This is the president of the Bank of Canada speaking:—

> I do feel, however, that the war debt, and the increases which will inevitably take place for a time after the war ends, can be handled without serious embarrassment. The key to this problem, as to many others, lies chiefly in the maintenance of a high level of employment and income.

That added to what went before just simply establishes the solemnity of the statements. I think from coast to coast in the Dominion of Canada to-day there is not a man or woman who is responsible who is not worrying about how we are going to find jobs for the men when they come home from overseas. There is not a man in Canada who has spoken in public life in a responsible position who can tell us how that is to be done.

Can you picture more vividly a state of absolute intellectual bankruptcy in the nation, having to say those things and have them acknowledged to be true? There must be a solution found. We cannot find a solution by just pooh-poohing these matters. The governor of the Bank of Canada proceeds on page 11 to go into greater detail, and may I point out, in a masterful way. He says:—

> By the end of 1943 the gainfully occupied population had risen to approximately 5,100,000, but about 1,900,000 of these were engaged in the armed forces, in supplying the weapons of war, or in producing the food required for special wartime exports. The number available to meet civilian needs had therefore fallen to about 3,200,000, but at the same time the average standard of living had risen materially and was probably higher than it had ever been. This increased output of consumption goods by a smaller working force can be accounted for in part by longer hours of work, favourable crop conditions, and the abnormally small number now employed in private capital development and maintenance work. Another important factor, however, has been the improvement in production techniques worked out under the stress of war.

May I submit to you, Mr. Chairman, and to the members of this committee, that the thing which brought on our calamities during the last twenty years was the rapid development of improved techniques enabling us to produce far more goods with far fewer people, the result being a shortage of purchasing power in the hands of the people which rendered it impossible for those producing goods to sell at remunerative prices. We must surely find some way to adjust the difficulty which has been brought about by an age of plenty. The governor of the Bank of Canada clearly indicates that is in his mind. Let us go on in the next paragraph and see:—

> It seems likely, however, that at least 4,700,000 workers will be available for employment in civilian jobs, or at least 1,500,000 more than the number employed in that sector of the economy at the present time. A working force of this size, at present rates of efficiency, will be able to produce a vastly greater volume of civilian goods and services than Canada has ever known before.

Let members recall that all through the terrible depression years we were talking excessively about overproduction. Now we propose to overproduce beyond that overproduction, and we fancy all will be well. What fatuousness! He goes on:—

> By the same token, a vastly increased volume of consumption and capital development will be necessary if this output is going to be fully absorbed and high employment maintained.

Mr. MACDONALD *(Brantford City):* What do you think of that last statement?

Mr. BLACKMORE: That is an important thing. Would you like me to discuss it in some detail?

Mr. MACDONALD *(Brantford City):* You stopped and commented upon some statements. I am just asking you to comment on that.

Mr. BLACKMORE: I was anxious not to use more time than I was entitled to. I am very glad to talk about that last statement.

> By the same token a vastly increased volume of consumption and capital development will be necessary.

First of all will you tell me how you can develop consumption in a country? How in the world can you increase consumption in a country without putting more money in people's hands? Where are you going to get the money to put in their hands to buy with? From the banking system? That means debt. From taxation? That means adding to the crushing taxation structure we are now groaning under. Surely hon. members must be impressed by the grotesque incongruousness of the situation.

Mr. MCNEVIN: Do you suggest money for nothing?

Mr. BLACKMORE: I ask you to find a solution. There are men who do nothing in the world but sit by and find fault with everything everybody else suggests. Let those individuals step out and find a solution themselves.

Mr. MACDONALD *(Brantford City):* Mr. Chairman—

The CHAIRMAN: Let Mr. Blackmore continue.

Mr. MACDONALD *(Brantford City):* We would like to find a solution. He says we sit by and do nothing with regard to all these problems. If a witness or a member of this committee is making that accusation against other members then I think that member should tell the committee what he thinks can be done about it.

Hon. Mr. HANSON: That is just what he wanted you to say.

Mr. BLACKMORE: I have already in this committee raised the question of debt-free money.

The CHAIRMAN: Mr. Blackmore, may I suggest that you present Mr. Macdonald with a copy of your book?

Mr. MACDONALD *(Brantford City):* I have a copy of it, and it is autographed and I value it very highly, Mr. Chairman.

Mr. BLACKMORE: If the hon. member will value it highly enough to read it carefully and absorb what is in there he will get over a lot of the difficulty. Without going into too much detail may I proceed with the next portion of that statement?

> By the same token, a vastly increased volume of consumption and capital development will be necessary if this output is going to be fully absorbed and high employment maintained.

Capital development is of two kinds, as members know. One kind is that which the government might undertake through the development of reforestation plans, irrigation projects and the like which put money into the hands of the people without increasing consumer goods.

The other type is investments in factories, industrial enterprises, which very quickly increase the amount of goods in circulation or on the market. Now, no one will spend money to increase the amount of shoe production in Canada unless there is sufficient effective demand to absorb the shoes already in Canada. So to expect capital development to come about if there is not first consuming power is to expect something that is absurd.

I wish to refer to two other things and then I propose to take my seat for the time being. I do not wish to use up the time of the committee—

The CHAIRMAN: Mr. Blackmore, you have only one minute more.

Mr. BLACKMORE: Could you not allow me a little time to make up for interruptions?

The CHAIRMAN: I think we could.

Mr. BLACKMORE: I wish to turn to page 84 of our proceedings and to refer to the words of the President of the Bank of Canada when he enlarged on his report. Near the bottom of the page you will find these words: "It seems to me that there is a tendency to talk too glibly about full employment and that too much reliance is placed on the hope that this desirable objective will be reached automatically through the release of pent-up demands after the war."

I agree with the president 100 per cent. Then he continues: "It is often said that because it has been possible to attain full employment during the war, it should be just as possible and just as easy to do the same in peace time."

Now, surely every member of this committee must realize that there are special factors operating during a war which will not be operating in peace time, and if we are going to absorb the productive capacity of the country after the war we must put into the people's hands money in some way or other, purchasing power, which will enable them to consume the goods which now are being consumed by the war and for which we are going into debt through government borrowing, taxation, and the spending of the money on the war.

Just to show how tragic is the thinking of the world to-day on this matter of unemployment, may I refer to an editorial in the May 27, 1944 issue of the Montreal *Gazette,* which is right up to the present moment. This editorial talks about post-war imperatives—something which this committee must be paying close attention to—and I am going to read a word or two from this editorial: "When Sir William Beveridge submitted his now famous report on social insurance and allied services—the so-called Beveridge report—his major premise was the maintenance of full employment." That is extremely important; we must employ the people. Down a little further I find these words: ". . . to the extent of about 90 per cent. . . ." That is what he thought would be necessary, ". . . and he declared that 'it would not be prudent to assume any lower rate of unemployment in preparing the security budget'." Then referring to another paragraph which deals with the studies which have been made of the Beveridge report the editorial continues: "Results have been publishd in the Uthwatt report on the planned use of Britain's land for housing, factories, etc., the Scott report on land utilization in rural areas; and the Barlow report on the distribution of the industrial population."

Then in the next paragraph I find this: "To these is now added a government white paper on post-war employment by Lord Woolton . . . ." and at the close of the paragraph I find these words: "Britain's problem is every nation's problem."

I now refer to the next paragraph: "Indeed, the white paper holds up external trade as the key to the whole post-war employment problem." That fact brands the whole report as utterly useless. We were having all the external trade we could possibly get before the war. Every nation—

The CHAIRMAN: Mr. Blackmore, I am afraid that you are a victim of your own resolution; your twenty minutes has expired.

Mr. BLACKMORE: Thank you, I will discontinue.

Mr. McGEER: Mr. Chairman, when the committee closed its last meeting there was a matter before it to which I shall now refer. May I ask the Minister of Finance if he has taken any position as regards disclosing the amount in the hidden or inner reserves?

Hon. Mr. ILSLEY: I propose to make a statement on the inner reserves position and the taxation position of the banks either to-morrow or the next day.

Mr. McGEER: In the meantime, Mr. Tompkins referred to hidden reserves or inner reserves being dealt with in the 1934 report of the Banking and Commerce Committee. I wonder if Mr. Tompkins could give me the reference?

Mr. TOMPKINS: If the members of the committee will look at page 1081, the index page, they will find reserves referred to there as being mentioned at pages 316 and 443 to 446. Those were the particular references I had in mind.

Mr. McGEER: Are there any other references?

Mr. TOMPKINS: Offhand I do not believe there were. I am taking it that this index is complete.

Mr. McGEER: What is the heading under reserves at page 1081?

Mr. TOMPKINS: It is under "inner reserves". It is near the top of the second column on page 1081.

Mr. McGEER: There are several references which I have looked at; I was wondering if there are any others.

Mr. TOMPKINS: Those are the principal ones, I imagine. I am assuming the index is accurate.

Mr. McGEER: When the statement which the Minister of Finance presented to parliament and which has already been mentioned was prepared you were associated with the minister in the preparation of that statement; was anybody else associated with you?

Mr. TOMPKINS: I had associated with me a member of the staff of the Bank of Canada.

Mr. McGEER: Who was that?

Mr. TOMPKINS: Mr. Scott.

Mr. McGEER: Was the Governor of the Bank of Canada associated with you at all?

Mr. TOMPKINS: No, but in the first instance I made the figures available to the minister and the minister himself made them available to the Bank of Canada in that way.

Mr. McGEER: Were you associated with the Deputy Minister of Finance, Dr. Clark?

Mr. TOMPKINS: I have been discussing these matters with Dr. Clark at various times.

Mr. McGEER: Can you tell us who knew of these inner reserves and about the report that the Minister of Finance presented to parliament? Was it yourself and Mr. Scott of the Bank of Canada?

Mr. TOMPKINS: The minister, the deputy minister and myself, Mr. Towers and Mr. Scott were the ones I had particularly in mind.

Mr. McGEER: And whatever the reasons were they all knew that those hidden reserves existed and they all knew that they were not being disclosed to parliament?

Mr. TOMPKINS: Oh, yes.

Mr. McGEER: That is all I want of this witness at the moment; I shall have further questions later on.

Mr. S. M. WEDD, President, Canadian Bankers' Association, recalled.

By Mr. Graham:

Q. I propose to make use of the witness we have before us this morning and to bring to the attention of the committee the information that I understand the Canadian Bank of Commerce has in the matter of making small loans; but before I ask the witness to proceed I should like to suggest to Mr. Wedd that in considering the proposed amendment to section 91—you recall that?—A. Yes.

Q. —that I am concerned as to how the chartered banks in making that type of loan will in the natural sequence of business transactions be able to distinguish between, let us say, a farmer or a fisherman who appears and might wish to take advantage of the proposed amendments facilitating loans to this particular type of individual but who might under another interpretation come under section 91, in which case the bank would be entitled, if the amendment were adopted, to discount at the rate of 5 per cent, which in effect constitutes an interest rate of 9 point something. That is one of the matters that I think will likely concern this committee in dealing with that particular matter. Unlike Mr. Kinley, I adopt the attitude that the Minister of Finance took in the House of Commons. I too recall the regrettable necessity of allowing the small loans companies to charge interest rates as high as 2 per cent per month, and anything we can do to give to those needy persons credit at a lower rate, so much the better. No doubt this amendment may do that, as I understand it. Now, while the rate, even under this amendment, is not as low as we would like to see it, I remember the salutary warning we received that if we reduced it beyond a certain point the net result would be that banks would not engage in that business and the needy borrower would be confined to borrowing from small loan companies at a much higher rate of interest. So it has a practical advantage. It may not have the perfection we desire, but nevertheless it is a helpful amendment. I would like to have, Mr. Wedd, the benefit of your experience in the small loan business. I would like to know something of the volume that the Bank of Commerce has had in that type of business; the rate of interest you have found it necessary to charge; the percentage of losses you have incurred in that particular type of loan; the type of securities that you have been requiring the borrower to give to the bank; and generally the benefits of the experience which I understand the Bank of Commerce has had more than the other chartered banks and which may be a guide in considering this particular section. I am giving you free scope to discuss this matter.

The CHAIRMAN: May I suggest to Mr. Wedd that he will have only a few minutes to reply if we are to conform to our ruling and allow Mr. Noseworthy a longer period in the second hour.

The WITNESS: Mr. Graham, would it be of interest to the committee if I had appear before the committee one of the officials of our institution who has been closely associated with this type of business since its inception? I would prefer to do that, because that gentleman has at his fingertips all the details.

Mr. GRAHAM: I agree. If there is somebody in your bank thoroughly familiar with this matter who can give us more information he will be satisfactory. Is he present to-day?

The WITNESS: He is not here to-day. I am referring to Mr. James Stewart, one of the assistant general managers.

Mr. GRAHAM: May I say that I agree with Mr. Wedd in that the committee should request this gentleman at an appropriate time to appear here. I hope he will come before the end of this week.

Hon. Mr. ILSLEY: How would to-morrow suit?

The WITNESS: I am quite sure I could arrange that for to-morrow.

Mr. GRAHAM: This is all I have to say. May I suggest to the other members of the committee that I consider my being a member of this committee when witnesses are present affords me an opportunity of securing the essential facts from that witness, and that while we do not wish to deny Mr. Blackmore or others the right to submit argument to the committee, I think in fairness to the committee's work we would be wise to take advantage of the witnesses while we have them before us and reserve that type of submission for periods when we are sitting without witnesses or at the conclusion of taking evidence when we are engaged in coming to a conclusion and in preparing a report.

The CHAIRMAN: Thank you, Mr. Graham. Mr. Noseworthy, will you proceed?

Mr. NOSEWORTHY: Mr. Chairman, on Friday we were analyzing the deposit accounts with regard to size and number, and I want to make it clear that while I was not attempting in any way to minimize the importance of the banks to the small depositors, I was trying to get the picture in proper prospective, because I have noticed that chartered banks through their presidents and others interested in them have been attempting to emphasize—I won't say unduly but certainly emphasize—the number of people who have deposits in the banks.

By Mr. Noseworthy:

Q. Mr. Wedd, I think we agreed there were about 4,662,000 of these accounts, and that these did not represent an equal number of depositors since many depositors have two accounts. You would not be in a position, I presume, Mr. Wedd, to suggest just how many depositors would be represented by that 4,662,000 accounts?—A. Mr. Noseworthy, I have no idea really. I know there is a practice of maintaining 1, 2, 3 or 4 accounts, that individuals may maintain 1, 2, 3 or 4 accounts.

Q. There is also the practice, is there not, of many parents and older persons having acquired the habit of opening accounts for children in their bank's trust accounts?—A. Quite true.

Q. So that among those depositors there would be a certain number of children as well as adults?—A. Yes; but the percentage would be very small, I suggest.

Q. These accounts represent, to begin with, about four-tenths of our population. I think that is about the proportion, roughly. So that there are still about six-tenths of our population, if you include youth as well as adults, without any deposit accounts. 98 per cent of those who have deposit accounts in the banks average in those accounts \$144 each?—A. Mr. Noseworthy, the percentage there is 91·8 per cent, not 98 per cent.

Q. 91·8 per cent of the deposit accounts of 1,000 or less equal, I think, 31·5 per cent of the total deposits?—A. That is what was indicated.

Q. The deposits amounting to $5,000 and over work out, by my calculation, four-fifths of 1 per cent of the total deposits?—A. I have not made the calculation. I do not know what it is. It is in the record here.

Q. I think that is right. Four-fifths of 1 per cent of the total deposits are of $5,000 or over and these aggregate 33·9 per cent of the total deposits. In other words, 4/5ths of 1 per cent of the deposits total more in the aggregate than 91·8 per cent of the deposits at the bottom of the scale?—A. I did mention on Friday that the larger accounts in the main were those of the corporations who have shareholders and those of other types of companies such as insurance companies that have four or five million insurance policies outstanding.

Q. Yes, I think it is only fair that it should go on the record in order to get our picture clear and in proportion. I want to go on this morning for a little while with the questions of loans along the same line, if I might. I notice that in the annual report of the Canadian Bank of Commerce, on page 12, your general manager makes a statement that in the past twelve months this bank has made 201,697 individual loans to its customers, and it is to be mentioned here that of these over sixty per cent were for amounts of $200 or less. Banks are not required by the Act to give the treasury department a breakdown of the loans as they are required to do in connection with deposits?—A. That is on the record, Mr. Noseworthy. I think that Mr. Tompkins put in those figures as part of the record.

Q. Have we a breakdown of the loans by sizes?—A. No. That is a breakdown in so far as occupations are concerned.

Q. Not by sizes of the loans?—A. Not by sizes of the loans.

Q. Section 114 of the Act, subsection 10, requires that a statement of aggregate loans classified by industries and business be made.—A. That is the one I had in mind.

Q. Yes. There is no classification of loans, by size as is the case with deposits?—A. Quite right.

Q. Do you think it would be fair if banks were required to make a return to the treasury department showing a breakdown of the size of their loans?—A. Mr. Noseworthy, I do not know just what useful purpose that would serve. From time to time various general managers make statements to the effect that they make a lot of loans to small people, or at least a lot of small loans.

Q. Would there be any objection on your part as a bank official to making such a return to the treasury department regularly?—A. I would like to think that over, Mr. Noseworthy. As I say, I do not think it would be particularly useful.

Q. You would not care to give this committee a breakdown of loans by sizes?—A. I do not think, Mr. Noseworthy, that individual figures should be given. I question if the committee would ask us to give individual figures. You would not want me to give individual figures of my institution, surely.

Q. No. I am not thinking of individual names or firms.—A. No, quite right.

Q. What I should like to be able to get is a statement that would show the extent to which the small borrower benefits from the total loans of the bank in comparison with the larger borrower, just as we have a statement of small depositors as compared with large depositors.—A. It might be put in this way, that all of these things are relative. I am sure that it is of just as much importance to a small borrower to get his loan as it is to a large borrower to get his loan. I might also mention that in some of the largest loans of the banks, they are made to cooperatives.

Q. That is good business.—A. We have found it very sound business.

Q. Both for the bank and the country?—A. I hope so.

Q. I do not want to press this question, Mr. Wedd, but would you care to say whether the banks have individual loans amounting to one million or more? Do the banks ever make an individual loan—not necessarily to an individual—or a separate loan amounting to $1,000,000 or more? I am not thinking of the government but of a commercial or industrial institution.—A. I would say that has been done in a number of cases.

Q. Your bank does sometimes make loans of one million or more?—A. Quite right.

Q. Would you care to indicate to the committee the difference, if any, in interest rates charged on your large loans and those charged on your small loans, charged on those 200,000 odd loans?—A. Mr. Noseworthy, I think out of those 201,000 odd small loans there were about 45,000 went through the personal loan department, and it is a matter of common knowledge that those rates are higher. But I should like to interject that we make a practice of lending to farmers at as favourable a rate as we lend to large commercial borrowers, depending, of course, on the risk involved. If he is a good farmer, and we can see quite plainly that the money is coming back easily, he gets just as favoured terms as any large corporation who might come in to borrow much larger sums.

Q. Would you care to quote or to give the committee any actual interest rates that you in practice charge farmers as compared with the actual interest rates you in practice charge to large depositors of $1,000,000?—A. On large loans?

Q. On large loans, rather.—A. I would say they run in the same way. We have loans to large borrowers—that is, commercial companies—where we charge a rate of 5 per cent. We might have another account—that is, another commercial account—where we would charge 5½ per cent, and there might be other cases where we would charge 6 per cent. In the case of farmers exactly the same schedule would prevail. There are, I might say, a certain number of 7 per cent loans, but they are really very small at this time and the amount of our revenue from 7 per cent loans is remarkably low; or the proportion of our revenue.

By Hon. Mr. Hanson:

Q. Is the cost of operating a small loan greater than that of operating a large loan, ultimately?—A. It is to a certain extent, because with the larger company or a large company, they will have audited balance sheets and possibly bookkeeping systems which will enable you to follow the business more clearly; whereas on the smaller loan to quite a degree it comes to the question of judgment as to a man's character and elements of doubt and otherwise come into that type of judgment.

By Mr. Noseworthy:

Q. I suppose, as you state, the risk enters in there?—A. In setting the rate, the risk comes into it, plus the fact that one loan might be a more difficult one to service than another. It might involve more bookkeeping or more supervision, in which event a larger rate would be proper.

Q. I have before me a quotation from the financial published report of the C.P. Railway regarding certain short-term promissory notes that were obtained from the bank, I think to the amount of $50,000,000 in 1939, showing that $12,000,000 of those were converted into serial notes payable in instalments of $2,000,000 each at the end of the year, and that those maturing in 1940 to 1943 were to bear interest at 3 per cent and those maturing in 1944 to

1945 to bear interest at 3½ per cent. Is your bank— —A. Mr. Noseworthy. I would know nothing about that.

Q. You would know nothing about that?—A. No.

Q. You would consider the C.P.R. a good risk?—A. Oh, definitely a good risk. I think it is a risk in perhaps a different position than the other accounts that you were talking about.

Q. Just on that question of good risks, I find in the report of the Banking and Commerce Committee of 1934 that in that year the C.P.R. was not considered a very good risk. I note here that there is a $60,000,000 loan made by eight banks, for which apparently the banks required a government guarantee before they would advance the loan.—A. Mr. Noseworthy, that was so thoroughly threshed out at that particular time that I really could not add anything to it. The evidence is all there.

Hon. Mr. HANSON: One of the sins of R. B. Bennett.

The CHAIRMAN: Order, please.

Mr. NOSEWORTHY: Then I notice also that there were a couple of loans amounting to something more than $1,000,000 each made by the government to that railway, with no interest charge.

The CHAIRMAN: Gentlemen, may I ask for a little more attention, please?

By Mr. Noseworthy:

Q. I note, going back to that 1934 report, that the Bank of Montreal secured 37 per cent and a fraction, the Royal Bank 20 per cent; the Imperial Bank, 4 per cent; the Bank of Nova Scotia, 8 per cent; the Bank of Toronto, 4 per cent; Banque Canadienne Nationale, 2 per cent; the Dominion Bank, 4 per cent and the Canadian Bank of Commerce, 17 per cent. I have left out the fractions. I notice what seems to me a rather strange coincidence, and I think you will probably agree that it is a coincidence, that the amount of that loan, this government-guaranteed loan, taken up by the banks, bears a fairly close relationship to the number of C.P.R. directors who were also directors of the banks. That would just be a coincidence?—A. Mr. Noseworthy, I am sure it is just a coincidence. I think it may be, without knowing anything about it, that it was gone into in a partnership way on the basis of each bank being allocated a certain percentage relative to its assets; that is, the assets of each individual bank.

Q. Yes. It is one of those strange coincidences that we meet.

By Hon. Mr. Hanson:

Q. The Bank of Montreal was the company banker, was it not?—A. Yes. My recollection is that their percentage on that account was larger.

Q. Quite right.—A. But I would have to check on that.

By Mr. Noseworthy:

Q. Incidentally, I find that the president and four directors of the Bank of Montreal were also directors of the C.P.R. You did not fare so well; your bank had only two of your directors on the board of directors of the C.P.R. —A. I can assure you that that did not enter into this particular transaction.

Q. Another coincidence there is that of the seven banks who shared in that loan, six of them all had directors on the board of directors of the railway company. As a matter of fact, I think that all the Canadian directors of that company at that time were also bank directors.—A. I could not say.

Q. I am interested in that, because one of the questions raised by the Minister in his introduction of this banking bill to parliament was this question of interlocking directorates between the banks and business firms. The Minister went to great lengths to show that the presence of bank directors on the boards of directors of private or business firms had no effect whatever upon the lending policy of the bank. You would agree with him in that?—A. Very definitely.

Q. I find, as I think was brought out in parliament during that debate, that 94 officers and directors of the three leading banks, the Royal Bank, the Bank of Montreal and your own, the Canadian Bank of Commerce, which between them control about three billion dollars of assets, more than about 70 per cent of the total banking assets, hold between them 799 directorships.

Hon. Mr. HANSON: That is a lot.

Mr. NOSEWORTHY: In 484 corporations; and in those corporations we have a great many of the largest business enterprises in the country. I will not give the list. I think your own bank does fairly well in that respect. I have estimated from the Financial Post directory of directors that your bank, the Canadian Bank of Commerce, has 248 directorships in 147 companies; that you have 57 presidents and board chairmen in those companies and 48 vice-presidents. So that while you say that that interlocking would have no influence whatever upon the lending policy of the bank, you must admit that the Canadian Bank of Commerce is very intimately tied up with a large number of large business enterprises.

Hon. Mr. HANSON: Is there anything wrong with that?

The WITNESS: I think, Mr. Noseworthy, that the figures that you have quoted are no doubt swollen by including certain subsidiary companies that might belong to one important enterprise; also perhaps certain gentlemen have private companies. I could not say. As far as actual trading companies are concerned, I would suggest that the number of companies with which our own directors are associated is substantially less than the figure you have mentioned.

Hon. Mr. HANSON: Even so, is there anything wrong with that?

Mr. NOSEWORTHY: I am not saying that there is.

The WITNESS: Definitely not.

Mr. NOSEWORTHY: I am not saying that there is anything wrong.

The WITNESS: We think that it is quite proper.

Mr. NOSEWORTHY: I want to get the picture.

The WITNESS: We think it is quite proper in the interests of our depositors and our customers, to seek out the most successful men we can, to join our board. They have had experience in many walks of life, and we think that they are of an advantage to us in our councils, in our wish to serve the people of Canada.

By Mr. Noseworthy:

Q. The Minister in his opening speech to parliament deplored the fact that there were not on the boards of directors of the banks more representatives of small business men such as retail grocers, farmers and workers. What is your reaction to that suggestion?—A. I suggest, Mr. Noseworthy, that those particular worthy people that you talk of would prefer that the representatives on the banks should be men who have had more experience than they have.

Q. You think they are not anxious to have representation?—A. I could not say. That is just my opinion as expressed.

Q. Does the fact that a man is the president of one of these large business corporations necessarily imply that he is also an expert in banking, or has banking knowledge?—A. Not at all; it means though he has a very wide knowledge of affairs generally, and brings that usefulness to the deliberations of the board of directors.

Q. You yourself have advertised—not you, but your general manager— —A. I am general manager.

Q. The general manager advertised in your report the number of small loans you were making, the number of small borrowers?—A. Quite right.

Q. As a matter of fact, that was the only type of loan that you emphasized particularly in your report. You particularly emphasized the fact that you are making 60 per cent of your loans to people who borrowed $200 or less. Had you any particular reason for selecting that class of borrowers?—A. I think in publishing that information we had in mind it would be of interest to the general public.

Q. If such a large proportion of your loans is made to borrowers of small amounts, farmers and others, would it not seem reasonable that these same people who are so much concerned with the borrowing should have representation on your board of directors?—A. I again suggest they would prefer in their own interests to have somebody who had had more experience. In your own case you used to be a teacher of prominence. I would think that your students would prefer having you, rather than one of their own members, conduct classes.

Q. I am not so sure of that.

Mr. McGeer: I am not so sure that it would not be a good idea, anyway.

Mr. Noseworthy: As far as the teachers are concerned I think I can say that they would welcome some representatives of their federation on the advisory boards of some of your banks. I do not think they would object.

Hon. Mr. Hanson: Then we would have bank directors by classes.

Mr. Noseworthy: That is what we have at the present time.

Hon. Mr. Hanson: What about the pawn brokers?

Mr. Noseworthy: Most decidedly we have representation by classes on the banks' boards of directors at the present time.

By Mr. Noseworthy:

Q. You insist, of course, that this tie-up between the banks and big business has no influence whatever on the lending policy of the bank?—A. I suggest first that it should not be called a tie-up. Secondly I suggest that it unqualifiedly has no influence on the lending policy of the bank except that we consult with people of experience as to whether or not they think so-and-so is good business.

Q. I made this statement a while ago that your directors sit as directors on 147 companies. Incidentally I have a list of those directors and the companies before me. I will not bother reading them at this stage.—A. I have a statement here which indicates that of these companies—I do not know how many there are as I cannot remember but we have records, of course—65 only are trading companies, and that they, in these other companies, are associated in all with 712 other directors. In other words, our directors on the boards of these trading companies represent about 10·9 per cent of the directors of these various companies.

Q. My question was suppose a company or a man or a group of men want to set up a new enterprise of some kind which will be in direct competition with some of these companies represented by your board of directors, and come to your bank for a loan, a loan that will set up a new enterprise in direct competition with an established enterprise that has on its board of directors one or more members of your bank directorate; would that individual or group of individuals be considered a poor risk?—A. Not at all; you are suggesting that because some man was running a lumber mill and he was on our board and another man wanted to start up a lumber mill that the man on our board who already ran a lumber mill would influence the bank against taking his account. That is quite contrary to the facts.

Q. The fact that he was about to embark upon an enterprise that would directly compete with an enterprise in which your directors were interested would not influence at all the question of whether he was a good risk or bad?—A. Not at all.

By Hon. Mr. Hanson:

Q. Would that be a consideration in accepting his application for a loan?—A. I would say not at all; if the enterprise he has in mind is soundly based it would get equal consideration with any other company.

By Mr. Noseworthy:

Q. Here is another fact I think is true. As to these companies on which your bank has representation through directors I find that among them are some of the biggest enterprises in the country. Does the fact that the bank has so many of its directors sitting on the boards of so many big businesses have any effect at all upon the chances of the small man getting into business or developing a business?—A. I would say definitely not.

Q. It does not hardly sound humanly possible, but we will take your word for it.

Hon. Mr. HANSON: You have got a suspicious mind.

Mr. NOSEWORTHY: Well, maybe.

By Mr. Noseworthy:

Q. How is it that your bank is interested so overwhelmingly in big business, that is, that the directors of your bank sit on so many of these large industrial concerns?—A. I do not think it is quite right to say we are overwhelmingly interested in big business. I think we are interested in gathering into our board men of affairs who have made a success in their own line and we think, therefore, they can be helpful in the deliberations of the bank.

Q. In other words, I think you will admit that by and large the directors of your bank are men who have experience especially in big business, whose interest is in big business?—A. I think if you looked up in Who's Who, or whereever it might be, you would find in the main they started in small businesses and through their efforts and skill grew with their companies into large businesses.

Q. And became bank directors atfer they had got into big business. I want to pass on from that.

Hon. Mr. HANSON: At that point there is a member of the committee who would like to ask the witness a question.

Mr. JACKMAN: Might I ask the witness a question?

Mr. MCGEER: That is with the consent of the member.

Mr. NOSEWORTHY: If he chooses, if it is just a question.

Mr. JACKMAN: It is just in amplification of the question which Mr. Noseworthy was going into.

By Mr. Jackman:

Q. May I ask Mr. Wedd just what are the considerations which the directors of a bank give to the appointment of new directors, so that it may throw some light on the subject matter which is very close to Mr. Noseworthy's interests at the moment? Perhaps I might phrase the question to you. First of all, do you not consider as to the eligibility of a person for your board whether or not they can bring in business to the bank? The banks are all competing for business, and if you can get a man who will bring in a substantial account to you is it not possible he may become eligible for your board?—A. Mr. Jackman, I am afraid we are human enough for that.

Q. Then, you will want a man who can advise you in regard to the bank's business and as to the granting of loans in various industries?—A. That is right.

Q. I have been looking over your board of directors, and find you have got men there who are outstanding in a great number of industries which are important to this country, for instance, mining?—A. Quite right.

Q. You want someone who knows something about mining, and you do not want the man who wields a pick and shovel necessarily unless he knows something about mining generally. You want some person who perhaps has been a miner but who has come up through the ranks, made a success of things, and is able to judge problems of an executive nature which have to do with finance and other matters in connection with mining which are also relevant to the bank's affairs?—A. Quite right.

Q. Then, you probably want somebody in the lumbering and newsprint business, and I suspect you have got someone on your board who is familiar with lumbering?—A. Quite right.

Q. You probably will have loans to agriculture or to the people who process the products of agriculture, and I assume you have got someone on your board who looks after that matter?—A. We have someone on our board who is familiar with that type of business.

Q. Then, one of our big industries is milling, and I presume you have got someone on your board who knows something about the problems of milling?—A. Yes.

Q. And why would you want to appoint a man who is manager or head of a milling industry rather than someone who wore a white cap and looked after taking sacks away from the spout of the mill? Would the working man be of as much use to you in the consideration of the granting of loans as the man who sits behind the polished mahogany desk?—A. I suggest, without belittling the working man at all, that he would prefer not to be involved in questions of the financing of enterprise.

The CHAIRMAN: Mr. Jackman, may I suggest that Mr. Noseworthy only has a few minutes left. We will give you plenty of opportunity later.

By Mr. Noseworthy:

Q. I should like to add to that list, Mr. Wedd, that you are also interested, of course, in steel production, and you have as one of your directors a director of Inco, at least, in nickel?—A. Yes.

Q. That you are interested in asbestos, and you have got one of your directors on the board of the Asbestos Corporation, that you are interested in meat packing and processing, and you have got one of your directors on the board of Canada Packers?—A. I think, Mr. Noseworthy, when you say we are interested in perhaps that is not a good way to put it. We have clients from all of these various industries.

Q. As another phase of your interest in business I note that the directors of your bank are particularly interested to a very great extent in commerce and business in Mexico and Brazil and other South American countries?—A. We have no branch in Mexico; we have no branch in Brazil. We were there at one time, but some years ago we withdrew. Quite a number of years ago we withdrew.

Q. This is true, is it not, that directors of your bank are at the same time directors on the board of directors of Brazilian Traction?—A. Quite right.

Q. And Barcelona Traction, and a great many others?—A. I do not know about Barcelona. The detail is not in my mind. They were at one time directors of Barcelona, but I could not say whether they are now.

Q. Then, your directors are interested in a number of Mexican companies, tramway companies, light and power companies, in various parts of South America, particularly Brazil and Mexico?—A. The record would show that.

Q. What is the interest of the bank as such in these companies?—A. These companies are customers of ours.

Q. I presume that your directors have to have money invested in those companies to be on their boards of directors?—A. I would imagine that is natural.

Q. Would that money they have invested in those companies be money earned in Canada or money earned in Brazil and Mexico?—A. I have no idea.

Q. You would have no idea of that?

Hon. Mr. HANSON: I see you also have a lawyer and doctor of laws on your board.

The CHAIRMAN: Proceed, Mr. Noseworthy.

By Mr. Noseworthy:

Q. My point is this; has your bank by reason of having these directors on all these companies loaned money or invested money in any of these companies? —A. The statements of the companies that you mentioned, if I remember right, are a matter of public record and they would disclose what their situation is with respect to borrowings, if any.

Q. Would it be fair to assume that because of that intimate relationship between these companies in Brazil and Mexico and the Canadian Bank of Commerce that a considerable amount of capital has gone into the development of these utilities and industries in these countries?—A. I have not the faintest idea.

Q. Do you think I would be unfair in assuming that a considerable portion of Canadian capital has gone into these companies?—A. I would suggest that perhaps some capital went in at one stage of the game when the companies were organized.

Q. My point there is: in the past Canada has had to go to the United States and Great Britain for its loans, or a considerable portion of its capital, capital it has used to develop the country, and I am wondering to what extent it is in the interests of the Canadian people, Canada as a country, that Canadian capital should flow into these investments in other countries while we are at the same time importing capital for Canadian development?—A. Mr. Noseworthy, there has never been until this war any restriction on any individual buying stock in any particular company no matter where it was situated, that I know of. I mean I have no recollection of any restriction.

Q. As far as the interests of the Canadian people are concerned is there any particular advantage to the Canadian people as a whole that capital should be directed from Canada into foreign investments as happened in this way?—A. In that particular case it happened so many years ago that maybe at that time there was some advantage.

By Mr. Macdonald (Brantford City):

Q. The profits would come to Canada, would they not?—A. Oh, naturally.

Mr. McGEER: I wonder if Mr. Noseworthy will permit me one question. As I understand it in 1934 the Banking and Commerce Committee made a recommendation that a return be made to the minister showing the directors of the banks and the directorships of other companies which they held. That is correct, Mr. Tompkins?

Mr. TOMPKINS: That is covered by subsection 2 of section 113 of the present Bank Act. Subsection 2 covers that.

Mr. McGEER: I think if we could have a return of the directors of the banks—since that return has been made to the minister—we would have all the information as to the directors before us.

Mr. NOSEWORTHY: Bring that up to date.

Mr. McGEER: Could we have that return?

Mr. TOMPKINS: I may say there is no provision in the Act for the tabling of this return in the same manner that other things are tabled. It simply states the bank shall transmit to the minister within thirty days after their annual meeting a return showing the name and address of each director elected thereat together with a list of the banks, firms, companies and corporations of which he is a director or partner, and so on.

Mr. McGEER: There is no provision for tabling it in the House of Commons?

Mr. TOMPKINS: No.

Mr. McGEER: But there is no bar to giving it to this committee?

Mr. TOMPKINS: I think the minister will have to answer that.

Mr. McGEER: I have looked over the Act and I am satisfied there is no reason why we should not have it. We can get the information by examining the directors, but it would simplify the matter to have the information tabled. I would like the same information with reference to the directors of the Bank of Canada since the Bank of Canada was incorporated. You have a list of the directors there and, of course, the Governor of the Bank of Canada will know what other companies they are directors of; and if we had that information before us I suggest to the chairman and the committee that it would probably save a great deal of time.

Hon. Mr. ILSLEY: I do not see any objection to the production of the first list that is applied for at all; I do not see any reason why it should not be tabled.

Mr. McGEER: I am perfectly willing to have you take it under consideration.

Hon. Mr. ILSLEY: Nor do I see any objection to giving the other information either, but I will discuss the matter with the Governor of the Bank of Canada.

Mr. MACDONALD (*Brantford City*): On that point, apparently there is no secrecy about the matter because I understand from Mr. Noseworthy that he has a list of all the companies in which members of the directorates of banks are also directors of those companies. Is that right?

Mr. NOSEWORTHY: I would not say that I have a list of all, but I have four pages here. I gleaned the information from published records.

Mr. MACDONALD (*Brantford City*): Therefore, Mr. Chairman, I do not see any reason why the rest of the members of the committee should not have the same information.

Mr. NOSEWORTHY: Is it understood, Mr. Chairman, that we are asking the secretary, or whoever is compiling the information, to ask the banks for that information?

Hon. Mr. ILSLEY: I asked that it be left this way; I will take it under consideration. I see no objection to the production of the information unless there is something I do not know about at the moment.

Mr. NOSEWORTHY: Is it agreed that we ask the banks to supply us with these lists?

Hon. Mr. ILSLEY: We have the returns from the banks and the other information I suppose I would have to get from the Governor of the Bank of Canada.

Mr. NOSEWORTHY: I have one or two further questions, Mr. Chairman, I wanted to ask on this matter. The statement was made that the profits from these companies or the profits on Canadian capital invested in these companies come back to Canadians, or come back to Canada?

The WITNESS: If a Canadian invested in a foreign company and the foreign company paid a dividend then the dividend would come back to the Canadian citizen.

By Mr. Noseworthy:

Q. That is those particular citizens who have capital invested would benefit from that investment?—A. That is right.

Q. Not necessarily the Canadian people.

Mr. MACDONALD (*Brantford City*): Indirectly it would come to the Canadian people.

The WITNESS: It would affect the spending power of the man who received the dividend.

By Mr. Noseworthy:

Q. The point is that that man would probably already be in possession of more than he would like to spend on consumer goods. It is a question of whether that would be spent in Canada or invested in more foreign stocks; that would probably be a question. There is another point about this—the scarcity or shortage of capital in Canada created by a flow of capital into foreign investments would naturally raise interest rates here, would it not?—A. I think that is a problem with which I have not been faced as yet, Mr. Noseworthy. I think it is so highly problematical I do not care to answer.

Q. You do not think that the extent to which your directors have invested capital in foreign investments has had any affect upon the interest rate in Canada?—A. Definitely not.

Hon. Mr. HANSON: It would be offset by the inflow of other capital into Canada.

The WITNESS: The United States has invested billions in this country.

Mr. MCGEER: There is no suggestion that there is any shortage of capital.

By Mr. Noseworthy:

Q. Would you say, however, that Canada would not benefit more if the capital were invested in Canada?—A. Mr. Noseworthy, I think there are two questions there: the first important one is would Canada want to restrict the operations of her citizens to such an extent.

Q. Of course, we have had to do that during the war.—A. That is another matter.

Q. There may be problems of peace that may be as important, or relatively as important to Canada?—A. I quite agree with you.

Q. In which case it may be necessary for the government to exercise some restrictions over the flow of capital?—A. That may be so.

Q. You would not object to that as a banker?—A. I have never objected to any government restrictions; I have followed them but not objected to them.

Mr. MACDONALD (*Brantford City*): I hope Mr. Noseworthy does not suggest that we should not send money or goods out of the country?

Mr. NOSEWORTHY: I am not saying anything about not sending goods; we are sending goods out and taking other goods in return; I am simply attempting to inform myself on this involved matter of banking investments.

Mr. MCGEER: Do you say—

The CHAIRMAN: May I say that Mr. Noseworthy has only seven minutes left.

By Mr. Noseworthy:

Q. There is one other topic upon which I wish to question the witness. You were good enough, Mr. Wedd, a few days ago to place on the record the salaries paid to your employees, and I think that record showed that in recent years, very recent years, there has been a considerable improvement in the salaries paid to the employees of your bank; that is true, is it not?—A. As far as our bank is concerned, I do not think there has been any particularly large increase. It has been affected, of course, by the cost-of-living bonus which our bank paid to our staff and which has since been incorporated in the salary scale. I think, Mr. Noseworthy, at this time I should say that in addition to salaries, as you well know we have a very favourable pension plan, and when it comes to illness there is no question about pay during a person's illness. As a matter of fact, some cases run for perhaps six or eight months or sometimes a year before the matter is looked at.

Hon. Mr. HANSON: And there are holidays with pay?

The WITNESS: Yes, holidays with pay. I think when it comes to a matter of any social security plan I can say that as far as our bank is concerned we have had a pension plan for some forty years.

Mr. MACDONALD (*Brantford City*): Do the employees contribute to the pension fund?

The WITNESS: Yes, they contribute to the pension fund.

Mr. MACDONALD (*Brantford City*): They are really getting their own money back.

The WITNESS: Yes, they are getting their own money back.

Mr. MACDONALD (*Brantford City*): And the bank also contributes?

The WITNESS: The bank contributes very substantially. I think the last time figures were taken out it worked out about 60-40.

Mr. MACDONALD (*Brantford City*): The bank pays 60—

The WITNESS: And the employees pay 40. That is of the total fund we have in our pension fund at the present time.

By Mr. Noseworthy:

Q. On that point, who has the management of that pension fund and who determines what the regulations respecting the fund shall be?—A. The directors of the bank have the say as to the management, but the matter was put in the hands of certain trustees within the bank. I happen to be one, our Toronto manager is another, and so on.

Q. Have any representatives chosen by the employees any voice in the management of that fund?—A. We are all members of the fund.

Q. I am thinking now of the employees apart from the directors or managers —have the rank and file of employees representation on the board that manages that pension fund?—A. The manager of the Toronto bank represents the field forces, sir.

Q. And that is the only representation?—A. That is the only representative in the trustees.

Q. Has your board ever considered giving the rank and file of your field force more representation on that body?—A. The question has never come up. I do not know whether they have ever considered it or not, not to my knowledge.

Q. You must have very docile employees, or very contented employees?—A. Contented is a better word. I hope they are satisfied.

Hon. Mr. HANSON: There is the question of salary restrictions.

The WITNESS: Definitely, we are within the ruling of the National War Labour Board.

By Mr. Noseworthy:

Q. I have one more question to ask. What is the attitude of your bank toward the right of any employee to belong to an organization of his own choice—that is a trade union?—A. Why, there has never been any objection whatsoever.

Q. You as the general manager, and the officers of your bank, would not in any way interfere with the rights of those employees?—A. We have never interfered in any way with the personal pursuit or inclinations of our employees as long as they obey the law and go to church.

Q. And we hope they do both.—A. Mr. Noseworthy, and Mr. Chairman, perhaps at this time it might be well to say that I can only represent the Canadian Bank of Commerce at these sittings and that I think in the interest of the committee it might be well to bring on one of my other banking friends so that you would have their point of view which might be generally helpful.

Hon. Mr. HANSON: Are you requesting that some of your colleagues would be here?

The WITNESS: I think that would be a good idea.

Mr. McGEER: Of course, there are some other questions we would like to ask you before that happens. There will be no question about other members of the banking fraternity being called, but you started to discuss this pension system today. It is a rather generous program in what it covers. It not only covers superannuation but illness, and to some extent employment, and I understand you have group insurance as well. There has, as I notice from this investigation, been a question as to the amount a man is entitled to recover on what he has paid in when he is dismissed before he arrives at superannuation age.

The WITNESS: Right.

Mr. McGEER: I wonder if you would prepare a statement as to what your pension system in the Bank of Commerce is?

The WITNESS: Do you want to pick out our bank?

Mr. McGEER: Yes; because I understand that the pension system in regard to employees is by no means uniform throughout the banks.

The WITNESS: I understand that.

Mr. McGEER: Now, if you don't mind you could give us a statement for your bank. There is another matter that was mentioned casually today which is important: your bank inaugurated a system of small loans as a department of the bank in what year?

The WITNESS: 1936.

Mr. McGEER: You have, no doubt, a man in charge of that department?

The WITNESS: I have the committee's permission to have Mr. James Stewart appear.

Mr. McGEER: He is the man in charge of that department, I assume?

The WITNESS: Among other things. He has had close association with the department since its inauguration.

Mr. McGEER: And we are going to have him before us to give us that information?

The WITNESS: Yes.

Mr. NOSEWORTHY: I wish to thank Mr. Wedd for his answers this morning.

The CHAIRMAN: I am sure the committee thanks you.

Mr. McGEER: I do not think that Mr. Noseworthy or other members of the C.C.F. should be cut off in any way. They have come forward as a political party with a proposal for nationalizing the banking system of Canada, and on that I think they have got a good deal of support throughout the dominion, and I think we should hear more of what that system is.

The CHAIRMAN: That is a matter for Mr. Noseworthy to consider.

Mr. KINLEY: I think we have done well. In regard to section 91, the witness is supposed to bring us some information concerning small loans. I think he should divide the information into two parts and show, in the first instance, how a man borrowing $500 would fare under No. 1 and how he would fare under No. 2. No. 1 is 6 per cent maximum interest in the bank and No. 2 is the small loan provision. I would like to see the mechanics of that worked out.

The CHAIRMAN: Before we adjourn, Mr. Noseworthy, there is no suggestion on your part, is there, that you have been cut off?

Mr. NOSEWORTHY: No, sir, not at all. I think we agreed in the steering committee that you would give me an hour to-day, and I arranged my program to take up that hour, and I shall wait until my turn comes around.

Hon. Mr. HANSON: On the point of the selection of directors it might be well if the committee had some information, Mr. Chairman, and I suggest this to the banks, as to the geographical location of those directors; that may have a bearing.

Mr. MCGEER: The return gives their addresses.

The WITNESS: Their addresses will show.

—the committee adjourned to meet Wednesday, May 31st, at 11 o'clock a.m.

May 31, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, I have here a communication signed by Mr. G. C. Papineau-Couture representing the Quebec government and asking the right to submit a brief and make an appearance in regard to paragraphs 3, 4, 5 and 7 of section 92, providing for the transfer of unclaimed deposits and liability to repay same to the Bank of Canada after ten years. Is it your pleasure that the submission be printed and that the representatives of the province be notified when the section comes up?

(Carried).

The CHAIRMAN: I have here a letter from Mr. McGeer transmitting a resolution by the Nepean Water Area Residents Association asking to have the resolution submitted to us. Is it your pleasure that the resolution be printed in the transactions of the committee? Mr. McGeer, you so move?

Mr. MCGEER: Yes.

(Carried).

Mr. LAFONTAINE: I wish to serve notice that on Friday I will present a motion that this committee go into consideration of the bill clause by clause.

The CHAIRMAN: You are filing notice? I understand you are giving notice to the committee of your intention to move a resolution?

Mr. LAFONTAINE: Yes, on Friday.

The CHAIRMAN: It would be just as well to present the resolution now so that we have it before us.

Mr. MCGEER: I would not worry much about dealing with that now.

The CHAIRMAN: Oh, you have a resolution?

Mr. KINLEY: It is on the record.

Mr. McGeer: Mr. Chairman, in connection with the matter referred to by Mr. Kinley a minute ago, when the matter of service charges was being discussed Mr. Wedd was under examination. I think he indicated that the practice of the banks varied in view of the fact of the substantial amount involved in service charges as indicated by the returns filed already. I think it would save a good deal of time if each of the chartered banks would file with the committee a statement of the service charges collected and the forms of contract employed by each of the respective banks and the amounts secured from the various services rendered and charged for. My reason for suggesting that is this; certainly if we go into the adoption of an expanding program of service charges there should be uniformity in those charges and the people throughout the Dominion of Canada should secure, just as they do on the railway companies, and as they do under public utility services of all kinds, the same services for the same rates. I think this is something of an innovation, and I am quite sure that it will save a great deal of the time of this committee if we have this statement from the chartered banks.

The Chairman: I assume that you would suggest we have that statement when we are considering the appropriate section?

Mr. McGeer: I think we should have it before us so we can approach the appropriate sections properly and the fundamental question of whether or not the charters should be extended. The primary thing we are here to decide is whether or not this committee will recommend renewal of the charters of the chartered banks. If that is not so then, of course, we have not the right to go into that full-dress review of the operation of this system which is required. We can get it by subpoenaing witnesses and examining them individual by individual, but I think if the banks cooperated with us to that extent it would save time. I think it is something that this committee should be fully informed about, and we should have that information as soon as we can get it.

The Chairman: I think perhaps we disagree a little bit, at least, in my memory of things, or interpretation. I thought that the principle had been decided in the house when the bill was referred to us. I would like a statement from the Minister, if the Minister would not mind me asking him.

Hon. Mr. Ilsley: My understanding is that the principle of the bill is just that, whether the charters of the banks would be extended for ten years, and that the house decided that principle. I think what we are to decide here is the terms on which these charters—

Hon. Mr. Hanson: Speak louder.

Hon. Mr. Ilsley: I think the matters we are to decide here are the terms on which the charters are to be extended.

Mr. McGeer: We are agreed on that. Nobody in suggesting that we should scrap the chartered banking system, but what this committee is here to do is to decide the terms upon which the charters should be extended. That is the same thing as saying we have made a bargain but we have not agreed upon the terms, and until we do agree on the terms there is no bargain completed, but I do not think it was ever the intention of the Prime Minister or the government of the day to preclude a full-dress review of the terms, upon which this committee recognizes that the charters should be extended for another ten years.

The Chairman: I must have misinterpreted what you said in the first place, because I am quite in agreement with your later statement.

Mr. Kinley: Except that time is an element in everything, and it seems to me that we should be able to arrive at some conclusions after what we might call mature consideration.

Mr. McGEER: I quite agree with Mr. Kinley on that. My proposal is to shorten the time, and to have these statements before us in a concrete form so that we can consider them and not have to go through the prolonged process of examining each one to get at it.

Mr. JAQUES: It seems to me we always have time to discuss things that do not matter and never seem to have time to discuss those things that do matter.

Mr. McGEER: Let us get on.

Mr. KINLEY: What is the program for this morning?

Mr. McGEER: May I ask if we are to have that statement this morning with reference to the hidden reserve?

The CHAIRMAN: No.

Mr. McGEER: Of course, I hope that will not be long delayed because it is a matter of some importance.

The CHAIRMAN: I understand, Mr. Kinley, that we are here this morning for the purpose of discussing section 91, subsection 2, which I believe applies to the small loans.

Hon. Mr. HANSON: When did we decide that?

Mr. MACDONALD *(Brantford City)*: Yesterday.

Mr. BLACKMORE: No, we did not decide that. I never heard of any such agreement.

Mr. GRAHAM: It was agreed yesterday by the committee that Mr. Wedd ask the particular officer of his bank—I think an assistant general-manager—who is in charge of that particular phase of the bank's activities to be here and give us full information.

Hon. Mr. HANSON: This morning?

The CHAIRMAN: Is that right, Mr. Blackmore?

Mr. BLACKMORE: That is right.

Mr. McGEER: He was to come, but I did not understand that we were to move into that other than at some general time. Certainly we are not through with the examination of Mr. Wedd.

The CHAIRMAN: We will come back to that afterwards.

Mr. KINLEY: If the minister is going to make an announcement why not wait until the announcement about this reserve?

The CHAIRMAN: Not to-day.

Mr. KINLEY: Why not wait until the announcement is made?

The CHAIRMAN: Mr. Stewart.

Hon. Mr. HANSON: Before you go on I should like to call the attention of the committee—and I do not want to do this to take up time—to the terms of the reference. In the first instance there was referred to this committee the Industrial Development Bank Bill. Secondly there was referred to this committee the report of the Bank of Canada, and thirdly this bank bill. We must have some regard for the terms of the reference. If we are going to take up the different sections of the bill piecemeal I think that is not an orderly way to do it, but I would not insist on that. I think we ought to go back to the orders of the House of Commons to this committee and keep that in mind.

Mr. McGEER: Mr. Towers is not here, and I understand when he is available we will go ahead with the Bank of Canada report.

JAMES STEWART, Assistant General Manager, Canadian Bank of Commerce, called.

The CHAIRMAN: Have some of the members questions to ask Mr. Stewart?

By Mr. Graham:

Q. May I just give the witness a lead? Would you be kind enough to tell the committee your name?—A. James Stewart.

Q. And your position with the Bank of Commerce?—A. Assistant General Manager.

Q. I take it from the fact you are here it was particularly under your direction that the Canadian Bank of Commerce engaged in the small loan business?—A. It has been under my jurisdiction, yes.

Q. I suggested yesterday to Mr. Wedd that the committee would like to have the history of your experience in that particular type of business, and to give us the volume that you have succeeded in acquiring of that particular type of business, the time that the bank has been engaged in it, the rates of interest you have found necessary to charge, the percentage of losses that have occurred, the type of security required, and any other matter that would give us information with regard to that particular type of bank business. I suggest you give it to us of your own volition, and if any questions are necessary at the end of your statement we can ask those questions.—A. Mr. Chairman, I have a statement prepared here regarding the history and the effect of the personal loans. If it is your wish I will read it.

Mr. Blackmore: Let us hear it.

The Chairman: What is the pleasure of the committee?

Some Hon. Members: Read it.

The Witness: In June 1936 the Canadian Bank of Commerce organized a new department within the bank to engage specifically in the making of personal loans on the budget plan or, as it is commonly called, the monthly instalment plan which provides for repayment over a period of 12/18 months. There were several reasons leading up to the decision but the chief one was our wish to meet the criticism which had been made of the banks for a number of years to the effect that their services were not made sufficiently available to wage-earners and others in need of small loans. We also believed that making these small loans would bring to the bank a certain amount of good will and collateral business and at the same time we expected in the course of time that there would be some profit in the operation.

Actually, we had always made small loans in the ordinary way of business, but these were granted mostly to persons who had some financial background, whereas this new departure was intended for the wage-earner group whose claim for credit rested not on financial worth but upon earning ability and integrity. As I have said, we had always made small loans, but to an entirely different group of people, and this new department was set up to supplement but not supplant the existing machinery. That this new department has been supplemental to our ordinary small loan business is probably best illustrated by the fact that, despite the number of loans made in the personal loan departments, i.e., to the wage and salaried group, in the last seven and a half years, the small loans, i.e., those under $500 made in the ordinary commercial banking field, have increased in this bank during the same period by 25 per cent.

Briefly, the distinguishing features of a personal loan as made by the bank are—

1. It is repayable at the end of a definite period, 12 months, with a few exceptions but there is a privilege given to repay the whole loan at any time.
2. A discount of 6 per cent of the amount of the loan is taken at the outset and an adjustment is made in the case of prepayment.
3. The borrower is not permitted to make interim payments on the loan but is required to make equal monthly deposits which will retire the

loan at maturity. A passbook is issued for these deposits and interest is allowed at prevailing rates.

4. In addition to the interest charges which I have mentioned there are certain charges made on a graded scale.

Because of the fact that these loans were not to be based on the usual type of banking security, we felt it was necessary to guard ourselves against the possibility of the borrower's losing his employment, and as a result we originally called for two guarantors on each loan. With the experience gained during the time that we have been in this field, we have found it possible to relax our original stipulations, with the result that approximately 20 per cent of the loans made now are on the signature of husband and wife only, and a further 30 per cent with only one outside endorser.

Again, because of the nature of these loans, it was felt protection should be taken against the possible death of the borrower, and as a means of protection for the guarantors, the borrower's widow and family, as well as for the bank, the bank arranged for a blanket life insurance policy covering the life of the borrower to the extent of the current amount of the loan outstanding on the bank's books at the date of death. This protection has been of material assistance to the borrower's estate. and guarantors and bank alike, in that during the seven and a half years we have been in the field 1457 death claims have been paid for a total of $155,000. When we entered upon the personal loan plan the field was entirely new to us, and also to the insurance company, but the experience gained in the interval has permitted the premiums on this group policy to be reduced from the starting point of 50 cents per hundred to a present rate of 25 cents per hundred. The premiums have been reduced yearly but of course will fluctuate according to experience.

It was evident from the start that to carry this business effectually and economically it should be segregated from the bank's ordinary business. Accordingly, six personal loan departments were opened, at Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver, to take care roughly of the six divisions into which the business of the country falls.

The branches of the bank were not permitted to place personal loans on their own books, but were permitted to take applications for personal loans on behalf of these departments; in other words, the departments were treated as though they were separate institutions, with the bank's branches acting on their behalf, and the branches were remunerated for any business sent in by being granted a commission approximating the cost of acquiring the business and handling the subsequent deposits. This had several consequences:—

1. The remuneration acted as a spur to the branch managers to obtain business and not refuse applications received until specially trained personal loan officers had an opportunity of assessing the value of the application, and

2. Since the commission was not as great as the interest the branch would earn if the manager put the loan through his own books, there was little likelihood of loans which could come within the compass of ordinary banking business and thereby obtain a lower rate of interest, being placed with the personal loan department.

3. The service to the public in respect of personal loans was thus made available in any community however small where a branch of the bank was established.

It was realized from the outset that the making of these loans was costly in relation to the ordinary loaning business of the branches and that, were it to be made profitable, it would require scientific handling on a mass production basis. Accordingly, a uniform plan was adopted embracing many labour-saving devices. For instance, loans were made in even multiples of 12, so that the deposits which would ultimately repay the loans called for even dollars, with no cents, the pass books containing deposit slips which the customer only had to tear out and hand to the teller with his remittance, these deposits being credited to the personal loan department by the receiving branch. These are only samples of the simplified practice which was brought into being with a view to giving the most inexpensive service.

It was realized that it would be impossible to break even on really small loans. Accordingly, the minimum loan was set as $60, with monthly deposits of $5. On a loan of this size the income scarcely covers the cost.

It may be of interest to the committee to know that, as a result of the impact of war and the consequent increased employment within the country, the call for personal loans has steadily decreased since 1939.

This we have considered as a healthy sign as it shows that the wage-earning class are putting their house in order directly from earnings. In any event had the trend been otherwise it might have caused additional pressure on the price ceiling.

So much for the outline of the plan. However, the committee would no doubt be interested in the volume of the business handled. To the end of December, 1943, that is, after seven and one half years' operations, we made 421,000 loans through the personal loan departments, for a total of $68,508,000, or an average of $163. That is to the group which for lack of a better name we call personal loans. During that same period the small loans made in the ordinary course of banking, that is, loans of $500 or less, to those who could put up security, or who had some financial background, numbered 1,791,000 for a total of $263,624,000. That the department was a feeder for the ordinary bank business is probably best illustrated by the fact that in 1936, when the department was commenced, our loans of $500 and under made in the ordinary course totalled 190,400 for an amount of $27,343,000, as against 237,500 for an amount of $33,157,000 for the year 1943.

As indicated above, we were concerned from inception over the possibility of our managers through lack of training in this special field declining loans which our specially trained officers in the department might otherwise have made but the system devised for the handling of these loans at the branches offset that possibility, and it is to be noted that the refusals amounted to only 7·66 per cent of the total applications.

Profits from the personal loan departments have averaged $13,185 per annum. This figure is reached after charging the department with the cost of money at 2½ per cent from 1936 to 1939 and 2 per cent from 1939 on.

I do not know whether the committee would be interested in classifications of the number of loans made by amount, by occupation of the borrowers and by purpose, but if they are considered to be of value I have them available.

Mr. KINLEY: Mr. Chairman, I have here a circular by the Canadian Bank of Commerce dealing with small loans. It starts out in this way: "Upon what essentials are these loans based?" The answer is, "Upon good character and steady employment." The next question is, "What are the specific conditions?" The answer is, "That the applicant is at least 21 years of age; has resided in the locality for at least a year; has been steadily employed for at least six months; has a reasonable prospect of continuing employment; has sufficient income from his employment or some other source to make the required monthly deposits; can satisfy the bank that his credit standing is good; obtains no other loans, while this personal loan is running, without consulting the bank."

The CHAIRMAN: Mr. Kinley, may I suggest that you read that a little slower and a little louder, please.

Mr. KINLEY: I will try to. The next question is "How do I apply for a personal loan?" The answer is, "Get a personal loan application form at any branch of the bank. The officers of the bank will be glad to assist you in completing this form." The next question—and this is the important thing—is, "What rate do I pay?" The answer is, "Interest in advance at the rate of 6 per cent per annum on the amount borrowed." There is a table showing examples of various charges except for life insurance, on the back here. There appears to be a deduction from the face amount of the loan. Suppose we take a loan of $120. The borrower never has the use of that amount but receives only $112.24. He makes monthly payments of $10, so that during the year his average monthly balance, of which he has the use, is not $120 but only $57.24. On this $57.24 he has paid, not including insurance, interest amounting to $7.76 or at a rate of about 13½ per cent per annum. Did you follow that? Do you agree with that?

The WITNESS: I would not quite agree with the figures that you quote as to the effective rate. I think figures were furnished some years ago by Mr. Finlayson, and on $120 Mr. Finlayson figured 11·78 per cent.

By Mr. Kinley:

Q. Yes. Well, I figured 13½ per cent. Anyway, to make my point, I notice you say a minimum charge of 25 cents is always charged? In your submission you said the minimum charge was 25 cents, did you?—A. No. That is the insurance rate, 25 cents.

Q. There is a minimum service charge of 50 cents with a maximum of $3, depending on the amount of the loan?—A. Yes. I said in my submission that, in addition to the interest charges which I have mentioned, there are certain charges made on a graded scale.

Q. How much did you say that Mr. Finlayson's figure was?—A. 11·782 per cent.

Q. Yes, 11·782 per cent. Those figures are pretty clear. The point I want to make is that in the legislation before the house, there is an interest charge of 5 per cent on small loans which works out at 9¾ per cent, according to the Minister's statement; that is, in case we put the banks into the small loan business. My good friend Mr. McGeer, in his speech in the house, said that practically the only fundamental change in the banking legislation was that they were raising the interest on the small people to 9¾ per cent, and left the inference that 7 per cent was the maximum charge under the Bank Act. If I am wrong in that, Mr. McGeer can correct me.

Mr. MCGEER: I am not under examination now. Go ahead.

Mr. KINLEY: That is all right. I just wanted to be fair with you.

Mr. MCGEER: You need not worry about me.

Mr. KINLEY: Under the Small Loans Act which was passed a few years ago, being chapter 23 of the statutes of 1939, under the section on small loans companies, we say: " . . . in the case of a loan for a period of fifteen months or less, two per centum per month on the amount actually advanced to the borrower and monthly balances thereof from time to time outstanding and in the case of a loan for a period greater than fifteen months, one per centum per month on the amount actually advanced to the borrower and monthly balances thereof from time to time outstanding and in addition thereto such proportion of one per centum per month on the said amount and balances as fifteen is of the period of the loan expressed in months . . . " It rather shocked the committee at that time to learn that the people had to pay that much interest on money borrowed on these small loans. But representations were made that it was a type of business that was needed in this country for a certain purpose and the Act was eventually passed. But as I said the other day, so far as my part of the country is concerned I do not think there is much need for this type of legislation in the Bank Act because usually in Nova Scotia a man who wants some money will get an endorser, go to the bank and come under the regular 7 per cent charge, which will be 6 per cent under the new Act.

Hon. Mr. HANSON: And will go to his member of parliament.

Mr. KINLEY: Yes. We are supposed to do that for the banks, with no consideration for endorsing notes. I just put this on the record, Mr. Chairman, to justify what I said the other day, that in dealing with credit and the national banking system of this country, there can be a subtle argument made that we will destroy confidence in the banks when we say that 6 per cent is the most that the banks can charge. I think that to open the door to this small loan business for the banks will be hazardous for obvious reasons.

Mr. BLACKMORE: For example?

Mr. KINLEY: There is one question I should like to ask, Mr. Chairman. How, under the banking law, was the Bank of Commerce able to come into this business? There is nothing in the Act that I can see that allowed this business before. How did they get into this business? Perhaps Mr. Tompkins can tell us.

Hon. Mr. HANSON: Section 91.

Mr. KINLEY: I can quite see that they did a public service in so far as the rate that was prevailing was concerned. I will admit that. And mind you, the banks have a better opportunity to do it than the loan companies, because the loan companies have not the privileges of the banks.

Mr. MACDONALD *(Brantford City)*: Somebody else pays the charges.

Mr. KINLEY: Yes. I do not see where they got the authority to go into this business. Perhaps I could be enlightened.

The WITNESS: Well, we are doing this business legitimately. The borrower does not pay off in equal monthly instalments on the loan. Consequently, the rate is always 6 per cent. He does make a deposit to an account which ultimately produces sufficient to liquidate the loan at the end of a stated period, on which deposit he receives savings bank interest.

By Mr. Kinley:

Q. Yes, and that is 1½ per cent?—A. That is right.

Q. For instance, suppose a man borrows $100 or, let us say, $120 so that we will get into even figures. Each month he must pay $10.—A. Into a deposit account, not in payment of the loan.

Q. Into a deposit account. Each month the amount gets less that he owes the bank?—A. Not necessarily. He is depositing that money in an account, but not on application to the loan.

Q. Technically, he is getting 1½ per cent.

By Mr. Macdonald (Brantford City):

Q. Can he redraw the $10 that he deposits?—A. No.

Mr. KINLEY: It is not his. It is in escrow or in trust or something of that kind. By the time the year is up, instead of paying 6 per cent, according to my figures he is paying 13½ per cent. Of course, you know this matter better than we can possibly know it, so if you agree with the 11·782 per cent, let the record prove which is correct.

The WITNESS: Of course, I do not agree with that because the deposits are made to an account and are not in liquidation of that loan. Consequently our rate is 6 per cent.

Mr. FRASER *(Northumberland, Ont.)*: In other words, the bank owes the depositor.

Mr. KINLEY: That shows the subtlety of the whole thing. I do not know that the banks want this. Do the banks want this small loan provision in the Bank Act? Have they asked for it?

The WITNESS: I would think it is in the general interests of the public that it should be there, yes.

Mr. KINLEY: I see. You do not think it should be there. That is the answer I wanted.

Mr. MCGEER: He says he thinks it should be there.

The CHAIRMAN: One at a time, gentlemen, please.

By Mr. Kinley:

Q. You said that it should be there?—A. Yes.

Q. Oh. Do you think in the interest of stability and sound public opinion it should be there?—A. Yes.

Hon. Mr. ILSLEY: The banks did not ask for this.

The WITNESS: They did not ask for it.

The CHAIRMAN: Order, please. The Minister has a statement.

Hon. Mr. ILSLEY: I was just answering that. I suppose the Department of Finance would be the only agency that could answer that question. The banks did not ask for this legislation. It was initiated by the Department of Finance.

Hon. Mr. HANSON: You are proposing it.

Hon. Mr. ILSLEY: I am suggesting or proposing that as a section of the Act.

Mr. KINLEY: You are putting it in there, I presume, Mr. Minister, for the purpose of curing a situation that exists under the Small Loans Act?

Hon. Mr. ILSLEY: Well, yes. I explained the reasons for it in the House of Commons. I do not think it is quite correct to say that it is curing a situation which exists under the Small Loans Act, but the object of the section is to furnish facilities for obtaining small loans at very much smaller rates of interest than would have to be paid to the small loan companies.

Mr. RYAN: Making a personal loan is one of the functions of the banks?

Hon. Mr. ILSLEY: Yes.

Mr. RYAN: What I understand you are bringing in is that you regulate the maximum interest that can be charged on such loans?

Hon. Mr. ILSLEY: Yes.

Mr. RYAN: But the banks have a perfect right to make loans in any form, as I understand it, as long as they consider that they are safe.

By Hon. Mr. Hanson:

Q. Mr. Stewart, under this personal loan scheme, you say you are only charging 6 per cent. I think on an interpretation of the statute you are. But as it happens the customer always sets up a sinking fund on which he is allowed only 1½ per cent, and the fact is that during the period of the loan he does pay actually more than 6 per cent for the accommodation. That is correct, is it not?—A. Well, if you want to consider those deposits as applicable to the loan, yes; the effective rate, as I say, is 11·78.

Q. I am looking more at the final result than at the modus operandi. The final result is that he pays something near what Mr. Finlayson suggests?—A. Yes.

Q. One more question. Speaking of the insurance fund that you have referred to, does he pay that extra in any way?—A. Yes.

Q. Or does that come out of the 6 per cent?—A. No.

Q. That is an additional charge?—A. Yes.

Q. And that only covers the case where there is a death?—A. That is right.

Q. One more question on that point. If a borrower dies, and the insurance company is called upon to pay, do they have the right of subrogation?—A. No, not at all.

Q. The widow is not going to be harassed?—A. No.

Q. They take the loss?—A. The loss is liquidated without recourse at all.

Q. Thank you.

By Mr. Graham:

Q. I wonder if the witness would be good enough to give to the committee what has been their experience with regard to losses in that particular type of business?—A. Our loss record has been excellent. It amounts to a little over one-twentieth of 1 per cent.

Q. Let me ask you this question, Mr. Stewart. Do you consider that the discount rate of 5 per cent suggested in the amendment to the Bank Act is the minimum with which the banks could carry on that type of business and still make what you think is a reasonable profit?—A. I do not think I am in a position to answer that, Mr. Graham. We hope that that is the case. But at the present time we could not operate under a 5 per cent discount rate. But with the amendment which is now proposed, a great amount of bookkeeping that is now being done could be eliminated and consequently I hope at least that the savings will be such as to permit of our carrying on on a 5 per cent discount basis; at least we are going to try it that way.

Q. Under the present system, without the assistance given by the amendment, you consider, I take it, that 6 per cent discount is the minimum?—A. Yes.

Q. Now would you tell me if the type of security that you have outlined—the endorsers, either two or one, or the man and the wife, plus the insurance—is the only type of security that the bank has taken?—A. That is the only type of security we take, unless the borrower becomes delinquent in the making of his deposits, in which case we might try to obtain additional security.

Q. But in the initial making of the loan that is the only security taken?—A. In the initial making of the loan, the only security is the endorser and the life insurance.

Q. There is nothing that prevents any person who might be classed as a personal borrower, as you say, in the absence of a better term to describe that particular class that use that particular facility, if he had victory bonds, from appearing at the bank and securing the rate of interest granted to loans made on the security of victory bonds. He can do that. Is that correct?—A. I should say there are many people who come into the personal loan department, who open their remarks by saying they would not care to ask for an endorser but would this class of security be sufficient. It is perfectly good security and they are sent to one of the branches then to get the lower rate of interest.

By Hon. Mr. Hanson:

Q. The ordinary loan?—A. Yes.

By Mr. Graham:

Q. As I said to Mr. Wedd yesterday, I am a little concerned as to what will happen if all of the banks go into this type of business. As I understand it, the Canadian Bank of Commerce is the only chartered bank in Canada that has gone in, on any large scale, for this type of loan in the period that you mentioned.—A. I would not care to answer that. The other banks would have to answer for themselves. As a matter of fact, we are probably the only bank that has set up a separate department. What the other banks do I do not know.

Q. As I said to Mr. Wedd, I am a little concerned that bank officials, being human and still believing in the profit motive, would be inclined to classify individuals as coming within the personal loan class in order to secure the higher interest allowed by statute if we pass this amendment, rather than to treat them as the ordinary borrower subject to the other provisions of the Bank Act. What do you say? How can we protect ourselves?—A. That is a danger which we foresaw at the start and safeguarded against it, I think, very effectively through the operation of these personal loan departments so that a manager at a branch could not use that higher rate. The consequence was that anything that he could put through his own bank he put through as long as the rate of interest he would receive on the ordinary loan was much higher than the amount of commission that was allowed to him. Bankers, like everybody else, are profit minded.

Q. The branch interest—the desire of a branch manager to show good results in his branch is removed, I think—not removed, but his branch interest would dictate making the loan straight from his branch?—A. If he could safely do so.

Q. Now, suppose that this amendment were put through, in the case of your own bank is it your intention to continue the method you have set up?—A. Yes, we would still continue our present method except for internal book-keeping.

Q. I would be very glad if you would put on record the vocational numbers—the numbers of loans as represented by different vocations; and I would like to know if any farmers could take advantage of this system?—A. No.

Q. You would not think so?—A. No. I could give you the information by occupation; labourers and artisans in number 42 per cent of the total, in amount 37 per cent; office, clerical and other manual workers 27 per cent in number and 26 per cent in amount; foremen and people of that class, 10 per cent in number and 13½ per cent in amount; school teachers, salesmen, etc., 20 per cent in number and 22 per cent in amount.

Hon. Mr. HANSON: That is the whole thing?

The WITNESS: Yes.

By Mr. Graham:

Q. I am correct in saying that your experience has shown that neither farmers nor fishermen have taken advantage of the bank's facilities?—A. The farmer and the fisherman usually have assets, consequently he has a financial background and as such would come within the category of ordinary banking business.

Q. I was thinking of the dairy farmer who has a monthly income?—A. That makes no difference. It is a question of his financial background. This department was set up for those who had an earning ability with no real financial background.

By Hon. Mr. Hanson:

Q. Have you ever considered the policy of insuring the loans against all losses?—A. No.

Q. I call your attention to the fact that in the civil service there is a lending institution here which, I think, has been very successful but which operates in a preferred position because they can get assignments from monthly pay; they insure the costs and the total cost I am told is 8 per cent?—A. Of course, that would be excessive if you are going to pay 8 per cent insurance.

Q. Over all oh, no, the insurance is only a fraction of the 8 per cent; the total cost by way of interest is 8 per cent.

By Mr. Macdonald (Brantford City):

Q. Mr. Kinley raised the question of the present provisions of the Bank Act which only permitted you to charge 7 per cent; that is the maximum rate, is it not?—A. Yes—or discount.

Q. Under your present system of small loans, Mr. Kinley suggested that the effective rate was 13 per cent—approximately 13 per cent: do you agree with him on that?—A. No, we do not agree that there is an effective rate of 13 per cent. We agree that the rate is 6 per cent.

Q. And do you agree that the only interest that the bank receives from the small loans is 6 per cent?—A. Yes, 6 per cent discount.

Q. Six per cent discount; is that permissible under the Bank Act?—A. Yes.

Q. Well, then, why is it necessary to amend the present Act; could you tell me that?—A. I do not know what Mr. Ilsley has in mind.

Q. I wonder if Mr. Tompkins could explain that to the committee? I am asking for informaton. It would appear on the face of it that the bank has been acting beyond the powers given under the Bank Act up to the present time.

Hon. Mr. HANSON: Is not that a legal question?

Mr. MACDONALD *(Brantford City)*: It may be, but I say it would appear that the bank has been going far beyond the powers which parliament gave to it on the last revision of the Bank Act in charging the rates they are now charging on small loans. Mr. Stewart says he does not think that is so. But for some reason or other at this revision section 91 is amended, and I understand the purpose of the amendment is to legalize these small loans; is that correct, Mr. Tompkins?

Mr. TOMPKINS: I would not say that. I would say that the subsection was put into the Act, as Mr. Ilsley has already indicated, as a matter of policy. The question of legality of the charges made by the Bank of Commerce under their scheme is something that has come up on previous occasions, and I think it is appropriate I should say this: they took what they considered to be competent legal advice upon the whole plan and were advised that it was quite within the powers of the Bank Act. I dealt on several occasions with letters that came in questioning their authority and I was careful to point out that that has been the situation and that it was always open to any person interested to contest the legality of their plan; but so far as I am aware that has never been done in any court over a period of about seven years.

Mr. MACDONALD *(Brantford City)*: And if the amendment is approved by parliament then you do not think there could be any question as to the legality of the banks making those loans.

Mr. TOMPKINS: No, I think that would, of course, apply to all banks in that case; but it is more a question of policy than to rectify any irregularity in the present situation.

Mr. MACDONALD *(Brantford City)*: You say that would apply to all banks. I do not suppose the Bank of Commerce has any special privileges in respect to small loans?

Mr. TOMPKINS: No, but as Mr. Stewart has pointed out they took the step of setting up a separate department with a rather elaborate plan to deal with this situation, this special type of borrower, and the other banks, I think, will probably tell you that they too grant a number of small loans but perhaps do not do it under the same procedure.

Mr. MACDONALD *(Brantford City)*: There is nothing to prevent them from doing it?

Mr. TOMPKINS: As I see it, if this plan of the Bank of Commerce is legal, as it apparently is, and as I believe it to be myself, I say they could probably proceed on the same basis.

Mr. MACDONALD (*Brantford City*): Do I take it from your remarks that you have some doubt in your own mind as to the legality of what the bank has been doing under the present Act?

Mr. TOMPKINS: No. I think it is, as Mr. Hanson suggested, strictly a legal question. Surely the fact that the courts have not been asked for a decision in a matter of seven years is some indication that it must have some legality.

Mr. MACDONALD (*Brantford City*): I would not say that because the courts have not been asked as to whether it is legal or not that that would decide the matter; the court's have not been asked, and therefore we have no court decision.

Mr. TOMPKINS: Correct.

Mr. MACDONALD (*Brantford City*): I would ask you, as the Inspector General, under the Bank Act, whether or not, in your opinion you think it is legal, and I will go further and ask you if you have obtained an opinion from the legal branch of your department?

Mr. TOMPKINS: No, I have not. I have not considered it illegal.

Mr. MACDONALD (*Brantford City*): You have not considered it illegal?

Mr. TOMPKINS: I have not considered it illegal.

Mr. MACDONALD (*Brantford City*): I understood you to say a moment ago that apparently it was legal.

Mr. TOMPKINS: Well, I do not recall my precise word, but I have not considered it illegal.

Mr. MCGEER: Then you consider it legal.

Mr. TOMPKINS: Put it that way.

Mr. MCGEER: You are the inspector of banks in Canada?

Mr. TOMPKINS: Yes, but I do suggest that there may be a legal point involved. So far as my judgment goes I consider it legal, yes.

Mr. MACDONALD (*Brantford City*): I am asking for information; I am not finding fault; but I would like to know why the new subsection has been added to the Bank Act with respect to small loans?

Mr. TOMPKINS: I think the minister should speak to that point himself; it may be a matter of policy.

Hon. Mr. ILSLEY: For some reason or other—I do not know what the reason is—no bank but the Bank of Commerce has gone into this business on a large scale at all. The other banks have not gone into it. This section, it is hoped, will enable a certain class of borrowers who are not going to the banks at all, who are paying a much larger rate of interest, to avail themselves of banking facilities. The banks will, I think, under this section go into this type of business on a greater scale than they are doing at the present time, and the Bank of Commerce will adapt themselves. I understand from the witness' evidence, and the scale of charges here, that this is a lower scale than they are charging now.

Mr. MACDONALD (*Brantford City*): Mr. Minister, would it be fair if I put it this way: that all the chartered banks of Canada with the exception of the Bank of Commerce were doubtful as to the legality of carrying on the small loan business?

Hon. Mr. ILSLEY: I do not know.

Mr. MACDONALD (*Brantford City*): In the way that the Bank of Commerce has.

Hon. Mr. ILSLEY: It may be that they have not gone into it for some other reason; I do not know.

Mr. MACDONALD (*Brantford City*): If this section is put into the Act it would assure all the other banks, with the exception of the Bank of Commerce, that they would be acting within their rights if they go into the small loan business.

Hon. Mr. ILSLEY: No. I do not think that would be a fair way of putting it.

Mr. MACDONALD (*Brantford City*): It is the hope of the Department of Finance that now that the new section has been added to the Act that the other banks will go into the small loan business.

Mr. FRASER *(Northumberland, Ont.)*: Mr. Stewart, do you consider it is profitable? Is this small loan department a profitable type of banking business?

The WITNESS: It is profitable in a small way.

By Mr. Fraser (Northumberland, Ont.):

Q. It is profitable to the extent of $13,000 a year?—A. Yes.

Q. From a comparative standpoint with other branches of your business do you consider it a profitable type of banking?—A. Yes, I think so.

Q. Did the fact that the Bank of Commerce was anxious, if possible, in that connection to provide a public service induce you to set up this department; it was not from a standpoint of $13,000 a year?—A. No, as I said before, sir, we went out to offset a certain amount of criticism of the banks, to get this bank at least closer to the people, and as a result to get some goodwill and collateral business.

Q. Then the setting up of this department by your bank was not purely from the standpoint of gain?—A. Not entirely, although we hoped to make some profit.

Q. The fact is that public goodwill had a large bearing on your action; is that correct?—A. Yes, exactly.

By Mr. Macdonald (Brantford City):

Q. Mr. Stewart, I was asking these questions regarding the legality in no way as a criticism of the bank but merely for information and to ascertain whether or not you were doubtful or sure that you had always been acting within your legal rights, and I understand your answer to be that you had no doubt that everything you had been doing was legal?—A. We had no doubt at all.

Q. In reply to Mr. Fraser—I think you have given the information before —you said the bank had made $13,000 each year average on those loans; is that your gross profit each year?—A. That is net.

Q. Is that the net profit to the bank as a whole or just to the branches? —A. That is the net profit to the bank as a whole.

Mr. MCGEER: For how many years?

The WITNESS: That is the average per annum for the last seven and one-half years.

By Mr. Macdonald (Brantford City):

Q. And I think you had 421,000 loans?—A. Yes.

Q. And the total amount of the loans was $68,508,000?—A. The total amount of loans was $68,000,000 odd.

Q. And you have been in the business seven years?—A. Seven and one-half years.

Q. So that on an investment of $68,508,000 you have made $91,000 only; is that correct?—A. Yes.

Q. You have netted $91,000?—A. We have netted $91,000.

Q. In the whole period of operation?—A. Yes.

Mr. FRASER *(Northumberland, Ont.):* Not enough money to pay your salaries.

Mr. McGEER: Oh, no; this is net after salaries are paid. What are you talking about?

Mr. NOSEWORTHY: Don't forget that this is philanthropy.

Mr. FRASER *(Northumberland, Ont.):* Thank you, Mr. McGeer.

By Mr. Macdonald (Brantford City):

Q. I have the floor. Mr. Stewart, I understand you to say that all small loans are carried on on a discount basis?—A. Yes.

Q. If I borrow $100 I give my note to the bank for $100 payable when? —A. Twelve months.

Q. At the rate of?—A. Six per cent.

Q. And I obtain $94?—A. $94.

Q. And I pay interest on $100?—A. Yes.

Q. But I also pay the cost of the insurance?—A. Yes.

Q. So I would receive something less than $94?—A. Yes. You would receive $93.75.

By Mr. Fraser (Northumberland, Ont.):

Q. At that point the loan would be discounted in exactly the same way as in the ordinary method of business?—A. Exactly.

Q. In other words, the discounting feature does not enter into the small loan any more than it does into the larger one?—A. That is true; not in all cases.

By Mr. Macdonald (Brantford City):

Q. I thank Mr. Fraser for the information, but at the moment I am asking the witness for the information.

By Mr. McGeer:

Q. If he borrowed the money for eleven years he would owe you money before the loan got started?—A. We do not lend for eleven years.

By Mr. Macdonald (Brantford City):

Q. The ordinary loan is for three months at the bank, I understand?—A. Usually.

Q. And if I went into the bank, and you thought I was a good risk and had ample security behind me and borrowed $100 how much would you discount the loan in dollars? You would discount it six per cent, but how much would it come to in dollars?—A. For the three months?

Q. Yes.—A. $1.50.

Q. So in ordinary business, apart from the small loan, the borrower would get $98.50.—A. Right, for three months.

Q. Then, suppose in the small loan I give you a note for $100 and I then enter into an arrangement with you whereby I will pay how much money into the bank each month?—A. 1/12th of $100.

Q. Suppose I want to pay 2/12ths of the $100 each month; do I get any consideration for that?—A. I do not think you would, no—there is no provision for interim payments.

Q. There is no provision for interim payment.

By Mr. McGeer:

Q. You lock them up when they get started?—A. Yes.

By Mr. Macdonald (Brantford City):

Q. But at the end of nine months I might pay the whole balance, I take it?—A. In which case there would be a rebate of interest.

Q. But if I wanted to double the payments I get no consideration for that?—A. No.

Q. Except interest on my deposit?—A. Yes.

Q. I think you referred to a penalty that is charged if I do not make my payment at the end of the month?—A. Yes.

Mr. McGEER: How much interest does he get on that deposit, Mr. Macdonald?

By Mr. Macdonald (Brantford City):

Q. Can we go back for a moment? Instead of paying 1/12th each month suppose I pay 1/6th; what interest do I get on the deposit?—A. $1\frac{1}{2}$ per cent.

Mr. McGEER: He gets $1\frac{1}{2}$ and pays $9\frac{1}{4}$.

The WITNESS: On the other hand, the loan would be liquidated at the end of six months and you would then get a rebate for the six months.

By Mr. Macdonald (Brantford City):

Q. I understand I would get the benefit at the end of the six months but not in the interim. Then, would you mind telling the committee what the penalty is? Suppose I fail to make my payment of 1/12th at the end of the month; is there a penalty?—A. There is a penalty which is not at all times exacted but can be exacted after eight days have elapsed. If the deposit is past due by eight days then a penalty is sometimes obtained unless, of course, there is a very good reason why the deposit was not made on time.

Q. Can you tell the committee what the penalty is?—A. Yes; 5 cents on each dollar of the deposit in arrears.

Q. So if I borrow $100 and I fail to make my payment at the end of the first month how much penalty would you charge me?—A. Well, of course, I would rather you would take it in even multiples of twelve; let us say $108. It would be $9 per month, and after eight days have elapsed the penalty would be 45 cents.

Q. Is that added on to the note?—A. That is paid by the borrower.

Q. Do I pay interest on that?—A. No.

Q. If I do not pay that until the end of the year I pay no interest on it?—A. Well, there is interest on the past due—no, there is not; there is only the penalty of the 5 cents, in this case 45 cents.

Q. And I do not pay any interest on the penalty?—A. No.

Q. If in the second month I make default again you add another penalty?—A. That is right. We would probably mature the loan and endeavour to collect it.

Q. You do not charge any interest on that.

By Mr. Cleaver:

Q. That penalty would cause the next monthly payment to be in arrears if the penalty was not paid up to date?—A. I imagine that is how it would work.

By Mr. McGeer:

Q. How does it work? You are the one in charge of it?—A. I would not be quite sure but I think that is how it would work.

By Mr. Macdonald (Brantford City):

Q. Do you think a system can be worked out whereby a borrower, if he borrows $100, would get $100 and pay interest on the $100?—A. At the rate of 9¾ per cent?

Q. Well, at some rate so he would know what he was paying?—A. I should think that would be a matter for the minister's decision. I think in his speech to the house he brought that question up.

Q. I realize it would eventually come down to the minister to make a decision, but I am sure that this committee would like your advice on that subject?—A. I would say if it was charged on the basis of so much per month the cost to the bank would be somewhat greater because of the additional bookkeeping involved.

Q. So then you could not have a 5 per cent rate and have a discount rate? That is what you have now, but I mean to say what I do not like about this—and I may as well be frank—is that a working man goes into the bank and he gets $100. He thinks he gets $100 but he only gets $94, and he is paying interest on more money than he actually gets. That is correct, is it not?—A. Yes.

Mr. McNEVIN: He pays the interest in advance.

By Mr. Macdonald (Brantford City):

Q. Mr. McNevin says he pays his interest in advance, but he not only pays interest in advance he pays interest on the interest he pays in advance. Is that not correct?

Hon. Mr. HANSON: That is bank discount.

Mr. MACDONALD (*Brantford City*): Call it bank discount or call it what you like; what I think should be done is that if a man borrows $100 he should get $100 and pay interest on the $100.

The WITNESS: Speaking for the Canadian Bank of Commerce we would have no objection to that. There would be a slight increase in our costs of operating because of the necessity of additional bookkeeping entries, but, speaking as I say for the Canadian Bank of Commerce, we would have no objection to that.

By Mr. McGeer:

Q. That is, you do not see any particular advantage in the discount system?—A. Not one way or another.

Hon. Mr. ILSLEY: On that point I want to point out what I said in the House. I have got no objection to the interest system rather than the discount system. I submitted this thing for consideration to this committee, not to sell anything by way of these new proposals. I want to read what I said in the House:—

> For these new proposals I would like the benefit of very special consideration by the Banking and Commerce committee and this house. In my desire to keep maximum charges low I may easily have gone too far and I would like the committee to hear evidence from the banks as to whether it is really possible to do this type of business under the terms which I am here suggesting. Furthermore, while in the interest of simplicity and for the purpose of avoiding an odd or fractional rate of interest, I have expressed the ceiling in terms of a 5 per cent discount, it may be that the committee may prefer to express the ceiling in terms of a maximum rate of interest per month or per year. I shall be prepared to welcome the guidance of the committee in this respect also.

Mr. McGEER: Would you mind a question here, Mr. Macdonald? I presume, Mr. Ilsley, that somebody in your department has made a fairly complete investigation and report to you upon this proposal?

Hon. Mr. ILSLEY: I have no written report.

Mr. McGEER: But you have your experts in the department who have investigated and who have advised you ?

Hon. Mr. ILSLEY: I have discussed it with the officials.

Mr. McGEER: Who are the officials, and could we have the officials who have investigated this? My reason for asking it is this; when we had the small loans bill before us some years ago the understanding was on the legislation that then went through there would be a period of time elapse and then a full and complete investigation would be made and on that investigation that whole small loan program would be reviewed. I am assuming—I do not know—that this may be directly or indirectly tied in with that policy because it apparently was the desire to get the rates to small borrowers through our chartered banks lower than what they are getting from small loan companies to-day. That is your proposal?

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: And with that I am in hearty agreement, but just how is the best way to do that I think you have asked this committee to determine.

Hon. Mr. ILSLEY: Exactly.

Mr. McGEER: Could we have the officials who have made that investigation, that is, the experts in your department? I presume Mr. Finlayson would be one.

Hon. Mr. ILSLEY: He is the only one, I think. The Department of Insurance has kept in touch with the small loan business.

Mr. McGEER: Do I understand Mr. Finlayson is the one who has advised you on this?

Hon. Mr. ILSLEY: No.

Mr. McGEER: I do not want to interfere with your internal departmental business but I assume there must have been somebody who, before legislation of that kind would be submitted to parliament, would have made an investigation and given a fairly exhaustive report to you. Is the committee not entitled to the benefit of that investigator's information ?

Hon. Mr. ILSLEY: If I were to name one man I would name the Deputy Minister of Finance.

Mr. McGEER: And Mr. Finlayson?

Hon. Mr. ILSLEY: Yes, he can be called on the small loan business, which is not in the same department.

Mr. McGEER: What I understand is that you are proposing to correct the situation which exists in Mr. Finlayson's department?

Hon. Mr. ILSLEY: That is right.

Mr. BLACKMORE: In the interests of order I believe we have gone over the first hour and I believe our regulation is—

The CHAIRMAN: I thought we had suspended that rule for to-day.

Mr. BLACKMORE: We did not suspend it yesterday.

Mr. McGEER: I think you will find that rule will not work out.

The CHAIRMAN: Is it your idea that you should continue, Mr. Macdonald, or do you think you should give way?

Mr. McGEER: I for one certainly do not think that rule should be made hard and fast. We have gone into an investigation of a specific section of the Act. We have Mr. Stewart here, and I do not think we can tie it down to any rule.

The CHAIRMAN: Mr. McGeer, I thought that was the understanding that we had Mr. Stewart here and that we should continue that investigation.

Mr. BLACKMORE: All I want to know is whether there is going to be any order at all in the conduct of affairs? Yesterday Mr. Noseworthy was given one full hour and it was my turn to-day. Already so much of the time is gone that there are only 40 minutes left.

Mr. MCGEER: We have suspended the general rule to-day.

The CHAIRMAN: We have suspended the rule for to-day.

Mr. KINLEY: Mr. Chairman, we made this rule that if a member examines a witness for 15 minutes then somebody else can examine him, but the first member can get up again. There is nothing that we need do to-day because we are in the second hour, and in the second hour the member can talk as long as he likes. The first hour is gone and we are between 12 and 1, so why interfere with it at all?

The CHAIRMAN: I think we should allow Mr. Macdonald to continue.

Mr. BLACKMORE: I should like to know before you commence whether it is the intention of the committee to give me my hour to-morrow. Undoubtedly according to the rule as approved by the committee I have a perfect right to an hour's time to-day or to-morrow. I just want to know.

The CHAIRMAN: To-morrow it depends upon what we are discussing. If Mr. Stewart is here I presume that the rule will still be suspended but I think, Mr. Blackmore, we will try and arrange for you to have an hour to-morrow.

Mr. BLACKMORE: It takes more than trying. As a member of the committee I have a perfect right according to our agreement, and if we are going to be in order at all we must be in order.

The CHAIRMAN: I am going to try and arrange it. I may be over-ruled by the committee but I will try to arrange it.

Mr. MACDONALD (*Brantford City*): I must apologize to Mr. Blackmore—

Mr. BLACKMORE: You surely must.

Mr. MACDONALD (*Brantford City*): —if I have infringed on his time. I want to assure him also I did not realize I was encroaching on his time.

Mr. BLACKMORE: You realized it when I began to run over yesterday.

Mr. MACDONALD (*Brantford City*): Mr. Chairman, I am nearly through in any event. Let me interject that I raised the question of whether there should be a discount rate or a fixed rate, having in mind the remarks the minister made in the house. I took it he invited members of the committee to bring that question before the committee, and I am very glad he has read his remarks to the committee. I should have read them myself, and I am sorry I neglected to do so.

By Mr. Macdonald (Brantford City):

Q. Mr. Stewart, you referred to the fact that your borrowers' notes must be endorsed; is that correct?—A. That is so.

Q. Do you always ask for two endorsers?—A. No. As I say, at the start we did, but experience has shown that is not entirely necessary. Twenty per cent are now made—I think it was 20 per cent—on the basis of man and wife; 30 per cent with only one endorser, and I might say there are those cases where no endorser is required at all.

Q. If no endorser is required why do you not put the loan through in the regular way, a three months loan?—A. For this reason, that you are dealing with borrowers who have a monthly or weekly earning capacity. If you put the loan through in the regular way they have a lump sum coming due at one time and it makes it that much more difficult for them to meet.

Q. I take it if the man did happen to have a lump sum, you would have put it through in the regular manner?—A. Yes.

Q. Then, Mr. Stewart, I have heard complaints—and I sympathize with the people—of workmen who go to the banks for loans and then your bank has two other working men endorse the note. Is that quite customary?—A. Yes. That is true.

Q. You would take two other working men if they were regularly employed?—A. Yes.

Q. And the result sometimes has been—and I know this is a fact—that a working man has defaulted in the payment of his loan and your bank then steps in and sues and eventually garnishees the pay of the other two working men?—A. I made a study of that first in 1939 to ascertain exactly how many endorsers were called upon to pay the original amount borrowed by the borrower. I made a further study now, starting on the 15th of April. The 1939 figures show that one-quarter of 1 per cent only of the endorsers were called upon to pay, and the latest figures show only one-third of 1 per cent.

By Hon. Mr. Hanson:

Q. That is under the small loans?—A. Under the small loans.

By Mr. Macdonald (Brantford City):

Q. Even that one-third of 1 per cent does work a great hardship on the endorser, especially when he is a working man?—A. That may be so. On the other hand I should like to draw to your attention that we do not force anybody to endorse. That is a voluntary act on the part of the endorser to help a friend.

Q. Do you explain to the working man endorser his liability when he signs the note?—A. Yes.

Q. Have all your banks instructions to let the working man know definitely the liability he assumes when he endorses a note?—A. Yes.

Q. When a working man comes to you for a loan, do you inquire into the reasonable possibility that the man may have of paying the note?—A. Oh, naturally.

Q. Or do you merely tell him to go out and get two endorsers and you will give him the money?—A. Oh no. We would not lend the money unless we knew ahead of time that his ability to pay was assured, provided he continued in his employment and that the weekly or monthly wage was sufficient to look after the payment called for or the deposits called for by the agreement.

Q. But do you not rely on the endorser more than you do on the maker of the note?—A. No.

Q. Could you suggest to the committee some way in which you could make loans, especially small loans, without having to rely on the endorsers?—A. I do not think I could suggest any way, no.

Q. Is there any other security that you could take, because after all an endorser is merely a personal security?—A. Well, of course you must remember that we are dealing with a class of people who have nothing to put up as security. We are dealing with that class of people and giving that class of people a loan on their earning ability and their integrity.

Q. And of course you are dealing with a class of endorsers who have nothing to put up but their daily wage?—A. That is true.

Q. Is that not correct?—A. That is true.

By Mr. Noseworthy:

Q. Is that necessarily true?—A. Not necessarily.

By Mr. Macdonald (Brantford City):

Q. Quite frequently it is true?—A. Frequently, yes.

Q. And that daily wage is only sufficient to maintain them and the members of their family in the ordinary necessities of life?—A. Possibly not.

Q. Well, Mr. Stewart, suppose a man came in for a loan and he brought in two endorsers who were only making enough to support themselves and their families. Would you take their endorsements on the note?—A. We might.

Q. Then if you did that, and the working man endorser had to pay, you agree with me that it would work a very great hardship upon him?—A. It might.

Q. Well, it would, if he had to pay and he only made enough to provide him and his family with the necessities of life.—A. Well, I do not think you will find any endorsers of that class on our books.

Q. Oh, well, there have been endorsers, I think you will agree with me, of that type. There have been endorsers of that type.—A. There may have been.

Q. Mr. Stewart, let me ask you this. In that case would you not discourage the endorser from signing the note?—A. We would probably say that the endorser was not sufficient collaterial for our purpose.

Q. That is not my question. A minute ago you told me that you would take his endorsement—A. We might, I said. I think I said that.

Q. Yes. But do you not think that, in a case such as that, you should discourage the endorser going on the note?—A. In practice we do, by saying that the endorser is not sufficient collateral.

Q. No. But do you give your branch managers instructions that they must discourage endorsers who have nothing but their wages to live on, from signing notes?—A. I would not say definitely that we do, no.

Q. Do you not think that you should?—A. We do in effect say that we will not accept an endorser unless his earning capacity is such that he can look after that note if the necessity arises.

Q. You also told me that you will take his endorsement if he only has enough to maintain himself and his family.—A. I said that might be the case.

Q. Yes. Now my question to you is this. Do you not think that you should instruct your representatives not to take such endorsers?—A. That is in effect what is happening today.

Q. I know that is in effect what is happening, but I am asking you to go a little further with me and agree with me that the banks should discourage and not accept, and instruct their representatives in these communities not to accept, endorsers who are putting themselves and their families in jeopardy.—A. Oh, yes, undoubtedly, and in effect that is what we are doing.

Q. That in effect is what you are doing; but every branch manager might not understand just what is being done. They are not all quite as bright as you are, Mr. Stewart.—A. On the other hand, Mr. Macdonald, no bank manager puts these loans through. They go through the department and consequently there are only about six men that we have to instruct.

Q. Let me ask you this. When a loan comes through to the department, before the loan is made, do you inquire into the standing of the endorser?—A. Undoubtedly.

Q. How long does it takes for a working man to get a loan of $100? Suppose a working man comes into your bank today with two endorsers and wants $100. How long does it take before he gets that $100.—A. Just as long as it takes us to make the necessary inquiries as to his integrity and ability to pay.

Q. In days, will you tell the committee how long that would be?—A. It would vary.

Q. Well, the average? What is the procedure then?—A. Well, we get credit reports as best we can from, I think, the Retail Credit Association on the man. We ascertain where he is employed and make certain inquiries there.

By Mr. Fraser (Northumberland, Ont.):

Q. As to his habits?—A. And as to his habits, yes.

By Mr. Macdonald (Brantford City):

Q. Both as to the borrower and the endorsers?—A. Yes.

Q. If their reports come back that these men are working and are steadily employed, I suppose you make the loan?—A. If he is earning an amount sufficient, in our opinion, to permit of his making the monthly deposit, yes. If, on the other hand, his earnings are not, in our opinion, sufficient to make those monthly payments, then he would be refused, because we would only be starting trouble for ourselves.

Q. But, if, in your opinion, the borrower were making enough to make the payments, and the two endorsers had steady jobs, would you make the loan?—A. We would naturally look into the endorsers' ability in the event of the original borrower falling down.

Q. And if they were steadily employed, you would probably make the loan?—A. Yes.

Q. My point is that the endorser is often forced to pay this loan.—A. Not often.

Q. Well, in some instances.—A. In very few instances. As I have pointed out, our study shows that one-quarter of 1 per cent of the loans repaid are repaid by the guarantors.

Q. I do not know what that would work out to in numbers. Could you tell me that?—A. One-quarter of 1 per cent? Just a minute. One thousand out of 421,000.

By Mr. McGeer:

Q. Did any of them happen to be members of parliament?—A. No.

Q. From what Mr. Fraser and Mr. Hanson said, I thought that would probably be the group. I should like to see them endorsing any notes.

By Mr. Macdonald (Brantford City):

Q. It is possible that a thousand workmen have had to pay notes which they endorsed?—A. No, not necessarily.

Q. I did not say necessarily. But I said it is possible—A. Because there are those men who come in voluntarily to pay a son's note or something of that kind. It is done voluntarily; and the only way we can get down to figures, since we do not know the circumstances, is to put them in the category of guarantors who are paying. They may be paying quite voluntarily.

Q. Yes, they may be paying voluntarily. But what I should like to have done is to have a different system worked out. The Minister has asked for the advice of this committee and the witnesses for some way in which a small loan can be made more economically and I understand easier for the people who are borrowing the money. I will go further and say that I should like, Mr. Stewart, some method to be worked out whereby the working-man endorser is not called upon to pay the loan.

Mr. Fraser *(Northumberland, Ont.)*: Why not become philanthropic and not take any endorsers?

By Mr. Macdonald (Brantford City):

Q. That could be done, could it not, if some other form of security were obtained?—A. You must remember that the class of people we are lending to have no form of security.

Q. I understand that.—A. We are lending to people who have no financial background.

Q. I am not referring to that for the minute.

By Mr. Noseworthy:

Q. And no friends with any.—A. They must have friends to get endorsers.

Mr. MACDONALD *(Brantford City)*: I am not referring to that question. I am referring to the working classes who endorse notes and find they have to pay, where they have not enough money that week to support their families. I think those endorsers should be discouraged.

The CHAIRMAN: Gentlemen, I think we have to consider Mr. Blackmore's request. Are you prepared to examine the witness, Mr. Blackmore?

Mr. BLACKMORE: Mr. Chairman, as the situation stands at the present, so much of the time has gone that it is impossible to present a consecutive case. I think the best thing to do is to go on as you decided and discuss this matter and give me time to-morrow.

The CHAIRMAN: Then Mr. Cleaver has the floor.

Mr. CLEAVER: Mr. Chairman, I want to state before starting that I just have a few questions. I am very pleased to see that the commercial banks have entered this small loan field, because it does mean a reduction in cost to the customer who is borrowing money.

By Mr. Cleaver:

Q. Mr. Stewart, you have told us that a customer who fails to make his monthly deposit in a special account is charged a penalty. What control has the customer over that deposit account once he has made the deposit? Has he any privilege of withdrawing money from that special deposit account?—A. No.

Q. Then could you tell me approximately how much your bank loans in a year to other small borrowers, $500 and under? I refer to borrowers other than the special class of borrowers who were borrowing on a monthly repayment plan.—A. In 1943 we made 237,568 loans under $500.

Q. And the total is how much?—A. The total is $33,157,000.

By Mr. McGeer:

Q. 253,000, was it?—A. 237,568.

By Mr. Cleaver:

Q. If I understood you correctly, under your present system of operating these special monthly repayment loans, you were charging an effective discount rate of 6 per cent. The proposed amendment to the new Act reduces that to 5 per cent?—A. Yes.

Mr. GRAHAM: Had we not better point out to the witness—

Mr. MCGEER: Would Mr. Cleaver mind my getting the amount of those loans? I did not catch the figure that he gave. How many loans did you say, Mr. Stewart?

The WITNESS: 237,568.

Mr. GRAHAM: Had we not better point out to the witness that—

The CHAIRMAN: Just a minute.

Mr. GRAHAM: —the reporter cannot catch nods of the head.

The CHAIRMAN: Am I right in thinking that the distinction between the two sorts of loans, for convenient reference, is that the one sort should be known as personal loans and the other as small loans. Is that the distinction we use?

The WITNESS: Ordinary loans.

Mr. KINLEY: The first one is the regular bank loan and the other is the small loan.

The WITNESS: I think ordinary small loans would be better.

The CHAIRMAN: If you will do that, Mr. Cleaver, refer to the one as personal loans and the other as the ordinary small loans, we will not become confused.

Mr. CLEAVER: Thank you, Mr. Chairman; I will try to comply with that request. Mr. McGeer would like to know the total amount of the loans.

The WITNESS: $33,157,000.

Mr. JAQUES: How much? I did not catch that.

By Mr. McGeer:

Q. There were 237,568 loans under $500?—A. Under $500.

Q. That includes the two types of loan referred to by the chairman?—A. No. That is the ordinary small loan.

Q. The ordinary small loan?—A. Yes.

Q. What are the others?

By Mr. Jaques:

Q. What is the total?—A. A total of $33,157,000.

By Mr. McGeer:

Q. What about the others?—A. The personal loans, for the seven and a half years? I will give you the average.

Hon. Mr. HANSON: 1943.

By Mr. McGeer:

Q. Give us 1943.—A. I am sorry, but I cannot give you that.

Q. Could you get it?—A. Yes, I could get it.

Q. We should like to have that for 1943.

By Mr. Macdonald (Brantford City):

Q. What is the 237,000? For how many years is that?—A. That is for 1943.

By Mr. Cleaver:

Q. Then Mr. Stewart, if I understood you correctly, these special small loans—I am to call them personal loans, am I—the ones that are repayable, these personal loans repayable in monthly instalments, under your present system demand a very elaborate system of bookkeeping?—A. That is correct.

Q. And you anticipate that the saving which will be effected by the proposed amendment to section 91 of the Bank Act will reduce your costs sufficiently to permit you to carry on this business in a profitable fashion with the reduction of 1 per cent in the discount rate?—A. That is our hope, yes.

Q. And I take it that you are wholly familiar with the fact that there are thousands of farmers, for instance, who have credit rating—that is who have a reputation in the community for paying their debts as they come due—and are now receiving ordinary bank loans without furnishing the bank with any security at all, and these loans would be included in the $33,000,000 group?—A. Yes.

Q. Now, under this new proposed section 91 is there anything which would prevent you from charging an effective interest rate of $9\frac{3}{4}$ per cent to all of the $33,000,000 of loans by the simple device of saying to the borrower, "You must repay loans in instalments"?—A. There is nothing in the section which would debar us from putting those loans in there, but I think I should point out to you that in actual practice that has not happened, because we started this personal loan department in 1936—

Q. I was trying to point out— —A. Will you allow me to finish? In 1936 we made 183,000 small loans in the ordinary course of business, and in 1943 that total of 183,000 loans had increased to 237,000, pointing out, fairly clearly, that nothing was put in the personal loan department for the sake of getting an additional rate; in addition to which, as I have said, we have set up safeguards against that possibility, and I think have successfully overcome it.

Q. I am not suggesting for a moment that there is any wrongful intent on the part of any of the banks nor am I suggesting that they would take advantage of this section 91, but what I am suggesting is this, that we as a committee would be falling short of our duty if we recommended an amendment to the Bank Act to permit the banks, if they so desire, to charge an effective rate of $9\frac{3}{4}$ per cent for the full $33,000,000 of small loans by the simple device of saying to the borrower, "You must repay this by instalments".—A. That is for the committee to decide.

The CHAIRMAN: Mr. Noseworthy?

By Mr. Noseworthy:

Q. I wanted, Mr. Chairman, to get just a little picture for my own benefit and probably for the benefit of the committee, of just what these personal loans aggregate in cost to the borrower. There has been some confusion about their paying only 6 per cent and so forth. Let us take a borrower who goes to a bank to get $100 under the personal loan scheme— —A. Would you mind making that an even multiple of 12, say $120.

Q. Very well, but you are going to run into difficulty when you come to percentages. I want to find out what is the actual percentage that that borrower pays.—A. I can give it to you.

Q. Let us say that he comes in for $120; he gets from the bank actually?—A. That would be the $7.20 interest; he would get $112.80.

Q. Does that include his insurance?—A. No, insurance would be in addition.

Q. Twenty-five cents?—A. Twenty-five cents per $100, so that would be 30 cents.

Q. In the course of the twelve months he continues to pay you interest on $120?—A. No, we have deducted interest as a discount.

Mr. CLEAVER: Does he require medical examination?

The WITNESS: No.

By Mr. Noseworthy:

Q. What other charges are there?—A. There is a graded charge for investigating risk, etc., which runs from 50 cents up to $1.75.

Q. On this particular size of loan what would it be?—A. On this particular size of loan it would be 50 cents.

Q. In other words a man gets $112.80; he pays an additional 30 cents?—A. Less 30 cents for insurance and less 50 cents for investigation.

Q. He gets $112 for $120?—A. Yes.

Q. In other words you deduct in advance $8 on his $112; actually he will have the use of that money, the whole of it, for about half a year?—A. If you consider the deposit as being applied on the loan.

Q. He has not the use of his deposits; the bank has the use of his deposits?—A. Right.

Q. He actually has the use of that money for half of the year, for six months?—A. Yes.

Q. In other words he pays $8 for $112—for the use of $112 for six months?—A. Yes.

Q. What interest would that be?—A. According to Mr. Finlayson's figures that would amount to 11·782, I think it is.

Q. How does he arrive at 11·782?—A. I could not say.

Q. If I pay $8— —A. I should mention, Mr. Noseworthy, that in reaching that 11·782, the interest received on the savings deposit is deducted from the cost.

Q. Then what would be the aggregate interest on the savings deposits over the year?—A. For that one account?

Q. Yes.—A. Eighty-two cents.

Q. Actually he pays $7.18?—A. Yes.

Mr. GRAHAM: Are you including the insurance cost in that?

Mr. NOSEWORTHY: Yes.

By Mr. Noseworthy:

Q. For the use of $112 for six months?—A. Yes.

Q. That looks to me as though it would be getting closer to 14 per cent than 11 per cent?—A. I am giving you Mr. Finlayson's figures.

Q. You are an experienced banker and have estimated interest many times?—A. As a matter of fact, we estimated it somewhat differently from Mr. Finlayson and reached a different cost, but when I was up here at the Small Loans Committee Mr. Finlayson disagreed with the figures I quoted and went back and worked it out, so now I am quoting his figures to you.

Q. In any case you will agree that the borrower would pay, after deducting the interest on his deposit, $7.18 for the use of $112 for six months?—A. That is right.

Mr. GRAHAM: I doubt if that is correct. If he believes in a form of life insurance I assume he gets value in the premium on his life insurance.

The WITNESS: Definitely. I think the figures I have quoted prove that to you. We have received in death claims $155,000. As a result of that we have no doubt reduced the losses in the department.

Hon. Mr. HANSON: Is there not another compensating value? If he borrows $120 he gets the net amount and pays the creditor to whom he has been paying 8 or 10 per cent. He has a saving there.

The WITNESS: Correct.

Hon. Mr. HANSON: There is a compensating value?

The WITNESS: Yes.

By Mr. McGeer:

Q. There are one or two questions I would like to ask. Mr. Stewart, you gave us the average over a period of seven and a half years?—A. Yes.

Q. Was that when you set up your personal loan department?—A. That is from the date we set it up until the end of December, 1943.

Q. It was started in what year?—A. June, 1936.

Q. Could you give us a statement of the operations that year?—A. No, I am afraid I haven't got that figure with me.

Q. You can get it?—A. I could. I could give you the average.

Q. No, I do not want averages; I want a yearly statement. Those are available; you must have them; you have made your averages from them?—A. Yes.

Q. There would be no difficulty in our getting those; they must be prepared?—A. What kind of statement do you wish?

Q. The yearly figures upon which you base your averages.—A. With respect to loans made and the number of borrowers?

Q. And the operating costs and the operating profit?—A. Right.

Q. And I want a breakdown of your operating costs; we can get that?—A. Yes.

Q. I presume, as you have told us, that you set this up as an experimental department you have kept a pretty close record, and you have set up the basis upon which the operating costs are figured?—A. Yes.

Q. You can let us have the details of that?—A. Yes.

Q. I take it, Mr. Stewart, that you will agree that the operating revenues of this department, like all other departments, are reflected in the general profit and loss statement?—A. The general profit and loss of the bank?

Q. Yes. The general profit and loss statement of the bank.—A. Yes.

Q. You do not find anything wrong with the profits the banks are making in 1943, do you?—A. No.

Q. As a matter of fact, you will agree with me that 1943 has been probably one of the most profitable years in the history of the bank, before taxation—A. I do not know that my memory goes back far enough to answer such a question.

Q. Just take it as far back as your memory goes; your memory is good?—A. My memory is good, but the figures of the bank as a whole have not been available to me, except for the length of time I have been in the head office.

Q. How long is that?—A. Since 1934.

Q. That would be a decade. We will say it has been one of the best in that period of time?—A. I think that would be correct.

Q. How much profit do you say you made on the small loans?—A. $13,000 approximately.

Q. A year?—A. Yes.

Q. You are going to give us the figure you made in 1943? You have not got that with you to-day?—A. No.

Q. Let me draw your attention to a statement which was filed by the Minister of Finance in the House of Commons, or was presented to the House of Commons on May 2, 1944. That appears in our record at page 136, but it has not been given an exhibit number for our appendix. It does seem to me that document will probably be referred to and I suggest it be given an exhibit number. If you could let me have that number now we can start it from here. It appears at page 136 of the record.

The CHAIRMAN: The statement that the minister made in *Hansard.*

Mr. MCGEER: It appears in our record at page 136.

The CLERK: No. 22.

By Mr. McGeer:

Q. I take it, Mr. Stewart, the average earnings of all the banks in 1943 would be fairly representative of your earnings? I guess the Bank of Commerce was as successful as the rest of them?—A. Mr. Chairman, I came here to discuss personal loans; not the balance sheet of the bank.

Q. You are here to answer whatever questions this committee wants to put to you. This is a parliamentary committee and we are here on the authority of parliament.

The CHAIRMAN: If the witness says he does not know—

Mr. MCGEER: He did not say that at all. He said he was here to answer certain questions.

The CHAIRMAN: What is the question?

By Hon. Mr. Hanson:

Q. What was your answer?—A. What was the question?

By Mr. McGeer:

Q. The question was, I take it, the earnings of the Bank of Commerce would be fairly reflected by the average earnings of all the rest of the banks? —A. I am afraid I could not answer that question.

Q. Let me point out to you that the operating earnings of the banks were $144,500,000 and their operating expenses were $114,900,000. That left a net operating revenue of $29,600,000, $9,600,000 of which was paid out in dividends and the remainder of $20,000,000 was set aside for losses on loans, investments and other assets and for other contingencies, so that after paying taxes, operating expenses, and providing for all contingencies, including the hidden reserve, there was this $20,000,000 available?

Hon. Mr. ILSLEY: No, no.

The CHAIRMAN: Mr. Minister!

Hon. Mr. ILSLEY: Well, I am not answering.

By Mr. McGeer:

Q. You say that was not available?—A. As it says in here it was "available for losses on loans, investments and other assets and for other contingencies."

Q. Contingencies would be operating expenses that were not profitable?—A. No, I should think your operating expenses would probably bring that in there.

Q. Taking all the bad years of the depression, if you will just look at that figure, number 13, net amount of current operating earnings available for losses on loans, investments and other assets and for other contingencies, $12,800,000, that left roughly $8,000,000 more than was required over the average of all the bad years of the depression.—A. Yes.

Q. So it is reasonable to assume you would not need that.

Hon. Mr. ILSLEY: It is not the average of the bad years of the depression. It is fifteen years from 1929 to 1943.

Mr. MCGEER: It included all the bad years.

Hon. Mr. ILSLEY: You said the average of the bad years of the depression. There were some bad years and some good years.

By Mr. McGeer:

Q. What were your average operating expenses for your small loans since you started?—A. I can give you the average per annum—$522,000.

Q. $522,000 a year?—A. Yes.

Q. And your profits were how much?—A. $13,000.

By Mr. Noseworthy:

Q. Net?—A. Net.

By Mr. McGeer:

Q. Net. What were your gross profits?—A. Well, our gross income was $535,000.

Q. Your gross income was $535,000?—A. And our expenses were $522,000.

Q. $522,000?—A. Yes; leaving a profit of $13,000.

Q. On that average statement, you have quite a sufficient profit to still pay your dividends and pay your reserves without adding any additional cost to the small loans, have you not?—A. Would you say that again, please?

Q. I say that on the profits that you are making, not including the hidden reserves, on the average statements here you have ample profit to pay your dividends and make provision for all your contingencies, without increasing the rate of interest on the small loans and still carry on a profitable operation in the bank?—A. In other words, you say that we will discriminate and give some people low rates because other people are paying higher rates?

Q. Yes. You can put it that way if you want to. You take the bitter with the sweet.

Hon. Mr. Hanson: Mr. Chairman, it is now 1 o'clock and I assume you are going to adjourn.

The Chairman: Shall we adjourn until tomorrow morning?

Hon. Mr. Hanson: Before we adjourn, may I say that Mr. Wedd was going to supply a memorandum on the question of this reserve which I prefer to call an insurance reserve. May we have that? Or may we expect that before the Minister arrives at his decision?

Mr. Wedd: It is not completed yet.

Hon. Mr. Hanson: I should like to have that before the Minister makes his decision, because I think it might affect his decision. I should like to call the Minister's attention to the reasons assigned by Mr. Morris W. Wilson, in his evidence before the Banking and Commerce committee in 1934 at pages 433 and 434, for these insurance reserves.

The Chairman: May I ask Mr. Wedd when we may expect that statement?

Hon. Mr. Hanson: It is not ready yet.

Mr. Wedd: It may be several days before it is ready.

The Chairman: Is it the pleasure of the committee to adjourn until tomorrow morning?

Some Hon. Members: Yes.

The committee adjourned at 1.05 p.m. to meet again on Thursday, June 1, at 11 a.m.

June 1, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The Chairman: Gentlemen, is it your pleasure that we proceed with the examination of Mr. Stewart for the first hour, and then give the second hour to Mr. Blackmore who has very kindly given way to a number of members? Mr. Blackmore desires to examine the Governor of the Bank of Canada. I have already spoken to Dr. Clark, who assures me that the Governor of the Bank will be here for examination in the second hour. If that meets with your approval, I will call on Mr. Stewart.

Mr. McGeer: Before we proceed, Mr. Chairman, I understood that we were to have a statement from the Minister on the question of hidden reserves. I understood you to say, Mr. Minister, that you would make that statement either to-day or yesterday.

Hon. Mr. Ilsley: Yes, I did say that, but I am not in a position to make it to-day. This statement will be a comprehensive and fairly lengthy statement of the considerations affecting the matter, and my conclusions and reasons for them. I have to have a little more time. I cannot make that statement to-day. I have put an enormous amount of time on it already, but I must have a little more. I am very sorry that I have to ask for this delay, because I certainly intended to make the statement either Wednesday or Thursday, but I am not in a position to do it.

Mr. McGEER: I appreciate the difficulties of the situation, Mr. Chairman, and I also appreciate the importance of it. I quite agree that it should be a full and comprehensive statement. However, I understood that it was to be made to-day.

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: I am very glad to co-operate with the Minister in extending to him whatever time is necessary, without any criticism.

The CHAIRMAN: Then we will call Mr. Stewart.

Mr. GRAHAM: Mr. Chairman, before we proceed with the ordinary business of the committee, I have a suggestion to make which I think would add to the peace and harmony of the deliberations of the committee, particularly during the hot months or hot weeks that lie ahead. It is that you might be kind enough to arrange with the clerk to see that pitchers of water are placed on the desks of the committee.

Mr. JAMES STEWART, Assistant General Manager, Canadian Bank of Commerce, recalled.

The CHAIRMAN: Who desires the floor?

Mr. GRAHAM: I have a question or two that I wish to put to Mr. Stewart. We have not had the opportunity of having the transcript of yesterday's evidence and I was not able, therefore, to get from that the information in which I am interested, although it may have been given to the committee yesterday. I have reference to the question of the charges that the Canadian Bank of Commerce has made on past due personal loans.

By Mr. Graham:

Q. Would you tell me again the penalty for being in arrears in making the deposits that will eventually pay off the personal loan?—A. There are no penalties up to the first eight days. After that the penalty is at the rate of 5 cents per dollar of the deposit in default.

Q. Five cents for each dollar that is on deposit in the account?—A. No. Each dollar of the deposit due that is in default.

Q. Oh, I see. Let us consider that. If the personal borrower happened to make the delayed deposit the next day, he would, of course, be paying a very large rate of interest on the default?—A. Yes.

Q. Would you give to the committee your reasons for thinking that is necessary?—A. The reason for that is the fact that the cost of following up the delinquents, so-called, is very great indeed. A study has been made of that, and the income is actually less than the cost of following those up. If we did not assess those late penalties, then we would require, I should think in some way or another, to charge additional moneys to those who could keep up their payments. In other words, we are making a charge to those who are causing the cost.

Q. That is, making those who do keep their deposits promptly made share in the cost of the delinquents?—A. No, just the opposite. The man who keeps his payments up to date bears no part of the cost at all.

Q. That is my point. If you did not do what you are doing you would be making the one who made his deposit promptly share the cost of collecting from those who are in arrears?—A. Yes.

Q. Yes. Most of the borrowers would be men who are paid monthly or bi-monthly.—A. Or weekly.

Q. Or weekly?—A. Yes.

Q. I suppose the majority would be paid bi-monthly?—A. I could not be sure of that.

Q. No. I am just wondering, because I have this in mind. If perchance the delinquent were honest but faced with difficulties in his own household finances due to sickness perhaps or some other unexpected emergency, if he passes his pay day in making that deposit it is not likely that he would be in a position to make up the arrears until the next pay day. That is reasonable, is it not?—A. That is a possibility. But I should say that those charges are not mandatory. Where there are good and sufficient reasons given for being late, they are waived and waived very frequently.

Q. You do exercise the right to waive them?—A. Yes. They are waived very frequently.

Q. Here is my suggestion. I think that we might consider seeing to it that the period of grace is lengthened a little beyond the eight-day period that you mentioned. I do not think that if it were extended to, let us say, fifteen days or even thirty days, it would harm the purpose which we are seeking to achieve. —A. I am afraid I would not agree with you.

Q. Why?—A. Because of the fact that the longer you allow a man to go past due, the more difficult it is for him to catch up. In other words, if we allowed too long a period to elapse, I am afraid we would be doing the borrower more harm than good.

Q. I agree.—A. In so far as the bank is concerned, I do not think we would particularly object. But I do not think we would be doing the borrower any good.

Q. No. I would agree with you if it were extended beyond the next pay day; but I think that each borrower should have that period of grace as between pay days, whether it is weekly, bi-monthly or monthly. However, I just wanted to explore that.—A. While the subject is being discussed, Mr. Chairman, may I be permitted to make a suggestion to the committee?

The CHAIRMAN: Yes.

The WITNESS: It is this. In the consideration of this section, if it is decided to go through with it, it would be well to consider whether or not you would permit late penalties to be charged. If you did not, then I am afraid you would be hurting the person who keeps his payments up to date.

By Mr. McNevin:

Q. I just have one or two questions at the moment. Yesterday we discussed the difference between bank discount and bank interest. Of course, that is a broad question that covers the whole field of banking. But with respect to this particular type of loan what, in your opinion, would be the difference from the banks' point of view?—A. Well, from the banks' point of view, it would probably be somewhat more costly if it were expressed as an interest rate, in that the calculations on these numerous loans would require to be made each month. But on the other hand, speaking for the Canadian Bank of Commerce, it would make no difference to us whether it was expressed as an interest rate of 9-3/4 per cent or as a fraction of 1 per cent per month or on the basis of a discount; although actually to express it as an interest charge would be slightly more costly in bookkeeping.

By Hon. Mr. Hanson:

Q. May I ask a few questions. I think you told us yesterday that Mr. Finlayson had reckoned that the cost to the borrower of a specific loan, I believe of $120, was 11·781 per cent?—A. Yes.

Q. You do not agree with that figure, I believe?—A. I did not when it first came up.

Q. No. Do you disagree now?—A. No. As a matter of fact, Mr. Finlayson I think came back to the committee later to give his figures, and my arithmetic was not so good. I could not make it out, and I wrote and asked him for his figures.

Q. He is an actuary and you are not?—A. Yes.

Q. Neither am I.—A. I got his formula which I have here.

Q. And do you agree with it?—A. Yes.

Q. Then we may accept that as a correct figure of the cost to the borrower of a loan of $120, in the comparison you have described.

Mr. McGeer: Let us have that.

By Hon. Mr. Hanson:

Q. To me that seems pretty large.—A. Yes.

Q. I should not like to have to pay 12 per cent on money which I have borrowed from the bank, and I would not pay it. But a man in that position either has to go without or pay it. Now I want to ask you, first of all, what are the reasons alleged by the borrowers for wanting these loans? Have you got that down in tabular form?—A. I could give you a table of it,

Q. I just want it in a general way.—A. As to the purpose?

Q. Yes.—A. For medical, dental and hospital bills, 17 per cent. I am giving the number of borrowers now. For the consolidation of debts, 25 per cent; for outstanding loan liquidation, 2 per cent; for taxes on real estate, mortgage interest, insurance premiums, etc., 8 per cent; travel and education, 6 per cent; home improvements, expenses, furnishings and equipment, 14 per cent; clothing, 3 per cent; motor cars, 6 per cent and miscellaneous, 16 per cent.

Q. None for income tax?—A. Well, that might come in under way of those headings.

Q. That is just by the way. But for those borrowers there were compensating benefits to offset the 11·781 per cent interest they had to pay?—A. Unquestionably.

Q. In the case of paying off loans, I think you said the figure was only 2 per cent?—A. No; the consolidation of debts, 25 per cent.

Q. Yes, the consolidation of debts; and debts upon which there might be an interest-bearing discount?—A. Yes.

Q. Then on cash purchases there would be a discount. Could you enumerate in a general way what the compensating benefits to the borrower would be, because after all it is the whole picture which we are concerned with, and you have to view it in its proper perspective to see the whole thing on both sides of the balance sheet, so to speak.—A. Well, of course, Mr. Hanson, the benefits to the borrower would vary very considerably.

Q. Of course they do.—A. And for that reason I am afraid I could not quite answer your question.

Q. Then you cannot give even a general statement?—A. No. I am afraid I cannot.

Q. I do suggest to you that there are compensating benefits accruing to the borrowers as against the cost of these loans.—A. That is unquestionably true.

Q. But you cannot evaluate those to me?—A. No.

Q. Well, that is all, then.

By Mr. Noseworthy:

Q. Does the witness not think that any person having recourse to this particular type of loan is just about forced for some reason or another to get access to money before he takes that loan? Because when you come to think of the compensating features, would you not agree that the individuals who go to the banks for these personal loans are up against it?—A. Largely so, I would think.

Q. They are just under obligation of some kind?—A. Yes.

Q. To pay 12 per cent on the loan or they would not do it.—A. That would be largely true, I think.

Q. There was a question raised yesterday as to whether or not the cost of making these loans should be spread over the entire banking business and levied against the larger type or the more ordinary type of loans. I think you made the remark or you asked if we would make one section of the community pay more for their money because some other section had no security.—A. I think I expressed it that it would be a case of discriminating against one in favour of another.

Q. Yes, discriminating against those who were in the more fortunate position of having security in favour of those who had not.

Mr. McGEER: "To him that hath" is the old doctrine.

By Mr. Noseworthy:

Q. May I ask is there any other section of the entire banking business that is segregated as this is?—A. No, not with us.

Q. You do not segregate the small, common, ordinary loan as against the loan of $1,000,000?—A. No.

Q. Or $500,000?—A. No.

Q. And I think you will agree that in the whole field of ordinary loans there are often instances where one class of borrower has to pay for the loss incurred by others?—A. Up to a point I suppose that is correct.

Q. Do you not think it would be logical to take a little further step and include this type in the whole field of bank loans? That is, you are segregating the one class of loan which is made to a class of people who are forced by circumstances to get these loans and they must bear the full cost of that business. You do not segregate any other part of your banking business and make it self-supporting?—A. The other parts are self-supporting, unquestionably.

Q. But there are individual loans that are not. There are losses incurred in many instances, and the cost of those losses is spread over the entire ordinary bank loaning business.—A. Yes.

Q. You would not consider including this unfortunate group of individuals who are forced to have recourse to these loans?—A. I think you have got to find out why they are unfortunate. They may not be as frugal as those others.

Q. I do not think you, from your experience, would say that was the chief reason.—A. Probably not. But there are those people in there.

Q. They are victims of circumstances in many instances.—A. In some instances, yes.

Q. In many instances, probably. That was where I thought your statement yesterday was rather unfair, when you insisted that there would be discrimination if the cost of these loans were spread over the whole banking business, because you have discriminated, or at least you do make large sections of the borrowers support losses in other fields of loans.—A. Oh, no, I would not say that at all. Each department, I should say, stands on its own feet; and the cost of borrowing money in the ordinary way, if you want to put up collateral security, is expressed in the particular rate that you get. In this case we have segregated the expenses and revenues of this department, and as I showed to you yesterday, on the turnover that we have the profit is infinitesmal.

Q. Yes; it is just peanuts for the banks?—A. Yes.

Q. The point I wanted to make clear is that this is the only section of your loaning business that you segregate and make to bear its own cost. You take all the rest of your banking business together?—A. Yes.

Q. And the loans are spread over the whole field?—A. Yes.

Q. And the losses over the whole field?—A. Yes.

By Mr. Perley:

Q. You gave us the type of borrower, setting out the different classes such as labourers, school teachers and so on. Did I understand you to say that there were not any loans of this character made to farmers?—A. None at all.

Q. None at all?—A. No.

Q. Then is it a fact that prior to 1935 or 1930 in western Canada your bank—and you can speak only for your bank—did not do business of this character with some of the farmers?—A. Not on this basis. The farmer, after all, is a man who has some stake in the community. He has a farm or assets of some kind, and as such is taken in as an ordinary borrower at a very much smaller rate of interest than the effective rate of interest used in the personal loan plan.

Mr. Fraser (*Northumberland, Ont.*): In other words, he is in business.

By Mr. Perley:

Q. There was no business where there was a discount at the time the loan was made?—A. I beg your pardon?

Q. There was no business of this character where there was a discount taken at the time the loan was made or interest added to the note, for instance, at the time the note was made?—A. Well, the farmer does not come within this scheme. In fact, there is no need for him being there.

Q. This system is not practised in the west at all?—A. No. A farmer gets his loan in the ordinary course of business.

Q. Did I understand you to say yesterday also that when your bank started this business you were a little uncertain whether there was authority for doing so?—A. No. We had no doubt about it.

Q. There was no authority?—A. We felt that the manner in which we were handling it was legal.

Q. It was legal?—A. Yes.

Q. Did you consult with the Minister of Finance with respect to that point? —A. Some member, I think it was the Minister of Finance at the time, was consulted.

Q. He was consulted?—A. Yes.

Q. And he said you would be legalized?—A. I do not know his answer.

Q. You were certain then that under the Act at that time it was legal to do business under that plan?—A. I had no doubt our position was quite legal.

Mr. Noseworthy: I wonder if I could ask a question of the Minister about that, Mr. Chairman.

The Chairman: Yes.

Mr. Noseworthy: I think the Minister indicated yesterday that it was his hope that, under the new amendment to the Act, other banks would take advantage of the revised Act to come into this type of business.

May I ask the minister on what he bases his opinion that with this amended Act the banks will take up this business at 2 per cent less than the Bank of Commerce has been handling the business under the Act as it stood? What reason is there to expect that the banks, which have not gone into this business when they could have charged say 11·7 per cent as the Bank of Commerce has been doing, in order to compete with the Bank of Commerce will go into the business when they are only permitted to get 9·7 or 9·75?

Hon. Mr. ILSLEY: The Bank of Commerce has intimated or stated they will adapt their charges to this scale, and if they do there is every reason to think, I think, that the other banks will do the same.

Mr. NOSEWORTHY: My point is, what makes you think that the other banks will do that when the interest rate is reduced 2 per cent, when they have not done it since 1936?

Hon. Mr. ILSLEY: As I say, the other banks for some reason have not gone into this business.

Mr. NOSEWORTHY: My question is why will they go into it now when the rate is reduced 2 per cent?

Hon. Mr. ILSLEY: I think we had better ask the bank managers what they will do.

Mr. NOSEWORTHY: It was you who expressed the hope that they would. You must have some reason for feeling that way.

Hon. Mr. ILSLEY: I did express the hope they will, and I think they will, but I think the way to get an answer that will be of any value is to ask the bank managers whether they will or not.

Mr. NOSEWORTHY: It is not by any chance that some of the other banks were doubtful about the legality of this business and will be reassured under the amended Act?

Hon. Mr. ILSLEY: I do not know about that.

Hon. Mr. HANSON: We cannot settle that here, anyway.

By Mr. McNevin:

Q. To clear up a point in my mind the Bank of Commerce pioneered in this field as far as the banks were concerned, and entered a field where the service was entirely being given by the small loan companies; that is, with that class of borrower the small loan companies had practically control of that business until your bank entered the field?—A. I cannot speak for the manner in which other banks do business. They may have been doing it themselves. As I said yesterday, we opened a separate department to handle it, and we hope we are getting most of the business, but I would not be sure about that until you ask the other banks.

Q. I mean in a large way? I assume there have been small instances, but in a broad picture— —A. In the broad picture we think we have.

Q. Because I think we have got to view it in the light of what this service was costing the borrower previously, up to 2 per cent per month. That is an important point to me. I am not particularly in favour of an 11·75 or 12 per cent rate of interest, but if we can devise some scheme that substantially lowers the cost of money to a large clientele of borrowers, then I am quite willing to give it plenty of chance to succeed.

By Mr. Jaques:

Q. Mr. Chairman, I think we were told that the losses through small loans were practically nil. Would Mr. Stewart explain briefly why in that case the rate of interest is double the usual rate on loans where losses are more than they are with the small loans?—A. Let me take your question in two parts. First you talk about the losses that have been suffered. I think it only right to point out to you we started this personal loan business during the depression, probably not at the depth but during the depression, and carried through during a period of rising employment. The result is that our losses have been low, and as long as that rising rate of employment is maintained I would expect they would continue to be low, but I do think that the possibility exists for higher losses in the future. On the other point, the question of why we charge a certain rate of interest which is higher for this class of loan than another, it is entirely based on cost.

Q. You mean administration cost?—A. On the cost of operation, yes.

By the Chairman:

Q. Mr. Stewart, may I interrupt? Are we not using the word "interest" rather loosely? What is your breakdown? For instance, costs of investigation are hardly interest?—A. No, that is not interest, but that was considered by Mr. Finlayson as interest when he figured his 11·782 per cent.

Q. I would not use the word "interest" in that way. May I just ask if you have any breakdown that will show us the relative cost of investigation of these loans? How much of that 11·7 per cent, is it?

Hon. Mr. HANSON: 11·78.

By the Chairman:

Q. How much of that is devoted to investigation?—A. 50 cents.

By Mr. Noseworthy:

Q. Fifty cents?—A. Fifty cents per $100—no, 50 cents on $120.

By the Chairman:

Q. What is the proportion of the 11·8 per cent, or whatever it is?—A. I could not give you that figure.

By Mr. Graham:

Q. Mr. Stewart, yesterday you gave us a breakdown into vocations of those who made use of the Bank of Commerce facilities in personal loans. Could you give us a breakdown by provinces of the loans made by your bank in that period?—A. I do not believe I have that here. It is easily had, but I am sure I have not got it here.

Q. Would you be kind enough to do that?—A. I would be glad to do that.

Q. Now, I notice in your list of offices handling this particular department of work there is no office in the province of Saskatchewan?—A. No.

Q. Do you not think that the province of Saskatchewan has sufficient industrial life to warrant the Canadian Bank of Commerce with its many branches in that province opening up facilities of that particular type?—A. As I said our departments were divided roughly in the manner in which the country can be divided. For instance, we have only one office in the maritime provinces and one for the two central western provinces and one in each of the other provinces.

Q. I assume your branches in Saskatchewan send their applications to Winnipeg or Calgary?—A. To Winnipeg.

Q. There is one other point that I should like you, if you can, to assist this committee on. I have raised the point, and Mr. Cleaver brought it up quite clearly yesterday, that there will be a fear in our minds that by passing this amendment to the Bank Act we will be giving an opportunity to the banks on occasion to include in this particular type of loan persons whom the Bank Act does not envision should be included. My question is this, in the light of your experience, and from an analysis of those using the facilities of the Bank of Commerce for personal loans, does that experience permit you to describe in a sufficiently concrete form the type of borrower to whom we could limit this particular power which is being given to the banks?—A. No, I should say not, but I am very glad you brought up one point, because I think it proper I should clear any misconception which might have arisen because of my reply to Mr.

[Mr. James Stewart.]

Cleaver yesterday when he mentioned $33,000,000 possibly going into the personal loan department. That $33,000,000, of course, included a great many—in fact, the bulk of those loans would be actually secured, and consequently would not be permissible under the section as it is written into this bill to come under the personal loan plan. So that I want to make it clear that $33,000,000 could never get into the personal loan department. A few might.

Q. I agree with you, since actions speak louder than words and inasmuch as in the seven and a half years you have been operating you say you have made many loans of the amounts that would come under the amendment, or might reasonably be expected to come under the amendment, that your bank, at least, in that period have not abused the principle that we are discussing, but I believe you will find in the committee a great desire to make it clear that the abuse should not occur. That is our duty in giving statutory powers, to appraise any eventuality and try to guard against it.—A. We are all human, and knowing human frailty we set up a system to, as far as possible, overcome any desire on the part of our managers to get that higher rate.

Q. That is the Canadian Bank of Commerce. We now propose to give power to every chartered bank, and some may not be moved by that high practice that you have pursued. I am asking you if you can assist the committee—probably take a day to undertake the task—and think out some safeguards that would specify so that the new powers would not be abused. Do you think that possibly by either a definition of those to whom loans can be made, or by a system of reporting to the inspector general and power being given to him to pass judgment on the use or misuse, that that method would protect against that fear we have in our minds that at some time in the future some bank might abuse the power?—A. At the moment I could not think of any way in which it could be written into the section.

Q. I would be glad if you would consider it before you leave the witness box, if you are able to help us.

Hon. Mr. Ilsley: I was just going to say that I think the same thing. It is very important to work out some safeguard if we can.

The Witness: Decidedly.

Hon. Mr. Ilsley: And would it be practicable to put into legislative form a requirement that the practice you follow must be followed by all banks?

The Witness: I would not want to be the one to dictate to the other banks the routine they are going to operate on.

Mr. Noseworthy: I was going to say I think Mr. Graham made a real point there, that there is grave danger that the banks getting this general authority may use it to divert loans that might otherwise go into the ordinary loan class into these personal loans. I think I should say this. I represent an industrial area, and I think probably if there were a breakdown by constituencies Mr. Stewart would find there are as many of these personal loans made from the Toronto suburban areas as from any other part of Canada. I know there are a great many of these personal loans made.

The Witness: On that point, Mr. Noseworthy, the bulk of the loans are made from industrial areas. Practically no loans of this description are made in the country points because our managers know the people much better at the country points than they do in the cities. Consequently the rural resident has probably got much more favourable treatment than the city man.

By Mr. Noseworthy:

Q. What I was going to say is I represent an industrial area, and I have known personally a very large number of people who take advantage, or are forced to take advantage of these personal loans. I think I can say this for the Bank of Commerce that I have yet to have called to my attention a single instance where a man who could provide any security has been induced to take a personal loan. I have met numbers of people who have informed me that they have gone to the Bank of Commerce to get a personal loan but they have been put to a good deal of inconvenience by the local manager to try to get security of some kind that would serve as backing for an ordinary loan. They secured money through the ordinary medium. I think the safeguards that the Canadian Bank of Commerce have set up have worked satisfactorily in that way from my own knowledge of what has happened in the Toronto suburban area. I would say that the safeguard has been effective.—A. I would say this much, and I am speaking for all the banks, that we may fight amongst ourselves but I assure you gentlemen that there is no business in this country carried on on a higher ethical plane than the banks treat the public of this country.

By Mr. Fraser (Northumberland, Ont.):

Q. I should like to ask the witness if the policy was changed from the discount policy to the interest policy would the cost to the borrower be any less?—A. The cost to the borrower—no.

Q. It would not be any less?—A. No, the cost to the lender would be greater, but the interest rate need not necessarily be higher unless you gentlemen want to increase it in here which you should if you are going to put it on an interest basis.

Q. There has been considerable discussion in connection with the advantage or disadvantage of the discount system as against the interest system.

Hon. Mr. HANSON: He says it would cost more to handle.

By Mr. Fraser (Northumberland, Ont.):

Q. What I am trying to get at is this, that if the policy were changed to the interest principle the cost to the bank would be greater from a bookkeeping standpoint, according to the evidence you have given, and therefore if that change were made the bank would have to increase the rate slightly to take care of that?—A. If parliament would permit it.

Q. The only point that I want to get clear is that the cost under the discount system is not any greater ultimately to the borrower than the interest system would be? In other words, what difference would there be to the borrower if you discarded the discount system and applied the interest maturity system?

Mr. NOSEWORTHY: He would know he was paying $9\frac{3}{4}$ per cent.

The WITNESS: He would know he was paying $9\frac{3}{4}$ per cent.

Mr. NOSEWORTHY: He would not if he was getting it for 6 per cent.

The WITNESS: In dollars and cents there would be no difference.

By Mr. Fraser (Northumberland, Ont.):

Q. There would be no difference?—A. No.

Q. Then, may I ask the witness this question. There has been some discussion in connection with the ordinary small loans and these personal loans. From a banker's viewpoint would you rather lend these small loans as ordinary loans or as personal loans?—A. We would prefer to lend in the ordinary course of business.

Q. In the ordinary course of business?—A. It is less expensive and it is much less trouble.

Q. But the Bank of Commerce seven years ago adopted the policy of setting up this personal loan department?—A. Yes.

Q. And being pioneers in the field they have had to do a great deal of educational work?—A. Yes.

[Mr. James Stewart.]

Q. Not only from the standpoint of their own inquiries but educational work with a class of borrower who is not ordinarily acquainted with the business methods of a bank, so that you are supplying or furnishing a service, not only in providing an avenue for these small loans, but also you are providing a very material educational service?

Hon. Mr. HANSON: Charge it up to advertising.

Mr. FRASER (*Northumberland, Ont.*): Charge it up to advertising.

By Mr. Fraser (Northumberland, Ont.):

Q. Then, the next point is, as Mr. Noseworthy was trying to get the minister to answer, your competitive banks in the past seven years have not adopted this small loan policy.—A. I would not say small loan policy, no.

Q. Personal loan?—A. Not in the same manner we have whether they have or not you would require to ask them.

Q. Would that not be indicative of the fact they have not considered it profitable?—A. I do not know.

Q. You are a banker, a business man?—A. That they did not consider it proper?

Q. Profitable.—A. That may be so; I do not know.

Q. Is that not the obvious conclusion? You made a statement a few minutes ago that human nature enters into these things, and your profit motive still governs in this country. If it were profitable the banks would undoubtedly have gone into it; they would not have left the field to you?—A. I would rather you asked the other banks that question.

Q. Is not that a reasonable deduction?—A. There might be a variety of considerations I would not think of. It might be a reasonable deduction.

Q. The $13,000 profit you have made was not particularly enticing to the other banks?—A. No.

By Mr. McGeer:

Q. Mr. Chairman, I asked some questions at the last sitting of the committee and the witness was to give us a statement of the figures upon which he had made up his averages?—A. I have those figures. I got them over the telephone this morning, Mr. Slaght—

Q. My name is not Slaght.—A. Mr. McGeer, rather. Unfortunately, I must have taken them down wrongly because they do not quite balance, so I shall have to call back.

Q. At the same time when you prepare this would you mind doing this for us: I understand that you had worked out in your own estimation when you started the small loan business a basis upon which you came or thought you came within section 91 of the Act. That section reads—I should like to put it on the record now:—

> The bank shall not in any part of Canada, excepting the Territories, stipulate for, charge, take, reserve or exact any rate of interest or discount exceeding seven per centum per annum and no higher rate of interest or discount shall be recoverable by the bank, and every bank which violates the provisions of this subsection shall be guilty of an offence, . . . and so on.

Did I understand you to say that you thought you were within the provisions of this section when you inaugurated the small loans business?—A. Yes.

Q. And would you mind preparing a formula on a loan of whatever figure you care to use and give us a statement showing how you came within the provisions of this section, in your own estimation?—A. I can tell you that in a minute.

Q. I understand you to say that Mr. Finlayson prepared another statement?—A. Yes. I do not agree that there is such a thing as an effective rate in so far as the system used by the Canadian Bank of Commerce is concerned.

Q. What I would like to have prepared is the details of the statement which you employ and the details of the statement employed by Mr. Finlayson.

Hon. Mr. HANSON: The breakdown?

Mr. MCGEER: Yes. Can you prepare that at the same time you are preparing the average figures?

The WITNESS: Yes.

Mr. MCGEER: It is rather intriguing to think that a man with your experience and of your nationality should have any need to have lessons in compilation of the rate of interest from Mr. Finlayson or anybody else.

The WITNESS: Of course, I left school a long time ago.

Mr. MCGEER: You have not left the school of interest very long.

Hon. Mr. HANSON: It all revolves upon what you mean by interest or discount.

Mr. MCGEER: If they are included in the prohibition of the Act, I presume that the difference will be found in what are the service charges or what are outside of interest or discount. However, when we get your formula we will know.

By Hon. Mr. Hanson:

Q. Do you know if, because of the effect of the operation of this system, the Canadian Bank of Commerce has cut into the small loan companies, or what I call the loan sharks; has it decreased their business? Has it made it easier for small borrowers to obtain money at lower rates of interest than they have to pay to these other corporations?—A. I never checked on the figures of the other loan companies to see their business.

Q. There is the report of the superintendent to show that?—A. Yes.

By Mr. Noseworthy:

Q. Mr. Chairman, it is nearly 12 o'clock, but I wonder if the witness could put on the record the amount of business that his bank did in the personal loan field in 1943. He did not have those figures yesterday.—A. I have that—I have the figures as far as we are concerned and they are 47,292 loans made for a total of $8,121,000.

Q. You gave us the profits, the average profits for seven and one-half years; could you give us the profits for 1943?—A. My figures may be out slightly, I think, because as I told Mr. McGeer I got them over the telephone.

Mr. MCGEER: That will be included in this statement I asked to have filed. If we have it together we will have all the years.

By Mr. Noseworthy:

Q. That statement will show the profit for each year?—A. Yes.

Q. I think we should have—I suppose this is public information somewhere—the amount of this type of business that was done in 1943 by the small loan companies.

Mr. MCGEER: We will get that from Mr. Finlayson; he is coming before us.

By Mr. McGeer:

Q. Would it be much trouble to get something similar to those figures you gave us this morning segregating the type of loans, for medical services and so on—would it be much of a job to put those general amounts for those categories that you named this morning year by year into the picture?—A. Year by year?

I could give you them in the aggregate, otherwise it would be a lot of work, and I am afraid it would not lead you anywhere. The figures would give you all you need.

Q. In addition to banking and commerce we have now before parliament a very sweeping program of social services. I am rather interested in the figure you mentioned of borrowings for medical services.—A. I can give you the total for the seven and a half years.

Q. Could you give us the medical services as they grew over the seven and a half years?—A. Yes.

Q. If we could have that, that is one figure I would like to have.

By Mr. Ryan:

Q. When you decided seven and a half years ago to open this special department to look after personal and small loans you did that for the purpose of improving your facilities and giving service to the borrowers?—A. Yes.

Q. And in the interest also of your bank in the manner in which you handle bookkeeping and so on?—A. We were looking for the publicity and collateral business we would get from it. We wanted to get closer to the people.

Q. At that time you found that this system of loaning money—this plan—was increasing and you believed that in the future it would increase?—A. We hoped that would be the case.

Q. Now, in regard to discount or interest charge on those loans, do you think it might be possible to keep the interest rate within the limits as set out in section 91, and that you would hand over the face value of the note to the borrower?—A. If you wish to express in that section that the interest rate will be 9¾ per cent or something like that.

Q. Because, as it is proven here, it is known that men that go to you for a loan of this kind really need the money and they need the money mostly when they make the loan; therefore, if they could get the face value of the note I think it would be quite a help, and they would pay it back on what we call the instalment plan, as your system is—the instalment plan of paying it back by monthly payments. I think that would be a great help and would do away with this question of discounts.

The CHAIRMAN: Mr. Blackmore, the Governor of the Bank of Canada is here.

Mr. MCGEER: Mr. Chairman, in acceding to this procedure I may say I wrote a letter in accordance with our steering committee program and suggested that I would like an opportunity of examining Mr. Towers when he came on again. I am perfectly willing to accede to Mr. Blackmore's precedence this morning, but I do not want it to shut me out from following Mr. Blackmore because I would like to examine the governor of the bank and have that examination in dealing with the 1943 statement as continued as we can have it.

The CHAIRMAN: It is a matter for the committee.

Mr. MCGEER: I am asking for a ruling from yourself.

The CHAIRMAN: I cannot give a ruling until the time comes. When the time comes—

Mr. MCGEER: Will you please hear my proposal?

The CHAIRMAN: Will you please take my answer?

Mr. MCGEER: No, I want you to hear my proposal.

Hon. Mr. HANSON: Ask him to sit down.

Mr. MCGEER: I asked you to hear my proposal.

The CHAIRMAN: I did hear it.

Mr. MCGEER: I had not finished. You interrupted me.

The CHAIRMAN: Mr. Blackmore has the floor now.

Mr. McGeer: I want to place before the committee my understanding of the recommendation which was made to the committee that if anybody wished to examine a witness for a longer period than fifteen minutes in the second hour he should write to the chairman to that effect. Now, I did that, and I think you have my letter. I understood that when Mr. Towers returned I was to be permitted to examine him; but apparently Mr. Blackmore has written another letter.

Hon. Mr. Hanson: It is decided that we hear Mr. Blackmore.

Mr. McGeer: I did not hear the ruling.

The Chairman: May I speak now? You will notice that the resolution says "at the chairman's discretion", and I say that when the time comes I will give a ruling; but in the meantime Mr. Blackmore has the floor and the governor of the bank is on the stand, and I think we should proceed.

Graham F. Towers, Governor of the Bank of Canada, recalled.

By Mr. Blackmore:

Q. Mr. Chairman, I think it needs to be impressed upon all members of our committee and upon witnesses who appear before our committee that we are now in the Select Standing Committee on Banking and Commerce of the Canadian House of Commons; that our problem is not only to examine into the needs of banking but the needs of commerce as well. Probably banking can hardly be dissociated from commerce because it exercises a profound influence upon commerce. I think, perhaps, that the witness is just as fully aware of that fact as I am, and we approach our problem with full realization that such is the case. I think the witness will agree with me quite readily that we face several very serious problems in our generation, some of which are peculiar to our generation and others perhaps have continued from the past; but we to-day are faced with the very gravest unemployment problem as soon as the war is over. The danger of unemployment is almost instant; it is constantly imminent in the world, and I think this witness would agree with that?—A. Yes.

Q. And also that we face a very grievous debt problem?—A. No, I do not agree with that.

Q. I thought the witness pointed that out quite definitely in his own report of the Bank of Canada?—A. I pointed out to the best of my ability that our debt situation was such that unless we allowed our affairs to deteriorate in a terrific way we should be able to solve the problem of distribution which is involved in a large domestic debt.

Q. But if through any causes our economy should deteriorate immediately our debt problem would become a most serious one?—A. If the national income declined to some horrible figure like $3,000,000,000 per annum then the problem of distribution of the interest costs would certainly be an embarrassing one.

Q. Probably if the income fell to a point at which it was 50 per cent of the debt that would bring on a serious situation, would it not?—A. I think it is hard to take an exact figure. Perhaps in this case I should not have mentioned $3,000,000,000 at all, but that is obviously so extremely low that it was reasonable to mention it, I thought.

Q. Eminent economists have suggested, however, that it might be possible for the economy to carry a debt twice as great as its national income?—A. I do not know who the eminent economists are, there are so few in the world. I think a statement like that is a very loose one. The distribution of the debt is also a very important factor.

Q. I suppose the witness would not care to indicate just how many times greater the debt could be than the national income even in a general sort of way?—A. There is no one who can indicate that successfully.

Q. I think the witness will agree that we also face a situation of inequitable prices in the Dominion of Canada. He will grant that the price of primary products such as wheat prior to the war had fallen very low in relation to the price of manufactured products which tended to put our primary producers at a serious disadvantage when they came to go into the markets of Canada to buy manufactured goods?—A. There was obviously a period during which the prices of the type of products you have in mind were low in relation to other things; but I have not come here equipped to-day, as you can imagine, Mr. Blackmore, to deal fully with the vexed question of parity prices.

Q. However, all we need to do is recognize that the vexed question does exist?—A. That it has at times existed; whether it exists to-day is, of course, quite another matter.

Q. During war times of course: but our danger is that as soon as peace is declared we may revert to conditions somewhat similar to those which obtained before the war started.—A. That I do not know.

Q. Nobody knows, but past experience leads one to suspect. Now, we also face the difficulty of inadequate markets; that is, probably for generations it has been impossible for Canadian producers to sell any substantial amount of their products to the Canadian consumer but at the same time—I do not wish to confuse the question—at the same time it has probably never been the case that the Canadian consumer as a whole could buy as much of Canadian production as we all would have desired that he should have been able to buy?—A. In other words, there has never been a time when it would not have been desirable to see a higher general standard of living.

Q. And the productive capacity of Canada was such as to justify and enable that standard of living if the people could have got the money with which to buy the goods?—A. That is a long story, Mr. Blackmore. I think that the hope—not the hope, but the thought—that the annual income of individuals could be trebled or quadrupled or more very readily under any system which one could envisage is very optimistic. I think that in addition to the purchasing power which you mentioned a great deal is required in the way of capital development, improvement of production, research, and so on and so forth, to produce very substantial increases in the general standards of living.

Q. It is a fact, notwithstanding, that during pre-war years a large percentage of the Canadian productive capacity was idle?—A. Yes.

Q. Which indicates that had the purchasing power been in the hands of the people of Canada the productive plant was sufficient to have met the demands of the Canadian people in purchasing?—A. In larger quantities than were actually going into the hands of the people at that time, yes.

Q. That is what I desire to establish. I have not suggested that we should treble or quadruple our national income, but we could have increased it?—A. Yes.

Q. And the reason why we did not increase it was that for one reason or another we were unable to get the money into the people's hands?—A. We were unable to provide employment.

Q. Which means about the same thing, does it not?—A. In sufficient volume.

Q. But for those who were employed we were unable to provide sufficiently high wages—at least we did not do it as an economy?—A. The wages were presumably in quite large measure the by-product of productivity in business. I think, perhaps, it would be better to say that the general degree of prosperity and activity did not enable the payment of as high wages as we see to-day.

Q. In other words, the wage standard which we maintained in Canada did not depend on the capacity of Canadian industry to produce goods?—A. It depended on employment and on the demand for goods; on the general activity and profitability of business.

By Hon. Mr. Hanson:

Q. Do you not agree that our wage standard was the second highest in the world and is to-day?—A. I believe that is so.

By Mr. Blackmore:

Q. You would rather expect that, considering the tremendous wealth of Canada, would you not?—A. Wealth is a very uncertain term, Mr. Blackmore. I find it is very hard to add up a country's wealth in figures.

Q. That is true. But I am speaking of wealth as considered in terms of capacity to produce foods such as wheat and wheat products, vegetables and vegetable products.—A. We have great capacity.

Q. Exactly so. The fact is that we can produce food, clothing, shelter, amusement and a great many other things for a very high standard of living for the Canadian people.—A. Yes.

Q. We find one other serious problem which we might as well recognize at the beginning, and that is that for some reason or other the way we have been doing in Canada and in connection with other nations, has precipitated the world into wars from time to time.—A. I have had to say that I did not come prepared to discuss parity prices. I do not feel that I am the best witness on human nature either.

Q. Exactly so. But there may be great underlying causes. I do not wish to discuss those. I just wish to name them.—A. Yes.

Q. As evidence of the solemnity of the occasion on which we are meeting together.—A. Yes. I would add this, that I do not believe that Hitler was produced by economic causes.

Hon. Mr. HANSON: Hear, hear!

Mr. BLACKMORE: There are those who would disagree with you, though I may not necessarily be among them.

The WITNESS: I think he had his opportunity, in part, due to them.

Mr. BLACKMORE: Perhaps. But I think that is a conservative and most warning statement. His opportunity was presented to him by some sort of mismanagement among the nations and our own nation was participating among those who mismanaged affairs. You yourself, in a report, Mr. Towers, which Mr. McGeer has praised very highly and with complete justification, pointed out wisely some of the difficulties that we are faced with. On page 13 of your report, for example, you point out the seriousness of our debt situation; you do that in very moderate terms, it is true, but you warn us regarding our debt accumulation.

The WITNESS: Yes.

Mr. BLACKMORE: And you point out that the key to our being able to deal with this situation lies in our ability to maintain a high level of employment and income, which is completely sound.

The WITNESS: Yes.

Mr. BLACKMORE: And it certainly poses for the men of this generation the serious question as to how we can maintain employment and how we can maintain income in this Canada of ours. You point out on pages 11 and 12 that we have a great number of potential workers, and that we are going to have large production; you also point out that this will require vastly increased consumption and vastly increased capital development in order to enable our people to absorb or consume the production which our productive enterprises will be capable of bringing into existence. All of this I commend you for. Now you also point out that the problem must be solved. That is not in your report on the Bank of Canada, but in the very fine statement which you gave to this committee as recorded on page 84 of the proceedings of the committee. May I read to you the words which you used on that occasion:

> It seems to me that there is a tendency to talk too glibly about full employment and that too much reliance is placed on the hope that this desirable objective will be reached automatically through the release of pent-up demands after the war. It is often said that because it has been possible to obtain full employment during the war, it should be just as possible and just as easy to do the same in peace time.

I commend you for those words. Unfortunately, you have not had the opportunity before the committee to enlarge or elaborate on what was in you mind as you wrote the second sentence. We would have been greatly benefited had you told us, or had the opportunity to tell us just why it would be impossible for us to maintain as high a standard of employment in peace time as in war time. May I suggest—and I believe you did suggest that at a later time in your evidence—that one of the main reasons why we are to-day able to maintain a high level of employment, apart from the fact that we have many of our people engaged, of course, in the production of munitions, many of them engaged in fighting activities, is that markets are readily supplied. Mr. Chairman, there is a disturbance in the committee which is making it very difficult for us to concentrate.

The CHAIRMAN: Gentlemen, I wish you would please give attention.

Mr. BLACKMORE: It seems to me if members do not wish to listen, they might leave.

Hon. Mr. HANSON: Oh, proceed. You are doing all right.

The CHAIRMAN: I must confess I had not noticed any inattention.

Mr. BLACKMORE: I have noticed it.

The CHAIRMAN: I thought you were carrying the interest of the committee.

Mr. BLACKMORE: I was just anxious that the disturbance would not increase.

The CHAIRMAN: Mr. Blackmore is asking for attention.

By Mr. Blackmore:

Q. One of the main reasons why we are able to maintain a high level of employment, apart from the great number of our people who are absorbed in military activities and in munitions manufacture is the fact that so large a percentage of the products of our industry has found a ready market at remunerative prices. Our government and other governments are buying those products as soon as they are ready and giving them away to the enemy, in effect.—A. Yes. Incidentally, in this statement which is on the record of the committee, I did not say that I did not believe as high a standard of living and employment could be maintained in peace time as was the case in war time, but rather that it was much harder to do.

Q. That is right. That is correct. I merely read your statement but did not interpret it at all.—A. Yes.

Mr. GRAY: You did not finish it.

Mr. BLACKMORE: I think I finished it.

Mr. GRAY: Not if what Mr. Towers has just now said is correct.

By Mr. Blackmore:

Q. I just suggested that one of the main reasons why we are able to maintain a high level of employment is that we have a ready market for the product of our activities.—A. The state is the main buyer and is buying enormous quantities of things; many of them are not for use but for destruction.

Q. And, in effect, is giving them away?—A. And, in effect, is giving them away to the enemy, as you suggest.

Q. Also the state is distributing large sums of money in the form of pay to soldiers and soldiers' dependants, which is also helping to absorb the production of our industry?—A. Yes.

Q. Those two matters are exceedingly important. Now may I turn from this general aspect of the question to a discussion of the question of the creation of money. I think I raised the question as to whether or not we were using the right words in the expression "the creating of money." I notice in this committee all the witnesses are very cautious to tell us that the banks loan "the proceeds of their deposits." May I clarify this thing just a little, with your assistance, Mr. Towers. I read from The Canadian Banking System by James Holladay, page 140, which I will send up to you so that you can follow me as I read. It is the last paragraph on the page. I read the following words:

> The Bank Act of 1934, however, sets up a specific quantitative reserve which the chartered banks are required to hold against their deposit liabilities. In form, this reserve must consist of a deposit in and notes of the Bank of Canada. In amount, it must be equal to 5 per cent of the deposit liabilities in Canada. As a result, the chartered banks as a group can legally create deposits amounting to $20 on the basis of a one-dollar reserve. A much larger secondary expansion is made possible, however, for the Bank of Canada is required to hold only 25 per cent reserve against its liabilities, which in turn constitute the reserves of the chartered banks. Consequently, the Bank of Canada can expand a dollar into $4 of liabilities which, if borrowed by the chartered banks, will enable them to lend an aggregate of $80 against a primary deposit of one dollar. This compares with a possible legal expansion of $28.50 under the Federal Reserve system in vogue in the United States.

You would agree, Mr. Towers, that those statements are correct?—A. I am afraid that, casually read, they tend to be misleading. In 1939, as it may be remembered, when the question of limits of expansion came up, I did agree that our system was such and our actual position was such that a tremendous expansion could be achieved if it were necessary. Right now, with the provisions in regard to minimum reserves abrogated so far as the Bank of Canada is concerned, the possibilities are even greater. There is no hitch in that direction if expansion is desired. But coming back to the question of bank deposits, of course banks create deposits in the course of adding to their assets in the form of loans or securities. There has never been any question about that. But it is also true that their loans and securities will at all times be less than their deposits.

Q. The only matter which I think vitally interests the Canadian people at the present time is this, that the money in Canada is actually created by banks, every dollar of it.—A. No; in part by the Bank of Canada.

Q. I said "by banks"—A. Ah! That is obviously the case. It is almost like saying that the bucket is full of water because water fills the bucket. The banks, including the Central Bank, obviously are the source of the medium of exchange.

Q. Exactly.—A. In all countries and at all times.

Q. And consequently if Canada should find herself and her economy short of the medium of exchange, there is no reason why the banks should not provide that medium of exchange?—A. I would agree with that, yes; always with the recollection that what we have often been short of is goods, and money in itself is not wealth. If insufficiency of medium of exchange is impairing our productivity, if that is a stumbling block in the way of increasing our population, then I would certainly like to see the volume of medium of exchange increased.

[Mr. G. F. Towers.]

Q. At the same time we will recall that all during the depression we had over-production?—A. Under-consumption.

Q. Exactly, which means the same thing. In other words, the goods were already there, but for some reason which ought to be explained to the Canadian people, and ought to be made clear to this Banking and Commerce committee the medium of exchange was not forthcoming with which to use those goods?—A. The goods certainly did not come into being. If I may digress there I would say this, that I have not read all the works of Major Douglas, but of those I have read I find I would agree with approximately 95 per cent of what he says because 95 per cent roughly is devoted to saying that the results of the past have not been good, that there have been depressions, that there has been poverty in the midst of potential plenty. With all that I would agree, but with the last 5 per cent which presents the remedy, which suggests an extraordinarily easy way of solving all those problems, with that part I do not agree. So that I will join with you, Mr. Blackmore, and say with you that the past is bad.

Q. But the point we were discussing was not Major Douglas; we were discussing facts which are palpably obvious to anyone in Canada, namely——A. Naturally—if I may interrupt there—I realize that is what we were discussing. We were discussing the bad features of the past, but undoubtedly with the thought in our minds of reaching a solution. I wanted to make it clear that while I disagree with certain of the solutions proposed that does not mean that I believe that the past was good or that it is not capable of improvement.

Q. You see I suggested to the witness that where there were goods in abundance to distribute there should be no obstacle in the way in the Canadian banking system to providing money for medium of exchange with which to distribute those goods or consume them, and immediately the witness—did you wish to answer?—A. I would be very interested in knowing the means by which you would have in mind a banking system does that.

Q. Simply the fact that so far we have established—if we can accept this statement as true—that all the money in Canada is created by the banking system?—A. On the other hand, the banking system cannot create money to give away.

Q. That is very important. That is the most important statement you have made. I hoped to gain that as a result of a good deal of questioning. In other words, you have acknowledged that although the banks can loan money for production to put people into debt, both individually and collectively, they do not know anything at all about how to bring money into circulation to clear away debt?—A. They cannot give money away is, I think, a more concrete way of stating it.

Q. Then, all I wished to establish was this simple fact, that where we have the production it ought to be possible to find money with which to enable people to consume?—A. I think that the strees should always be laid on the physical program, and that the financial and fiscal program should fit into the larger one in an appropriate way, as it has, in fact, done during the war. The government has not given any money away during the war.

Q. Well, it surely has given away goods it bought with money? It collected money from us, it borrowed money from us?—A. The goods have been used for destruction in many cases, yes.

Q. Once the government got the money it was easy to get the goods, and it gave both the money and goods away?—A. Gave the money away?

Q. Undoubtedly; if the government puts money into a tank and then throws the tank away it is throwing money away?—A. It gives money to the people who produce the tank—not gives—it is paid the people who produce the tank.

Q. In effect it threw away the money though?—A. No, it threw away the tank.

Q. And in the tank was all the money. We will not argue on that point because it is a very incidental point, anyway.—A. I think there is confusion there between money and income, but that is a long story.

Q. Right. We have a good many things to cover but that is an important point that the banks cannot give money away. It is very important.

Hon. Mr. HANSON: Do not.

Mr. BLACKMORE: No, they cannot.

By Mr. Blackmore:

Q. Is that right, that the banks cannot give money away?—A. As a gift?

Q. Yes.—A. No; I should think there is probably a section in the Act which prohibits it.

Q. Let us turn to this question. In other words, if money must be supplied the people of Canada with which to consume the goods which Canadian industry can produce, and has proved itself able to produce, and was producing in abundance in 1929, if money has to be distributed to the people with which to buy these goods, in whatever form that money is distributed, whether as prices, as additional wages, or in any other form, if money has to be distributed that money must not come out of the banking system?—A. Mr. Blackmore, if I could get from you more concrete questions which cover the whole range then I think I could put down in black and white a statement which would endeavour, at least, to convey the answers. But to go from point to point and endeavour to struggle with what I believe to be misconceptions when they are not fully exposed does take up an awful lot of time, and I am sure detracts from the coherency of my answers.

Q. I can understand that, but the one point that is between you and me now is this; you seem to have the idea that more production has to come before money?—A. I wonder if we could go back to the war situation. I think we started off with the thought that there is a risk of unemployment in the post-war period. We want to find employment. Employment will provide income with which the people can buy the things that they want. The thought that the things they need can only be provided by giving away money by constantly creating money is one which I believe to be wrong.

Q. I have not advocated that yet.

Hon. Mr. HANSON: You are coming to it.

The WITNESS: That is what I meant when I said it was extraordinarily difficult to give answers on the basis of suggestions, of implications. When you said that it was an extraordinarily important thing that the banks could not give away money then the only meaning I could get from that was that the system would be all right if someone could give away money and keep on doing so.

By Mr. Blackmore:

Q. You were not justified in forming that conclusion.—A. I dare say I am not, but again I say that is what I had in mind when I said that if one could get the whole picture, understand what you have in mind as a solution of our problems, it would be much easier to answer; there would be less risk of misunderstanding the basis of each question.

Q. If I could possibly convey it to you in a question I would do so.—A. Or a series of questions, or a concrete statement, because if I may say so, I think that is one of our troubles. We are talking about the same thing as we did in 1939, but it must be possible within a fairly brief compass to put down in black and white specific solutions and to work them out in their implications and effects. There has been thought given to the things you have in mind now for at least ten years, but I have not had the opportunity of seeing specific worked out suggestions in black and white, so that I am battling in a fog.

[Mr. G. F. Towers.]

Q. Exactly so; you are in very much the same position as most of the Canadian people are, but just the same we have faith there is a solution somewhere.—A. I think that is the answer, and it is the answer which I have arrived at in talking to a number of people on this subject you are discussing, that it is impossible for them to express proposals in a coherent and concrete way; they are a matter of faith.

Q. Your conclusion there is false.—A. I would be the last man in the world to endeavour to shatter anyone's faith. Arguing on faith is a mug's game.

Q. I would say this, that in the first place to make the statement that there is a problem and you have no solution is tantamount to saying that there is no solution?—A. Who said there was no solution?

Q. Unless we find a solution— —A. I feel you have a solution which you advocate, Mr. Blackmore, but I do not know what it is.

Q. Now then, these questions will bring that out if you will just follow along.

By Mr. McGeer:

Q. What was that game?—A. Perhaps that was slang which I should not have used before the committee, Mr. McGeer.

Mr. JAQUES: What was the mug's game?

Mr. FRASER (*Northumberland, Ont.*): If you gave money away it would become valueless.

Mr. BLACKMORE: You can raise all the questions that you wish, but let us just put these questions. I want the Governor of the Bank of Canada to answer these questions, and since I have not used any offensive expression such as "mug's"—

The WITNESS: Oh, that was not intended to be so. It is rather common slang, I think.

Mr. BLACKMORE: I was raised on the range, and those words come readily to my tongue but it will enable me to keep my self-control if things like that are not said.

Hon. Mr. ILSLEY: It was not said about anyone in the committee.

By Mr. Blackmore:

Q. Is this true or is it not, that the standard of living in Canada should depend largely on Canada's productive capacity?—A. Yes, it should although as you know the situation is not entirely in our own control to the extent that we depend on foreign trade.

Q. I will elaborate that a little by saying what is physically possible in Canada ought to be financially possible in peace as well as in war?

Hon. Mr. HANSON: I thought that was a C.C.F. doctrine.

The CHAIRMAN: Order, please.

Mr. BLACKMORE: You are quite famous for misconceptions.

The CHAIRMAN: Gentlemen, may I suggest that Mr. Blackmore has been very lenient with others who were examining witnesses, and that we be equally lenient with Mr. Blackmore.

Mr. NOSEWORTHY: Hear, hear.

Mr. BLACKMORE: And assume it is possible to learn something.

The CHAIRMAN: Yes, I will add those words.

The WITNESS: I think, Mr. Blackmore, what you said is true subject also to this qualification that physical possibility is not the only test. The understanding of people, desire to reach a certain goal, willingness to accept certain risks or restrictions or contributions or whatever it may be, all those go into the implementing of things which are physically possible.

By Mr. Blackmore:

Q. I think you will find that the Canadian people have all of those things you require except money. If what is physically possible is not financially possible it needs to be explained why not?—A. I do not think what is physically possible and what is desired in the sense I have mentioned—I do not think there are financial impediments.

Q. During the great depression it was possible for Canada to produce all the milk that all the Canadian people could use, was it not?—A. I think so.

Q. Did all the Canadian people get all the milk they needed?—A. No.

Q. Not by any means. It was possible for Canada to produce a great number of foods in abundance, wheat and wheat products, animal products, milk, cream, butter, eggs, vegetables, fruits; all those things Canada could produce?—A. Of course, I have said I share to the full your dislike of the past so that we are not at cross purposes on that.

Q. There won't be any disagreement between me and the witness. I am approaching this as one who realizes the seriousness of the situation and I have every desire to co-operate with the witness in a kindly manner and with the best feeling. Fundamentally, the standard of living in Canada, which should exist in Canada, should depend upon Canada's ability to produce foods, clothing, shelter, education, health services, amusements, recreation and that sort of thing?—A. I would not limit it to Canada; I say it should refer to the world.

Q. But we are discussing Canada now so we will limit it, we will stay home?—A. Yes.

Q. Even the Indians who roamed this country before we came here had very little difficulty in getting every Indian food when he was at a good hunting ground?—A. I thought they had pretty hard times frequently, but perhaps I am wrong.

Q. That is because they did not know how to keep the foods, that is all.

Hon. Mr. HANSON: That is all?

Mr. BLACKMORE: We are not going to argue the point; not at all; but nearly everybody realizes, I think, that when the Indians found good hunting they had good living.

By Mr. Blackmore:

Q. Now, Mr. Towers, suppose Canada became an island suddenly and the rest of the world sank out of existence, would we have to say that Canada could not enjoy the milk, cream, butter, cheese, eggs, beef, vegetables, fruits, lumber and other things that Canada can produce?—A. No, but because of the loss of our foreign trade—in other words, our inability to exchange certain things which we produce in great quantity and which we could not under any circumstances, even the ones you mentioned, consume ourselves, because of that fact, the sinking of the rest of the world, leaving Canada alone, would involve a material decline in the character of our standard of living as compared with what we would like it to be.

Q. I would not argue against that; but the simple fact is that the fact that we could not import oranges would not necessarily keep us from consuming tomatoes. That ought to be obvious. I am asking this question—this is the thing we are likely to overlook:

Now, is not consumption largely a monetary or financial problem? May I elaborate? If the governments of Canada, dominon and provincal, had enough money at their disposal they could maintain prices at an equitable and stable level?—A. Do I understand by that that you believe that the government or governments of Canada should constantly give money away—

Q. I have said nothing of the sort.—A. I am sorry. I did not say you had; but I cannot understand what you have in mind.

[Mr. G. F. Towers.]

Q. The simple fact could be illustrated or elaborated. If the government of Canada had at its disposal adequate money it could sell oranges for 25 cents a dozen in Canada if it chose, could it not?—A. That would be below the cost of the oranges; in other words, a subsidy.

Q. It is doing it now, is it not?—A. Yes.

Q. And the government could pay $1.25 a bushel for wheat and could have so paid in 1932 had it chosen, if it had had the money?—A. It had the money.

Q. If the government had had the money?—A. But they did.

Q. Are we to assume that they left the people in the deplorable state they were in, having the money, neglecting them as they did, without having to do so?—A. Would you have in mind that the money was solely a question of credit creation?

Q. No, I am not saying anything about that at all. I think the witness would not have any difficulty if he listened to my question and answered it. I did not ask anything of that sort at all. I am asking for plain, obvious, common sense facts. If the dominion government and the provincial governments had enough money at their disposal they could put the prices of agricultural and other primary products at whatever level they chose, put them up within reasons, to, say, $1.25 a bushel for wheat and they could put the prices of other primary products up comparable with that $1.25. They could do that if they had enough money at their disposal, could they not?—A. Yes, they could; but mind you it involves a transfer from other parts of the population, and the problem of government then becomes one of deciding on the question of equity as between the various individuals and various groups of the population.

Q. If it could be found, however, that the money could be created for that purpose as readily as the banks can create it for lending, the whole aspect of the situation would be altered, would it not?—A. It can be if it is considered desirable.

Q. Right. Now, if the governments have enough money at their disposal they could place the wage level in Canada at any desired level, and the only limit to the wage level and the price level that would necessarily be existent in Canada would be the amount of goods which were in Canada to buy. In other words, so long as there were plenty of goods for people to buy if they had substantial and satisfactory wages and substantial and satisfactory prices. If there were enough goods for them to buy and the governments had enough money they could establish those prices and wages, could they not?—A. I think what you have in mind is a situation where the prices of primary products were high and wages were high and other products were cheap.

Q. Not necessarily. It is of the first importance that we have a stable and equitable price structure—you used the expression "price parity"; I have not used that expression?—A. At the moment I am struggling with parts whereas I would rather see the whole picture. I think the thought there is that by money—possibly created and possibly not—the government would see there were high prices for primary products and high wages paid, and by subsidizing the sale of the primary products and manufactured products enable people to sell dear and buy cheap.

Q. No, to enable people to have a high standard of living; suppose we put it that way.—A. I would be glad to see people have a high standard of living, but I do not see how that method would produce it.

Q. You see how selling oranges at a few cents lower than they would be sold without a subsidy—you see how that affects the standard of living in Canada?—A. Yes, but if you endeavour to carry that right through the piece you would soon run into trouble.

Q. Why?—A. Because you would be fooling yourself.

Q. Why.—A. By paying high prices for things, including wages, and then seeing that the resultant products sold low by subsidy which, shall we say, might involve a couple of billion dollars a year. If that subsidy of, say, $2,000,000,000 a year were obtained by taxation—

Q. But it is not— —A. Just a minute. If it were, to the extent that it was obtained by taxation then the people have been fooled, because while they have good receipts from an income point of view and have bought cheap they pay the difference in taxes. Secondly, to the extent that the subsidy was obtained by borrowing then again the people have been fooled, because the difference between their incomes and what they have to pay for the low cost products enables them to save, they lend that to the government. Unless for other reasons the productive capacity of the country is increasing those are not real savings but somewhat illusionary ones for the country as a whole, although not necessarily for a single individual. To repeat, the people are fooled to a great extent if you do it by taxation—

Q. That is right.—A. Or to the extent that you do it by borrowing.

Q. Right.—A. And to the extent you do it by the creation of new money.

Q. No, to the extent to which you do it by the creation of new money as the banks do, if there are enough goods and services in the country to absorb the new money so there will not be inflation, the people will not be deceived?—A. You have suggested yourself that this is a continuing process. I would never say that there might not be circumstances after the war, as indeed there have been, through force majeurs, during the war when a portion of the government expense should be provided by the creation of new money by the central bank and by the chartered banks. In other words, I do not rule that out as a means of financing; but as I said earlier in this committee—it is a question of degree—to employ that method 100 per cent or as a continuing thing on a large scale is, of course, what leads eventually to a situation where the money becomes worthless.

Q. I have never suggested that it be continued in a great degree. One of the greatest difficulties I face in trying to advocate this theory is that the men with whom we talk are never content to take what we suggest, they have to imagine the suggestion into an incongrous proportion and then condemn that. Suppose, for example, a man were to advocate irrigation and the persons to whom he was talking were to say, "you cannot put 10 feet of water over all the land, you would destroy everything there". Would not that be idiocy? No one is advocating putting 10 feet of water on all the land.—A. The blowing up of the suggestion, to use an advertising term, I think arises from the situation which I mentioned earlier; that is, that your suggestions have never been made as a concrete whole in black and white. I do not want to exaggerate what you say.

Q. Why do you exaggerate what I say?—A. I say I do not want to exaggerate what you say.

Q. You are doing it.—A. How did I know that I was?

Q. If you will take exactly what I ask you and answer it you will have no difficulty at all, but you have to go on a great examination of the right and the left and imagine things I have not suggested.—A. If I might go back to your point: could not the government pay good prices for the primary products and good wages? Then there is the suggestion: could they not subsidize the prices at which goods are sold? Now, if you meant that that suggestion only included oranges, then I would not have embarked on the other remarks I made; I thought it might include everything. But I really do suggest that the trouble which you mention, and I suggest it respectfully, arises from the vagueness of the suggestions as well as from the imagination of the answerer.

Q. We will leave it at that. Let us say that if the Canadian government had had sufficient amount of money at its disposal it could have prevented the evils of the depression?—A. I do not think that that relates to the amount of money at its disposal. Again I am in the same trouble; if it had had a sufficient amount of money at its disposal what would it have done with it?

Q. Prices went down, wages went down, people were out of work; could the government not have put in great irrigation projects and larger public works projects and put a lot of people at work?—A. Yes.

Q. That is so with other things. I do not propose to go into details on that. There are other things that are quite important which I wish to deal with. I believe you suggested that the banks are the servants of the people?—A. You realize, Mr. Blackmore, that we have left this matter in a most unsatisfactory state, and I do ask if it would not be possible at some time for you to make suggestions in regard to the course of action which should have been followed in the past or should be followed in the future more concrete. Then I would do my honest best to express an opinion without exaggerating at all; but so long as everything is vague, I must say that neither the questions nor the answers will lead to any useful conclusion.

Q. I should be happy to do exactly what the witness suggests; I should be happy to go into such detail as he wants to go into. For the present I think we have laid down certain fundamental principles.—A. I do not think we have.

Q. Have we not laid down the fundamental principle that where there is an abundance of production and a shortage of purchasing power that if purchasing power is put into the people's hands they will consume the product?—A. If there is an abundance of production there will be an abundance of purchasing power, because that is the whole essence—

Q. Why was there not an abundance of purchasing power during the depression; there was an abundance of production?—A. You are speaking of potential production.

Q. No, actual production. There were goods on the markets in every direction. They were throwing oranges into the sea and shooting swine and throwing them into the rivers.—A. I come back again and again to the fact that I deplore the situation at that time just as much as you do.

Q. There was evidence that there was plenty of goods.—A. The thing I am pleading for is a suggestion as to the cure.

Q. But there was plenty of goods, though the witness persists in supposing there was not plenty of goods.—A. You say there was plenty of goods. What was the cure?

Q. All right. I suggest where there was plenty of goods, if there was purchasing power put into the hands of the people they would have been able to consume the goods and should have done so.—A. I agree; but what I want to know is the suggestion in regard to the source of purchasing power.

Q. The all-important thing I think that we would agree on at the present stage is this, that the finding of the cure which the Governor of the Bank of Canada acknowledges he does not know— —A. I did not say that for a moment.

Q. Do you know what the cure is?—A. I suggested in a statement to this committee that I believe there are cures to be found along many different lines. I do not think that the thing is entirely in our own hands because of our foreign trade situation. I think cures must be sought in many fields: in the field of public works in part; in the field of equitable taxation; in the field of social security; in the field, I hope, of freer and better organized international trade.

Q. They all involve money, do they not?—A. All these things involve difficulties, but not money difficulties.

Q. Surely; money is at the root of everything. Is it not one of the important tasks of this committee to find what these cures are at this stage of our world program?—A. Yes.

Q. Undoubtedly. That is what I think. Mr. Chairman, our time is practically up, but I should like to ask one or two more questions.

Mr. McGEER: What is the procedure for Monday?

Mr. BLACKMORE: I have one or two more questions I should like to ask Mr. Chairman.

The CHAIRMAN: Go on.

Mr. MCGEER: No. Go on to-morrow.

The CHAIRMAN: No; proceed, Mr. Blackmore, with your questions.

Mr. BLACKMORE: If we could go on to-morrow, it would be better.

The CHAIRMAN: We have a notice of motion in the morning.

Mr. BLACKMORE: That is quite all right. I do not wish to open up any question which will be left all vague. I realize the position of the Governor of the Bank of Canada in this whole matter and I want to be perfectly fair. But we have to be very careful that we perform the duty which was delegated to us.

Mr. MCGEER: Mr. Chairman, may I say a word?

The CHAIRMAN: Yes.

Mr. MCGEER: In view of the suggestion made by the Governor of the Bank of Canada that the matter is somewhat unsatisfactory at the moment, would it not be well to allow Mr. Blackmore and Mr. Towers to continue to-morrow in the second hour? I think that would be the advisable course.

The CHAIRMAN: Well, yes, possibly. We will take the voice of the committee in regard to the matter. Is it your pleasure that we adjourn until to-morrow morning at 11 o'clock?

Some Hon. MEMBERS: Yes.

Mr. BLACKMORE: Does that mean, Mr. Chairman, that I go on in the second hour?

The CHAIRMAN: We will take the voice of the committee. I am only the servant of the committee.

Mr. BLACKMORE: That should be done now, should it not? Because if I am going to prepare for it and if the Governor of the Bank of Canada is going to prepare, we should know now.

The CHAIRMAN: We will take the voice of the committee.

The committee adjourned at 1 p.m. to meet again on Friday, June 2, at 11 a.m.

June 2, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, I have received a letter from the Alberta Farmers' Union which I shall read. It is as follows:—

> Enclosed you will find a brief dealing with the revision of the Bank Act and in particular with the renewing of the charters to the commercial banks.
>
> We feel that our recommendation to limit the granting of renewals to a yearly basis is of particular value at this time because no one can foresee the requirements of the future and the results obtained by the policies which the banks have pursued in the past are not conducive to any feeling of confidence for the future if they are allowed the same latitude as in the past.

This organization of over 20,000 paid-up members, representing the family life of at least 50,000 farmers, passed a resolution at their last annual convention in conformity with this brief.

Is it your pleasure that the brief be printed?

Mr. BLACKMORE: I so move.

Mr. JAQUES: I will second that.

The CHAIRMAN: What is your pleasure, gentlemen?

Motion agreed to.

Mr. MACDONALD (*Brantford*): Mr. Chairman, may I ask how many briefs we now have from farmers' organizations?

The CHAIRMAN: There are two from farmers' organizations, so far as I know.

Mr. MACDONALD (*Brantford*): This is just the second one, it it?

The CHAIRMAN: So far as I know, yes. Mr. Lafontaine has the floor.

Mr. LAFONTAINE: Mr. Chairman, although this committee has had thirteen sittings, it has not yet taken into consideration even one clause of the bill which was referred to this committee on May 11. Therefore I move that on Tuesday next, June 6, the committee proceed to consideration of bill 91, clause by clause.

Mr. McGEER: Mr. Chairman, that would require a notice of motion.

The CHAIRMAN: You gave notice of motion the other day. I have forgotten what day it was.

Mr. LAFONTAINE: On Wednesday last.

The CHAIRMAN: Yes.

Mr. McGEER: As a matter of fact, there was no notice of motion given.

The CHAIRMAN: I accepted it as such.

Mr. MACDONALD (*Brantford*): What is the rule which requires a notice of motion?

The CHAIRMAN: I do not know of any. I am not sure.

Mr. KINLEY: There was a verbal notice of motion.

The CHAIRMAN: Is there a seconder to the motion?

Mr. KINLEY: You do not need a seconder in committee.

The CHAIRMAN: Then we will consider the motion as it is. Mr. McGeer has the floor.

Mr. McGEER: I rise to a point of order, Mr. Chairman. This is a motion on the procedure of the committee. The same rules govern procedure in the committee as govern the procedure of parliament. A motion of this kind, without the unanimous consent of the committee, cannot be proceeded with. On Wednesday the member now moving the motion suggested that he had a motion and his motion was not prepared. He said something about something, and I asked him, "Where is the motion?" He said, "Well, I have not got it." To accept that as a notice of motion without anything in writing would have required a resolution of the committee. There was nothing done at that time by way of motion of the committee to accept this as notice of motion. That is the procedure that has always been followed in committees heretofore; certainly it will be a motion which will be strongly opposed by this side, and I think it should conform to the rules. I think that the motion as now presented is out of order.

Mr. MACDONALD (*Brantford*): Mr. Chairman, if I remember the proceedings correctly, on Wednesday last the member did give notice of motion; and I think the record will show that the notice of motion was taken down and is in the record of this committee.

Mr. McGeer: We have not the record here, but I think the record can be produced.

The Chairman: Mr. McGeer, we have sent for the record.

Mr. Macdonald (*Brantford*): Until the record comes, Mr. Chairman, may I say a word with regard to the necessity for notice of motion. I cannot altogether agree with Mr. McGeer that it would be necessary for every motion that is presented to be presented by way of notice of motion. There have been other proceedings in this committee which have been taken without notice of motion. For instance, a motion was made, as I recall it, that a steering committee be set up. There was no notice of motion there.

Mr. McGeer: It was unanimously agreed to. Any time you have unanimous agreement, there is no need of it.

Mr. Macdonald (*Brantford*): I am not so sure it was unanimously agreed to. The powers of the committee were certainly not unanimously agreed to.

Mr. McGeer: There was no objection made to it.

Mr. Macdonald (*Brantford*): There was objection made in this committee to the steering committee; that is, to the powers which the steering committee would have. I recall that distinctly.

Mr. McGeer: And as a result the committee took no power.

Mr. Macdonald (*Brantford*): And as I recall also, there was no objection raised to the notice of motion which was made by the honourable member.

Mr. McGeer: I objected to it.

Mr. Macdonald (*Brantford*): I do not recall that the question was put to this committee. My recollection is that the notice of motion was accepted.

Mr. Noseworthy: While you are checking up the record, Mr. Chairman—

The Chairman: I think I have it right here. It reads:—

> Mr. Lafontaine: I wish to serve notice that on Friday I will present a motion that this committee go into consideration of the bill clause by clause.
>
> The Chairman: You are filing notice? I understand you are giving notice to the committee of your intention to move a resolution?
>
> Mr. Lafontaine: Yes, on Friday.
>
> The Chairman: It would be just as well to present the resolution now so that we have it before us.
>
> Mr. McGeer: I would not worry much about dealing with that now.

Mr. McGeer: There was no motion presented.

The Chairman: That is the record.

Mr. McGeer: Where is there in that record any motion of which he is giving notice?

The Chairman: It is in the record. It states he is giving notice of motion.

Mr. McGeer: Yes, but he did not present the motion.

The Chairman: At paragraph 321 of Beauchesne's Parliamentary Rules and Forms I find this:—

> In the absence of Standing Orders to the contrary, the following motions may be made without notice: For proceeding to another order.

Under that I rule that the motion is in order.

Mr. Noseworthy: Speaking to the motion, Mr. Chairman, as I understand it, our procedure at present is that we are discussing the Bank Act before us clause by clause and all our discussions have been on clause 5. You have a request from farmers' organizations regarding the length of the time for which the charter should be extended, which has a definite bearing on clause 5; and apparently they must be heard before clause 5 can be adopted. I think until the members of the committee have completed their discussion of clause 5 we cannot make any decision. I think that should be our first order of procedure.

The CHAIRMAN: Mr. Noseworthy, if I may suggest this—and I have great respect for your opinions—we might well hear the representations before we proceed further with the discussion, because they may influence us in our discussion. I think that back of the idea of the motion is that we proceed first of all with clauses 1, 2, 3 and so on and stop whenever we find a controversial clause and leave it aside. Then we proceed again to take up the controversial clauses and to call witnesses. Now Mr. Noseworthy has raised a matter that has given me a good deal of concern, because some of these people want to appear and they want to hear our discussion; then probably they want to be present when we vote upon the matter. It is not for me to offer many suggestions to the committee, but I would suggest that, since we have divided our time into two hours, we take one of the hours and proceed with the non-controversial clauses, leaving the others for the full discussion and examination of witnesses that seems fitting to us at the time. That is all the suggestion I have to make. If you want to discuss it further, that is of course your privilege. If you do not, let us vote on the resolution and proceed with the work of the committee.

Mr. MACDONALD (*Brantford*): May I ask one question with regard to your suggestion, Mr. Chairman? If we follow your suggestion and adopt certain clauses which are not contentious, then later on it might appear to some members of the committee that certain of those clauses are contentious. Have we the right to revert to those clauses then?

The CHAIRMAN: By vote of the committee, as I understand it. I am told that was the procedure in 1934.

Mr. MCNEVIN: Speaking to the motion, Mr. Chairman, may I say at once that I have not the slightest desire to see the scope of the discussion curtailed or limited. I think that is the feeling of every member of the committee. But I feel that we have a responsibility to proceed and make progress in getting these clauses adopted, amended or at least dealt with. I have in my hand the minutes and proceedings of the Banking and Commerce committee of 1924. I think the entire discussion at that time took place on the clauses of the bill, and there was discussion of a very wide scope. During that discussion Mr. W. C. Good, who then represented Brant, strongly advocated the establishment of a central bank. I think I could add this tribute to the Deputy Minister of Finance: Mr. Good obtained much of his information, or at least received assistance in preparing his information and his presentation from the gentleman who is now the Deputy Minister of Finance. My view is that by proceeding with the clauses we are not limiting the widest and fullest possible discussion of matters relating to the bill and to the whole financial program of the Dominion of Canada. With that in mind, I am prepared to support the motion.

The CHAIRMAN: All those in favour of the motion,— —

Mr. MCGEER: Mr. Chairman, before you put the motion may I say this. I am opposed to the procedure proposed for the reason that, if we move to a consideration of bill 91, clause by clause, we open the door to go through the approval of the bill automatically. I hope that will not happen in this committee at this particular time. Before the bill was introduced in the house and before we knew what would be proposed by the government, I discussed the Bank of Canada report because I thought it was a very important document, and I suggested in the House of Commons that that report be referred to the Banking and Commerce committee. At the first meeting of the Banking and Commerce I think the committee agreed that report should be before it for consideration. Now the fact is that in the political life of this dominion, this is the first time a banking and commerce committee has ever had an opportunity to review the work of the new system of banking and currency that was established not in 1934 but in 1938, when the Bank of Canada became a publicly owned utility of the people of the Dominion of Canada. We on the Liberal side of the House of Commons had a great deal of hope in the establishment and operation of that new system of control and regulation, not only over the volume but over the circulation, we hoped, of the medium of exchange as the economic bloodstream of the people of Canada. That report has been before the committee. It has been partially examined, but the most important features of that report have not been examined by the committee at all. In that report Mr. Towers reviews the operation of the monetary system. He projects his mind into the problems of the future, and he is giving to the people and to the parliament of Canada a warning of the needs of today. I feel that those needs are the responsibility of this particular committee; and I propose to offer an amendment to this motion, namely, that bill 91 be not considered section by section until the report of the Bank of Canada covering its operations for the year 1943, and referred to this committee, shall have been examined and a report made thereon.

Mr. BLACKMORE: Mr. Chairman, I second that motion.

The CHAIRMAN: What is your pleasure, gentlemen? You have heard the amendment.

Mr. McGEER: I am speaking to the amendment.

The CHAIRMAN: Oh, I beg your pardon.

Mr. McGEER: Do not be in such a hurry, Mr. Chairman.

The CHAIRMAN: Mr. McGeer, please do not be so impatient. I thought you had finished.

Mr. McGEER: I apologize, Mr. Chairman. I am sure you would not have interrupted me had you known that I was not finished.

The CHAIRMAN: Then we exchange apologies.

Mr. McGEER: I quite agree. I do not want the committee to think that I am making the motion without very grave consideration.

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: The Bank of Canada has been held out by our Prime Minister, by the present Minister of National Defence, and by the former Minister of Justice, Mr. Ernest Lapointe, as the hope against recurring depression, as one of the effective safeguards against the reappearance of unemployment, of misery and of want in the midst of plenty. It has been held out as the hope of the means of financing war, not merely war against a common enemy in the form of a foreign aggressor, but as the hope against the deadliest of all the enemies that individuals face, the hope against involuntary unemployment, involuntary debt and inability to work together to produce for each other's use those things that people, intelligently financed and working together, can produce and distribute for their own good and their own benefit. Those are the problems that we face. They are dealt with in that report. There is the problem of a huge demobilization program for a great number of highly skilled and highly trained members of our fighting forces, and the readjustment of a whole new industrial life that has developed in our community. Mr. Towers, as Governor of the Bank of Canada, has told us that it is not impossible to find the cures for what happened in the past, which he acknowledges was bad, and that the cures can be found. I believe that the most important work this committee has to do is not to rush through a bill clause by clause but rather to examine, in so far as it affects the economic life of the people of Canada, the working of our present monetary program and the possible improvements that can be made in it to serve the best interests of the people of Canada. Can we do better as members of this committee, appointed by parliament to find those cures, than to complete our examination and to secure from Mr. Towers all the assistance that he can offer to us in developing the present system, with whatever improvements can be made?

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: I give you one improvement. You all remember that, when we inaugurated public ownership of the Bank of Canada, the question of the control not merely of the volume of currency and credit in circulation but the question of the control of the circulation of that medium of exchange was a power which we assumed was placed in the Bank of Canada and that, with the proper exercise of that power, Mr. Chairman, we should be able to issue currency and credit in terms of public need.

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: And not in terms of private gain.

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: Now I want to deal with that very issue, because quite apart from whether or not our chartered banks are making too much or too little profit, and quite apart from whether or not they are serving in many departments of their duty and responsibility in fulfilling the object of their charter, we have to devise some more effective way of circulating our medium of exchange than that of proceeding to pile up a boundless pyramid of unpayable public debt.

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: I say to this committee that I look out upon the future with the gravest concern. Mr. Towers in his report warns us of that very danger. He says you cannot go on indefinitely piling up your public interest-bearing debt without placing an impossible burden upon the economy of the nation. We have gone down the river of squandermania, as every government does in times of war; but are we not in danger of going over the Niagara Falls of debt and into the whirlpools of repudiation, confiscation, bankruptcy and revolution? The other nations that have gone on funding and refunding their public debt have met with disaster; and we have no reason to believe that, if we follow the same course that has brought disaster to the others, we will escape what they have found to be inevitable. What are our controls? The Governor of the Bank of Canada has told us what they are. There is the change in the interest rate upon which the Bank of Canada lends to the chartered banks. But at the same time he acknowledges that, ever since the Bank of Canada was inaugurated, Bank of Canada cash has been issued into circulation to meet the needs and that a volume of national bank currency, legal tender which is a reserve for the issue of bank deposits, is now in circulation to the extent of more than a billion dollars than was the case in 1938. It is true that much of that cash is circulating to-day and will continue to circulate among the people, but once a depression comes that money will cease to circulate. It will accumulate as a reserve in our chartered banks. Does that mean that in a time of depression the banks will be able to use this reserve to issue into circulation, one, two, three, four, five, six, seven, eight or nine times the amount of this reserve in bank credits? Not at all. All during the depression had there been good borrowers available, the banks had an abundance of money to put into circulation. The mere issue of this reserve, the mere giving of the opportunity to the chartered banks, offered no relief,—

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: —to municipal, provincial or federal governments from the curse of unemployment that swept all over the land.

Mr. BLACKMORE: Or even to producers.

Mr. McGEER: They say the other power is this: "We can buy and sell securities." Yes, the Bank of Canada, under its powers, can buy and sell securities, but they cannot force the chartered banks to either buy or sell securities.

Mr. BLACKMORE: Nor to lend.

Mr. McGEER: They have no control whatever over what the policy of the banks will be in a time of boom or in a time of depression. To say that under the present Bank Act there is any control, any effective control whatever over the volume of currency and credit to be issued, and over the manner in which it is to be circulated, is to have cynical disregard for all that has happened in the past and what is happening in the financing of this war.

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: Now we are told another thing. We are told that the Bank of Canada as a public utility service cannot be used to finance the progress of this nation either in war or in peace, that it is more costly to finance it by the issue of our own money than it is to issue public interest-bearing debts. With that idea I thoroughly disagree.

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: Because I want to say to you, Mr. Chairman, and the members of this committee, if we have proven anything in this war, we have proven what was laid down in the Macmillan Report in England, that control of prices was within the power of modern government. We have controlled prices as a matter of law, and it has proven highly effective. One of the things that this government can take credit for is the fact that it owns its own bank, that it has issued one billion dollars of its own money to finance the war and it has found that the people will co-operate with the government that wants to prevent the exploitation of the price level in times of war. I have great confidence in the Canadian people that even in times of peace they will co-operate with any government that is anxious to prevent the exploitation of the prive level and the disruption of the social order in an unwise pursuit of undue profits.

We were also told that it was also impossible to prevent the flight from the dollar and to maintain our credit. What nonsense in the light of what has happened in this war. Ever since I have been in public life, which is now more than thirty years, we have been told in municipal government, in provincial government and in federal government, that we had to conform to certain credit standards which were fixed by those who lend money in those great centres where money has accumulated over the centuries. We had to borrow in London, to borrow in Paris, to borrow in Berlin. What happened in this war? Berlin was closed. Paris was gone and the Bank of France had disappeared. What about London? It was we who were the rich uncle. We loaned $700,000,000 off the bat and it is still outstanding. That was a splendid contribution. But on top of our magnificent war effort—and we built a navy from scratch, an air force from nothing and a mechanized army from little more—we assumed the responsibility of a great industrial program. We found the capital. We found the finances and we found them right here in Canada under the magnificent monetary system that the people of Canada had developed since 1935. Surely that is to our credit as Liberals who were charged with the responsibility of facing the depression and carrying through and were left with the responsibility of conducting the war.

Mr. McNEVIN: If it is that good, we had better hang on to it.

Mr. McGEER: Good, yes; and every bit that is good I want to hang on to. But I have never got to the point in my life yet where I have found things so good that they could not be made better. That is all I say. But let us as members of a committee charged with this responsibility, and in the light of these facts which were never before known to men holding the same position we are holding to-day, get before the committee and before the people of Canada all the information that we have.

Yes, we were told we could not control the flight from the dollar. Well, we have done that most effectively; and we have set up during this war a system of exchangeing goods and services not only with our neighbour to the south but with every country in the world with whom we are allied in this war. We have found that this problem of controlling prices and preventing exploitation, of establishing control over movements, internationally, of our credit and currency and investments could be solved. We have found that we in the Dominion of Canada, in possession of the enormous wealth that we have, have secured financial independence. Does anybody here suggest that we need to go borrowing abroad to build a railway again? Does anyone suggest for a moment that our municipalities, provincial governments and public utilities should be called upon to go begging in the international money markets of the world, that they lend us the capital that we have proven we can produce ourselves? Then let me say this to the members of the committee in the light of these lessons. We are now faced with a war program. When we are faced with a peace-time program, when our federal government will not have the sweeping powers that it possesses under war-time conditions, we shall have to face the problem of provincial rights and provincial jurisdiction; and if we are going to continue the effective monetary action that we have developed during the war in times of peace, it must be the result of co-ordination of the financial powers and duties not only of the federal government but of the provinces and of the cities as well. These are the great problems that this committee must examine if it is going to fulfil the duty defined by Mr. Towers as our greatest responsibility, namely to find the cures that will guard us against a repetition of a past that has been known to be bad. I want an examination of that report of Mr. Towers.

Mr. Blackmore: Hear, hear!

Mr. McGeer: I want every bit of information that he has, from his wide experience, placed in the possession of this committee. I want to examine Mr. Wedd as the president of the Canadian Bankers' Association. I want to know more about these hidden reserves. I want to know whether or not the method of accumulating, and the volume of these reserves reflects correctly the position of our banking association. I want to examine—and I am sure every member of this committee is in the same position—the efficiency and the effectiveness of the existing controls. I want to propose certain improvements in those controls. I want to look out upon the future where we see a federal government soundly financed, working in conjunction with nine provincial governments, who in turn will be working with all the municipal governments. I have had the bitter experience of sitting in the mayor's office, and know what it means to look out and see thousands—yes, tens of thousands of your people milling in the desperation of revolution because we had neither the power nor the means to put them to work doing jobs that were crying to be done all over the city of Vancouver, and that were crying to be done in Montreal, Toronto, Halifax, Saint John and in every large centre of Canadian population. Do not attempt, my friends and collegaues on this committee, to pass this opportunity to give real consideration to the problems that we face by hurrying to get through a bill clause by clause before the evidence is before the committee upon which all the principles underlying all the clauses rest.

Mr. Slaght: Mr. Chairman, I gather the amendment is before the chair. Speaking to that, I support it on some further grounds than those just put by my honourable friend. The motion, when we come to it, is a motion that we should start with clause 1 and go through the ninety odd clauses of the bill.

The CHAIRMAN: The non-contentious clauses first.

Mr. SLAGHT: The non-contentious clauses, yes. I see reasons why I should vote against clause No. 1 in the present status of this investigation. We have been told that we are to go forward and pass a ten-year renewal of the charters and do it by way of this bill before we have information which will enable us to decide whether those charters should be renewed at all or not. When I say we have been told that, let me recall to you, so there is no doubt about it, the exact way in which Mr. Tompkins, the inspector for the Dominion of Canada of these ten banks, put it to me at page 259 of our report. This was the question by me:—

> However, I have your view on record; you do not think anybody should be allowed to stop them—

The "them" means the directors.

> and that in any given year they should be allowed to pass over it to the inner reserves paying no taxes on it and not disclosing it to their shareholders nor giving an accounting to parliament even; and that is the situation you think we should perpetuate and still renew their charters; is that it?
>
> Mr. TOMPKINS: That is it.

The second point I make is this. We were told, and I quite accept it, by our Minister of Finance at page 255, in just three lines, as follows:—

> Hon. Mr. ILSLEY: The legal position now is that the Governor of the Bank of Canada is not entitled to this information unless it is communicated to him by the Minister of Finance.

I do not propose to vote for clause No. 1 of this bill, with renewal of the charters for another ten years, until we learn whether or not the friends who are opposing the position that I take are willing to alter that situation so that Mr. Towers does not have to go with his hat in his hand to any Minister of Finance. I have great faith in our present Minister of Finance and I want that understood. I make no reflection upon him. But governments change, and we may have a Minister of Finance in two, three or four years in whom the people of Canada have not the same confidence as they have in the present Minister of Finance. I do not want to pass clause No. 1 for a ten-year renewal until we decide, or have the people who are opposing say and have the bankers tell us that they are willing that Mr. Graham Towers, or whoever happens to be Governor of the Bank of Canada, shall know and that they are bound to tell him exactly the amount of and the position of this secret, hidden, tax-free reserve.

Mr. BLACKMORE: Hear, hear!

Mr. SLAGHT: There is a third point that I should like to make, if I may. I was startled to learn what I did from page 264; and my extracts are very brief, Mr. Chairman, because I know the committee carry these things in mind, but it is important that we realize what we are being asked to do. Mr. McGeer was examining Mr. Tompkins and he said, "Where is the section which empowers the bank to have a hidden reserve?"

Mr. GRAY: From what page are you reading, Mr. Slaght?

Mr. SLAGHT: From page 264. I read as follows:—

> Mr. McGEER: Where is the section which empowers the bank to have a hidden reserve?
>
> Mr. TOMPKINS: There is no specific section in the Act. That is a matter of banking practice.
>
> Mr. McGEER: They have no legal power to do that?
>
> Mr. TOMPKINS: No. That is a matter of good, sound, prudent banking practice.

Until these gentlemen relent and are prepared to disclose to parliament, this committee and the people of Canada the amount they have hidden in a tax-free fund without any power in the Act to do so, I will not vote for clause No. 1 to renew their charters for ten years. Then there is just a further point, at page 258.

Mr. NOSEWORTHY: I have just a question there, Mr. Chairman. Is it clause No. 1 that renews the charters or is it No. 5?

Mr. SLAGHT: That renews what?

Mr. NOSEWORTHY: That renews the charters.

Mr. SLAGHT: Oh, the bill is the bill, if I may put my own view upon it, although the committee may not agree with me. It is the whole bill which it is the purpose to enact, not to leave clauses out or take them out. I think clause 1 is a necessary clause in the bill, and if we can get the facts on which we can start to renew these charters for ten years, then probably on clause 1 there will be very little controversy. Clause 5 is very important as is also clause 59, and around those clauses the main controversy will revolve. But I want this committee and every member of it, before he votes on this procedure, to know what he is doing, and to be able to face his constituents, not from a political standpoint, but to be able to face any citizen of this country—

Mr. BLACKMORE: And the boys overseas.

Mr. SLAGHT: Yes, and the boys overseas. They have a great interest in this. If we go on with blinkers over our eyes, being told by a bankers' association, "We will not tell you what this hidden reserve fund is; you are not entitled to know", we compromise ourselves at once; and I think if we are men and not mice, we ought to stand right here and say, "Until we get that information, gentlemen, you will get no renewal of your charters". That is the stand I am prepared to take.

Mr. BLACKMORE: Hear, hear!

Mr. SLAGHT: I invite the committee to join me in that stand.

Mr. MCNIVEN: Has not the Minister of Finance intimated that he is going to make a statement?

Mr. SLAGHT: He has up to date, and I do trust that he is going to disclose it. But up to date he has told us, as I understand it—I have not been here at all this week—that he is going to make a statement on the subject; and he conceives it to be a matter of such grave importance that he wanted a little further time in order to consider it, to discuss it with his deputy minister and his financial advisers and make a statement which he, in his belief, would think to be a proper and wise statement to be made by one in the responsible position he holds. But he has not told us, so up to date I suggest that he is so far at least backing the bankers in their refusal to give it to parliament or to this committee. If he changes that attitude and gives us the amount and shows how it is made up, and gives us the information, then it does not matter to me whether we discuss general principles or go on clause by clause. But I want the members of this committee to know they are taking a responsibility when they pass clause 1 for renewing the bank charters for ten years sitting here and just being told that you cannot have the very vital information without which you cannot know the truth as to the profits these banks are making and upon how much they are tax-free.

Mr. BLACKMORE: Or what they are doing with them.

Mr. SLAGHT: Well, it does not matter what they do with it. I assume they are dealing with this hidden fund honestly, but I should like to know about it. Let me give you another warning, if you will bear with me for one moment more. I am not sure whether I gave you this page or not. Yes, I did. At page 264 I quoted a statement made by Mr. Tompkins that there is no legal power in the Act to do this thing they are doing. Coming back to page 258 for a moment, if you will, Mr. Tompkins said something about moral authority. I quote:—

> Mr. TOMPKINS: I suggest that there is a moral authority at least which rests with the Department of Finance.

That was in answer to this question:

> Mr. SLAGHT: And who has any power to veto their resolutions as to setting aside say ten millions or fifty millions?

That was referring to the bank directors. Then Mr. Tompkins answered,

> I suggest that there is a moral authority which rests with the Department of Finance.

Well, that moral authority ought to be converted into a legal authority and the legal authority ought to be exercisable in part at least by the Governor of the Bank of Canada in whom I have great faith. Yet we are told this is hush-hush and he cannot even know it unless he goes with his hat in his hand to the Minister of Finance to find out what it is. The directors are omnipotent, although there is nothing in the Act to give them any power to do what they have done. Yet we are asked to sit here and vote clauses 1, 2, 3 and so on up to 90 odd and then pass this bill to that extent at least, while at the same time being defied and refused information.

Now, then, another point and a warning. It is at page 257.

The CHAIRMAN: Attention, please, gentlemen.

Mr. SLAGHT: At page 257, at the middle of the page, Mr. Gray, if you are following this, Mr. Tompkins makes this answer, " I think that is a fair statement." Listen to this, if you will, gentlemen; when you are through talking there, I can be heard.

Mr. MCILRAITH: We can hear you quite well.

Mr. SLAGHT: Mr. Tompkins, says, "I think that is a fair statement. I was also going to add, but perhaps it is superfluous, that these reserves are the moneys of the shareholders." Then Mr. Hanson, I think with amazement in his tone, asked, " Are what? " Then Mr. Tompkins says, " Are the moneys of the shareholders and could be paid out to the shareholders in the form of additional dividends." We may wake up a week from to-day, if we go on passing clause by clause, and find that every one of the ten chartered banks has passed a special dividend, has paid these untold millions out and that they are then resting in the pockets of their shareholders. Then we would come back here and look at one another and say, "What fools we were!". Let us stop this thing right now and demand the information. Let us make a special report to parliament that we cannot proceed properly with our duty until the information is furnished. If there is not enough courage in this committee to demand that until we get it we will not extend these charters, let us go back to the floor of parliament and let our colleagues there know what we are asked to do, with blinkers on our eyes and without any knowledge of the true position.

Just one word more, and it is also wery interesting. A statement was brought down—and we have heard a great deal about it—by the Minister of Finance in Parliament. Mr. Tompkins, we heard, helped him to prepare it and Mr. Tompkins tells us that in helping to prepare that statement—

Mr. MACDONALD (*Brantford*): What page is that?

Mr. SLAGHT: I must get that page. He told us, you will remember, that the statement was prepared having in mind that it was to be put in such a form that it would secrete or not disclose to parliament even the fact that there were hidden reserves.

Hon. Mr. ILSLEY: Oh, no.

Mr. TOMPKINS: That is not fair.

Hon. Mr. ILSLEY: That is not correct.

Mr. SLAGHT: Well, let me get it then. Have you got what you did say there?

Mr. TOMPKINS: What page are you referring to, Mr. Slaght?

Mr. SLAGHT: Here it is. This is at pages 292 and 293:—

> Mr. SLAGHT: All right. Just before we leave that, and then I am quite through, I invite you to pick out the item in the statement placed on *Hansard* which would even tell anybody that there was a hidden reserve. There is not any, is there?
>
> Mr. TOMPKINS: There is not any what?
>
> Mr. SLAGHT: Any item in the statement placed on *Hansard* at page 2620, which would indicate to anybody that there was a hidden reserve held out by the banks?
>
> Mr. TOMPKINS: The total hidden reserve of the banks?
>
> Mr. SLAGHT: Or even that there is one?
>
> Mr. TOMPKINS: Not specifically.
>
> Mr. SLAGHT: No, not at all. Read any item that indicates that to a business man who wants to know; read any item there that indicates that the banks are holding out a hidden reserve, because this was put before parliament as an exposé of the banks' annual operations.
>
> Mr. TOMPKINS: The object of this statement was to convey to the public a better appreciation than what they already had of what the costs of banking are.
>
> Mr. SLAGHT: Yes.
>
> Mr. TOMPKINS: And it was put in the form in which it is reported with that express purpose in mind.
>
> Mr. SLAGHT: You agree with me that there is nothing by way of an item on this statement that indicates there is a hidden reserve? Are we agreed on that?
>
> Mr. TOMPKINS: No; not specifically, no.
>
> Mr. SLAGHT: Not specifically, no.

Then Mr. Macdonald becomes exasperated, I have no doubt, and he says, "Or any other way?"

Mr. MACDONALD (*Brantford*): I do not think I became exasperated.

Mr. SLAGHT: Indignant, then. If he did not, he ought to have.

Mr. MACDONALD (*Brantford*): I was looking for information.

Mr. SLAGHT: Continuing the quotation:—

> Mr. SLAGHT: Or any other way? I invite you to tell us that. I do not know what you mean by, "not specifically, no." My assertion, as a question, is this: There is not any statement there that shows that.
>
> Mr. TOMPKINS: It seems to me that we are getting back to the point that Mr. Towers suggested the other day, when he said, "This is where I came in."

Well, we have just heard that Mr. Towers cannot come in. Continuing:—

> I mean, you cannot get back to a specific item. I have already indicated my reasons for thinking that it is not desirable to disclose that item.

Mr. SLAGHT: I see. You had to do with the preparation of the statement placed in *Hansard* at page 2620?

Mr. TOMPKINS: I had something to do with it, certainly.

Mr. SLAGHT: And bearing in mind that it was not desirable for parliament to know that there was a hidden reserve, you did not disclose that fact in that statement?

Mr. TOMPKINS: Quite true.

Quite true, that is his answer.

Mr. TOMPKINS: Would you permit me a question for a moment?

Mr. SLAGHT: Let me finish, and I shall be happy to have Mr. Tompkins tell me anything he will. We are not through yet. But get this question:

And bearing in mind that it was not desirable for parliament to know that there was a hidden reserve, you did not disclose that fact in that statement?..."

In that statement that was brought to parliament to show us what the trouble was—

......you did not disclose that fact in that statement?

Mr. TOMPKINS: Quite true.

Mr. SLAGHT: Quite true. That is a serious answer and a serious question. I do not want to be unfair and hurried in this matter. My question is this. Bearing that in mind, in preparing a statement to be presented to parliament you prepared it in a manner that would conceal the fact that the banks had a secret and hidden reserve system.

Mr. TOMPKINS: No, I object to that question entirely. The statement was prepared very carefully. It is a correct statement as it stands, and I stand by all the figures in it.

Mr. SLAGHT: But you stand by it also and like it better because, as you have told us, your view is it ought not to be disclosed; and you are unable to show in that statement itself where that fact is disclosed.

Mr. TOMPKINS: For the very reasons I have explained.

Mr. SLAGHT: For those very reasons you have explained. You thought it was desirable not to disclose it?

Mr. TOMPKINS: Yes.

Now, can the committee be satisfied with the statement that he did not disclose it and therefore, it is not there because he did not want it to be there—when I used the words in the first place that he did not disclose it because he did not want it to be disclosed, he says yes, and when I suggested that he secreted it for that purpose, he balks at that, and proposes for his justification for not putting it in because you have carefully prepared a statement and you do not want to have shown in parliament what it is. He objects to the suggestion that he secreted it or prepared a statement secreting the information. I am not concerned if the word "secrete" has a bearing which Mr. Tompkins does not like. Let me take the other position, that he kept it out deliberately so it would not be there for parliament and the people of Canada to know it. That is the position. We are asked to start with sections 1, 2 and 3 right down through the 90 sections of this bill to get the three or four sections that are not controversial.

Mr. GRAY: Mr. Chairman, I am not defending Mr. Tompkins, but when Mr. Slaght reached the top of page 293 of the report where Mr. Tompkins said, "quite true", Mr. Tompkins attempted to interrupt and give an explanation, and I think we are entitled to hear that explanation.

Mr. SLAGHT: I shall be delighted to have him retract the whole business and tell us that he did not deliberately put in a statement that did not contain the information we are now asking to have. I would be very happy if he made that statement. That is why I paused, and told him, "that is a serious answer and a serious question". I did not want any mistake about it from that standpoint.

Mr. GRAY: I think we are entitled to know now.

Mr. SLAGHT: Certainly. I do not want to reflect on Mr. Tompkins. I have told this committee more than once that he is a believer in the doctrine that he has become converted to and he thinks that is right. I venture to say that 99 per cent of the members of the committee think he is wrong, but we will leave that. However, I do say that with Mr. Tompkins occupying the position he does as inspector and being paid by the people of Canada to see that the banking business is carried on for us in a way that is free from concealment, that is at least something that the committee wants to be taken fully into his confidence on: how he can prepare a careful statement for parliament which holds out on parliament the important information that I think it ought to have; and I am not going to vote for a clause of this bill until we get it.

The CHAIRMAN: The minister has a statement to make.

Hon. Mr. ILSLEY: I would like to say a word about this matter. I do not think Mr. Slaght understands this statement. The object of this statement is to show the earnings and profits of the banks, first, over a period of fifteen years. That is in the first column; and the second column shows the earnings and profits of the banks in the year 1943. Now let us take the average of the fifteen years from 1929 to 1943. The point I want to make clear to this committee and which I want to make particularly clear to Mr. Slaght, because I think he is labouring under a misapprehension in this regard, has to do with the figures shown opposite the items 13 and 14, and I would like the members to look at those items. Those items are $12,800,000 and $2,500,000. $12,800,000 is the net amount of current operating earnings available for losses on loans, investments and other assets and for other contingencies. Now, that figure is after dividends, as is shown by item 12.

Mr. MCGEER: And after taxes.

Hon. Mr. ILSLEY: And after taxes. But that item is not after appropriation to inner reserves; that item is before appropriation to inner reserves. That is a point that has been misunderstood by some members of this committee, and it is extremely important. The item $12,800,000 indicates by its wording that there is included in that $12,800,000 an appropriation for other contingencies which would include the appropriation to inner reserves.

Mr. SLAGHT: The statement does not say anything about inner reserves. I did not know that by reading it, and I venture to say nobody else did.

Hon. Mr. ILSLEY: Let every member of this committee get that fact in his mind, that there was not an appropriation to inner reserves before $12,800,000; the $12,800,000 includes that item, is before the appropriation to inner reserves, and the implication that there were reserves of some kind is given by the clause "for other contingencies". That cannot be taken as concealment.

Mr. BLACKMORE: It is pretty vague.

Hon. Mr. ILSLEY: It is open to the members of the committee to ask whether it includes them or not. I say it does. There is no secret about that. I must object. I take the responsibility for that statement; don't blame the officials for that; because that statement is not a false statement, it is not a false statement in any particular. That is a true statement, and it is a true statement to give the public the information which is the important information for the public, and that is what the earnings of the banks are, what the earnings of the banks are before appropriation to inner reserves. Now, what they do with the earnings of those banks or what they ought to do with the earnings of those banks is a matter, of course, for discussion, and that is perfectly legitimate; but do not let anyone think that anything has been taken out of the earnings of the banks as shown in this statement and kept hidden from the committee, from parliament and the public before those figures are shown, because that is not true. I want to make that perfectly clear in the statement I will make on this whole inner reserve and taxation position when I make it—

Mr. McGeer: When will that be?

Hon. Mr. Ilsley: I cannot make it until next week. I am giving this whole matter careful examination, and when I make that statement I will make a statement that I am going to stand by.

Mr. Slaght: Could not we have that before we start on this bill?

Hon. Mr. Ilsley: I am pointing out at this moment that we must not have the impression created that we kept figures out of this statement, that we kept an amount out if this before we showed these results. We did not do it.

Mr. Tompkins: Mr. Chairman, Mr. Slaght has picked out—I do not say this at all offensively—in a rather clever way certain questions of his and answers of mine and has taken them out of my whole evidence, so to speak, on this particular subject. Now, I will try to emphasize very briefly what the minister has said with regard to the preparation of the statement, and again I would ask the members to look at the two particular items, Nos. 13 and 14. Item 13 represents what the banks had left out of current operating earnings for the year after paying the dividends mentioned by item 12—what they had left over. In addition there is shown by item 14 a capital profit of $2,500,000. Adding 13 and 14 together we arrive at a total of $15,000,000 as an average for the fifteen years from 1929 to 1943 inclusive. Out of that $15,300,000, the actual experience of the banks—the average experience, the yearly experience, over those fifteen years was $13,800,000, leaving, therefore, a net amount of $1,500,000 per year for each of those particular years. In other words, a total if you add them together of $22,500,000 for that particular period. That was the amount that was left over after providing for loan losses, and that amount included what was put aside in inner reserves as a general provision for the unexpected losses that banks might meet with in subsequent years at any particular time. When Mr. Slaght said that I had stated that there was no mention of hidden reserves in this statement, I obviously assumed that he referred to hidden reserves being mentioned as an item.

Mr. Slaght: Certainly.

Mr. Tompkins: As a specific item. It was not mentioned in that sense. But the effect is there. The statement is a thoughtfully prepared statement and is absolutely correct and I stand by it in every detail.

With respect to one other point, if the committee will bear with me for a moment, the question was asked at one stage, and was read this morning, indicating that I had stated there was no authority for inner reserves. There again I naturally assumed that I was expected to direct the attention of the committee to some particular section or sections of the Act that related to that in those very words as inner reserves or hidden reserves or any other term anyone wanted to use. In that sense I answered the question. There are several sections in the Act—sections relating to the preparation of both annual and monthly returns which require banks to show securities not in excess of market values, which obviously, by inference, if in no other way, indicates that they are intended to show them at a conservative valuation and not at a mere book valuation. The same thing applies as a matter of good common sense, I think, and certainly as a matter of good sound banking practice to show your loans at what you consider to be a conservative valuation and after provision, reasonable provision for losses, which cannot be determined down to the last dollar or last cent in any given year.

Mr. SLAGHT: May I ask this: in your statement you did not retract what you told the committee that those hidden reserves are not taxed.

Mr. TOMPKINS: I said either in my general statement or subsequent answers to questions that I understood that the department of taxation recognized the need of these in determining the taxation of the banks. I did not attempt to go into details.

Hon. Mr. ILSLEY: I will make a statement of the inner reserves and taxation position of the banks. I must make that as a complete statement. I do not think in discussing Mr. Lafontaine's motion that we ought to go into this thing at this stage.

Mr. SLAGHT: The witness does not withdraw the statement other than taxes. I do not care for that at the moment; you may be right—

The CHAIRMAN: Mr. Slaght, may we accept the minister's request? He asked that we should drop the discussion of inner reserves until he has made his statement.

Mr. SLAGHT: Perhaps the minister would not mind if I asked Mr. Tompkins this question: does he withdraw this statement that these inner reserves belong to the shareholders? The answer is no. Does he withdraw his statement they can be paid out by dividends if the directors see fit? The answer is no.

Hon. Mr. ILSLEY: These are questions I will deal with. It is not a matter to be dealt with piecemeal, something that can be picked up afterwards as a question and an answer there; it cannot be properly put before the committee in that manner. I will go into it faithfully when the time comes.

Mr. MACDONALD (*Brantford*): Mr. Chairman, we have listened this morning to two addresses delivered by two outstanding orators of Canada. I do not think either is surpassed in oratory, and they were in excellent form to-day; they were very persuasive.

Mr. BLACKMORE: Factual.

Mr. MACDONALD (*Brantford*): They mentioned certain facts. Now, I do not attempt to try to follow them, as I have not been blessed with the gift of oratory to the extent to which they have been so blessed; and for another reason, namely, that I do not think we can consider financial questions in such an atmosphere. We must sit down quietly and hear the evidence and come to a conclusion.

Mr. MCGEER: That is all we request.

Mr. MACDONALD (*Brantford*): My friends say that is all they request, but every speech that has been delivered has been delivered with great passion and with great force.

Mr. BLACKMORE: On both sides.

Mr. MACDONALD (*Brantford*): I think, Mr. Chairman, that it would be better if addresses were delivered more quietly and if we came to our decision having heard all the evidence that has been given and the addresses that have been made. However, I do say it has been a privilege to have heard the two addresses this morning.

Mr. MCGEER: Thank you very much.

Mr. MACDONALD (*Brantford*): It has been suggested that the banking system of Canada is not perfect. I think every member of this committee will agree with that statement. No one thinks it is perfect. I do not think any of us believe that we have reached perfection in any form of legislation; there is always room for improvement. Great improvements have taken place after the deliberations of the committees on banking and commerce in the past, and I am satisfied that after we hear the evidence which will be presented before this committee improvements will take place in our banking system.

Mr. McGEER: Beyond the amendments proposed.

Mr. MACDONALD (*Brantford*): Mr. McGeer says beyond the amendments proposed. I think we would all be in favour of making any improvements. These amendments have been presented to us and we will improve them if we can.

Mr. McGEER: Hear, hear.

Mr. MACDONALD (*Brantford*): Now, Mr. Chairman, it has also been intimated—probably not in direct words—that we have a dead banking system in Canada. I resent such a suggestion. I think we have one of the finest banking systems in the world.

Mr. BLACKMORE: Even so.

Mr. MACDONALD (*Brantford*): I will ask any member of this committee to give evidence of any other country that has a better banking system.

Mr. BLACKMORE: So what?

Mr. MACDONALD (*Brantford*): I mention that so we can take pride in our banking system and not talk ourselves down. Let us have a pride in what has been accomplished in the past and what we are going to accomplish in the future.

Mr. Chairman, certain suggestions have been already made by this committee that we should do certain things before we hear the evidence. I say, Mr. Chairman, that some of the suggestions that have been made go to the very root of our banking system and if put into effect would actually destroy our banking system; instead of being one of the best banking systems in the world it would be one of the very worst in the world. Let us not do that. Let us be careful that the amendments we put into effect are improvements.

Mr. McGEER: Hear, hear.

Mr. MACDONALD (*Brantford*): Not amendments which will destroy. I ask hon. members at this stage not to suggest that we do certain things now and later that we hear the evidence—

Mr. McGEER: Hear, hear.

Mr. MACDONALD (*Brantford*): When we have heard the evidence let us make the changes. And now, I should like to refer to what some others think of our banking system, those who are not members of our committee, but members of an association in Canada known as the Canadian Retail Federation. This body consists of 30,000 merchants in Canada and every one of those 30,000 merchants has a bank account, and I would think that many of those accounts are very small.

Mr. SLAGHT: Do you think they knew there were secret or hidden reserves?

The CHAIRMAN: Please allow Mr. Macdonald to continue.

Mr. MACDONALD *(Brantford):* I shall refer to that in a minute.

Mr. McGEER: We want to hear these witnesses.

Mr. MACDONALD *(Brantford):* What I say is that this organization has faith in our banking system. They are going ahead in business believing that we do have a great banking system and one that is safe. This is what the federation says in part: "We are convinced that our present banking system has in the past and also during this war proved to be one of our greatest national assets."

Now, Mr. Chairman, let us be careful, let us be cautious that we do not throw that great asset down the stream to utter destruction.

I would like to refer to the words of the Minister of Finance when he addressed the House of Commons on May 2nd, as reported at page 2611 of *Hansard*. In speaking of our banking system he said:—

> . . . losses suffered by the creditors of Canadian banks, their note holders and depositors, have been extremely small. The importance of this factor of strength or safety should have been brought home to us. . .

And I am endeavouring again to bring it home, Mr. Chairman—

> . . . should have been brought home to us in the early thirties by the contrast with conditions in the United States.

Now, let me recall Mr. McGeer's words delivered at one of our meetings some time ago when he said that in the United States the people broke the banks and in Canada the banks broke the people. Here is what happened in the United States:—

> . . . . .where thousands of banks failed, bringing untold loss and hardship to millions of bank depositors and aggravating greatly the severity of the depression.

I believe in view of that, in view of the strong position which our banks hold throughout the world I am right when I say that we should be very careful not to have that system destroyed overnight.

Mr. McGeer: I might suggest that if you contrast the bankruptcies with that you will find that where a great many banks went under in the United States the shareholders and directors of banks suffered just as much as the people suffered.

Mr. Macdonald (*Brantford*): There is no doubt that the people suffered. That is the point. It was suggested that the people in the United States did not suffer. I do not think, Mr. Chairman, that there is any faith in such a suggestion.

Mr. McGeer: I did not say that.

Mr. Slaght: Don't let us suffer here.

Mr. Macdonald (*Brantford*): Mr. Slaght says, "don't let us suffer here." He did make a very splendid address, and with some of his remarks too I think I could have said, "don't let us suffer here," but I think you should bear with me now while I am making my statement.

It has been suggested, Mr. Chairman, that the Bank of Canada report should be considered, and I am in complete accord with that suggestion. Mr. McGeer has paid great tribute to our government and particularly to our party, and in this I join him, in having made this bank a wholly publicly owned bank.

Mr. McGeer: Despite the opposition of all the chartered banks.

The Chairman: Please allow Mr. Macdonald to go on.

Mr. Macdonald (*Brantford*): I will agree with Mr. McGeer entirely when he says that we should have the advice of the governor of the bank, that he should be before this committee, and that he should be called again. He has been before this committee at least three days when he was questioned, and he was always glad to give the benefit of his advice. Now, I know that he still has a great store of information upon which we can draw, and when the time comes I will support Mr. McGeer in his request that Mr. Towers again be brought before this committee to give us that advice.

Let me pause here, Mr. Chairman, to refer to a remark that was made this morning to the effect that in other countries which have followed our system and built up great debts there has been absolute destruction of the monetary system in that country. That suggestion was made here this morning. I will say, Mr. Chairman, that where the monetary system of a country has been destroyed it has not been destroyed because the system in our country was followed, but it has been destroyed because inflationary methods have been brought into effect. The monetary systems of those countries have been destroyed because those countries have done exactly what certain members of this committee are now proposing that Canada should do. I will go further and say that even at the present time we must be very careful or the people of this country will suffer from the effects of inflation. I believe we are getting toward the dangerous spot. If there is to be further inflation it must be handled very carefully or we will find that the working man's pay will mean nothing because prices will go up over-night; a pension will mean nothing because prices will go up over-night. It will also mean that the savings of all of us will disappear because prices will go up over-night. Mr. Chairman, I have spoken before about the danger of inflation. I fear that inflation is almost upon us, and I think that this committee should make sure that it does not make further headway. That, I think should be one of the aims of this committee.

Now Mr. Chairman, it may be that I am offending by becoming a little too impassionate myself—

Mr. McGEER: Oh, no, no; we never do what the teacher says.

Mr. MACDONALD (*Brantford*): May I go further. I suggest that the only difference between the members of the committee who have spoken and myself is one of procedure to a large extent. It is proposed that we take up this matter section by section. If my friend says that he objects to section 1 what would be the result if we followed the proposed procedure? Section 1 would stand.

Mr. McGEER: I object to all the sections.

Mr. MACDONALD (*Brantford*): We come to section 2 and section 2 will stand and will not be adopted, but we will be making some headway.

May I defer again for a moment. The minister said he will make a statement with respect to inner reserves—

Mr. McGEER: Surely we should have that before we go any further.

Mr. MACDONALD (*Brantford*): With due respect to the minister and the members of the committee I feel that the time has not yet arrived for that statement. What evidence have we heard with respect to those inner reserves? We have heard the representative of one bank speak before this committee on the advisability of inner reserves. We have had a statement from the Inspector-General. What about the representatives of the nine other banks? What about the Governor of the Bank of Canada? What does he think of inner reserves? Mr. Chairman, there must have been some good reason in the past why there were inner reserves. Mr. Slaght, in his cross-examination, was very much concerned about the shareholders—whether they knew about the inner reserves—he was very much concerned whether the shareholders were going to get the benefit of the inner reserve. Well, I am somewhat concerned with them, but I am more concerned with the depositors. I am more concerned with the 91 per cent of the depositors who have less than $1,000 in the bank. Are they being protected by these inner reserves? Mr. Chairman, I want the evidence before this committee to show why those inner reserves were set up. I want to know if those inner reserves were set up to protect the small depositors. I have not heard that evidence yet. If it is there let us bring it forward. If in the past these inner reserves have contributed to make our banking system the greatest system in the world why destroy them, why cast them aside without hearing evidence as to their value? Mr. Chairman, I would say to you—

Mr. McGEER: Who is suggesting casting them aside?

Mr. MACDONALD (*Brantford*): Once they are disclosed they are no longer inner. I think you will agree with me in that respect, Mr. McGeer.

Now, Mr. Chairman, I do say that we should ascertain the good features, if there are any, of these inner reserves, the purpose of them, and when we have all the evidence, after we have had the advice of these bankers and the examiner of the banks, and some others, then let us have the statement regarding inner reserves. In conclusion—

Mr. SLAGHT: A little louder please.

Mr. MACDONALD *(Brantford)*: I am trying to compete with my friends Mr. Slaght and Mr. McGeer, but I find I am in third place.

Mr. McGEER: You do well on noise.

Mr. MACDONALD *(Brantford)*: In conclusion may I say that if we go along as we are going now it is possible that we will not come to the consideration of the Bank Act until the very last two or three days of the sitting of this committee, and then we will face the very danger which Mr. Slaght and Mr. McGeer both warned against, the danger that this bill will be rushed through without due consideration. I am fearful that if we go on as we are going now that in the last two or three days we will say, "Oh, let us pass the bill." I believe, Mr. Chairman, that it will be much safer if we take up the bill now, clause by clause, and pass the clauses on which we are unanimous and then come back and discuss the other clauses, and as we discuss them call the evidence we want and we can pass or reject the clauses.

Hon. Mr. ILSLEY: I would like to say a few words, and I do so at this stage, because in a sense it is a matter of privilege. The suggestion made by Mr. Slaght was that there had been some concealment from parliament of the fact that there were inner reserves—

Mr. SLAGHT: It was not made by me; it was made by Mr. Tompkins.

Mr. McGEER: It was stated in his evidence.

Hon. Mr ILSLEY: I want to point out that the statement must be taken with the speech which I made in parliament and which accompanied the statement made at the time the statement was placed on *Hansard*. In the second column on page 2621 I referred twice to the fact that there were inner reserves and I said, "This is the average of 'normal' loss experience during this period of good and bad years; everyone knows that the losses in the early thirties were much higher, requiring in certain cases the transfer of substantial sums from published reserves to inner reserves. It is clear from the table that our banking system has fortunately been able to absorb these losses and in addition that it must have strengthened its inner reserves over the last fifteen years by an average annual amount of modest size."

In answer to a question interjected by Mr. Quelch which will be found near the top of the first column on page 2620, Mr. Quelch's question being, "Is the minister including the inner and hidden reserves?" I said, "Yes". So there was no concealment or attempted concealment from parliament at the time the statement was presented to parliament, or at the time I made my speech of the fact there were inner reserves.

Now, inner reserves have been discussed at all recent meetings of the Banking and Commerce Committee when this committee was discussing the revision of the Bank Act. There was a full discussion of inner reserves and the necessity of inner reserves in 1934, and there was a full discussion of inner reserves and the necessity of inner reserves when the Banking and Commerce Committee met in 1923. And if I am not mistaken, and I will verify this, there have been times when the bank statements themselves referred to the existence of inner reserves. But I think these statements will be found in the period of about 1932, 1933 and 1934, along there, in certain banks. I have in mind one bank in particular. So don't let us get the idea that the government or the minister, at least, or the Inspector General of Banks has made any attempt in compiling this table to conceal anything or that I have in my speech concealed the fact that there are inner reserves. I would be a fool to do so. Everybody knows there are inner reserves. They have been discussed from time to time, and at least twice in my speech I referred to the fact that there were inner reserves in the sentence I have mentioned.

The CHAIRMAN: Mr. Gray, you have the floor.

Mr. GRAY: I think a good many of us would like to hear the motion and the amendment and go back to the matter of procedure. It seems to me that what we are discussing here at the moment is largely apart from the motion and the amendment that has been moved. I may shock this committee somewhat when I say that it would not greatly worry me if we moved or if the government brought in a special Act giving the chartered banks an extension of one year. As far as I am concerned I do not want this bill to be considered clause by clause in a hurried way; but if we do not conclude it, nothing is going to happen, the sky is not going to fall if we did extend the charter for one year.

Mr. MCGEER: That has been done before.

Mr. GRAY: It seems to me that what we should do now is consider the motions which are before us.

Mr. JAQUES: Mr. Chairman, I would like to associate myself, in speaking to the amendment, with what has been said by Mr. McGeer and Mr. Slaght; but I am not going to mention the subject of inner reserves. I should like to refer to the report of the Bank of Canada at page 13 and to read the following: "One indication of the prospects in this regard will no doubt be found in the extent and character of the international monetary arrangement which can be worked out by the united nations. Three plans have been put forward by British, American and Canadian experts respectively. . . ."

And then Mr. Towers says: "No doubt these plans represent something less than perfection, and criticism should be welcomed."

I should like to know, Mr. Chairman, when we shall have the opportunity of criticizing these proposals, because undoubtedly if they are to be effective they must have a bearing on our domestic, or, shall I say, national finance. How then can we intelligently do our duty in considering the Bank Act clause by clause when the whole set-up of banking may be modified to an unknown extent by international agreement. Last year we brought these proposals before parliament and we had to wait until the very last afternoon of the session, and it was about 5 o'clock when I rose to speak on these proposals. It was a Saturday afternoon and members wanted to get away, and we had no real discussion. It seems to me that this committee is the proper place for these discussions. International monetary proposals should be discussed here, because they must have a very wide bearing and control on the internal banking systems of all countries which will participate in them. I do not believe it in the best interests of this country, and not only of this country and not only of this parliament, but of the banks themselves and the bankers to curtail discussion—I do not believe that we can have too wide a discussion at this time on the general policies of the whole financial, and of the whole banking systems.

I want to make it clear at this time that I belong to a movement which does not favour the nationalization of the banks, not at all; and I would not be surprised, if history will regard us as the truest friend of the capitalist system. We want to preserve everything that is good in the system, and we believe that by adjustments it will be possible to do all that our friends the socialists would do and at the same time preserve our individual freedom and private initiative and the profit motive. Therefore, I would like to say that before we consider these clauses one by one we should have a thorough discussion of the whole set-up of banking. It has been said that we can leave a clause if we do not wish to pass it, but I cannot see how we will be in a position to know whether we can pass one section or another until we have a clear picture of what we expect—demand of the banking system. Therefore I should like to see a thorough discussion take place such as we have been having so far; I should like to have more witnesses, examine them and obtain every possible bit of knowledge that we can.

Mr. NOSEWORTHY: Mr. Chairman, the last speaker has brought me into the picture or at least the party that I represent. I think Mr. Coldwell made it quite clear that there was no question of nationalization of the banks before this committee. We accept the verdict of the house on that question when the vote was taken. If, in the future, nationalization of the Canadian banking system takes place, it will take place as a result of a mandate from the Canadian people and on no other basis, and certainly not on the recommendation of a committee of the house as at present constituted.

In speaking to the amendment to the motion, I want to support Mr. Gray. I doubt if any member of this committee feels that we can give sufficient study within the time at our disposal to this Act to grant a ten-year charter or a ten-year renewal of charter to the banks. We have less than four weeks before that legislation must be presented to parliament.

Mr. MCGEER: Oh, no.

Mr. NOSEWORTHY: I do not think this committee can be expected to give sufficient study to this question in time to get that legislation ready and have it before parliament in order to renew those charters for ten years. The question then arises as to whether we are to renew the charters for one year. I think other members of the committee have expressed the opinion that there are, in the amendments suggested, certain amendments that would benefit large sections of the people; if the charter is to be renewed for one year, I should like to know what those amendments are and the extent to which large sections of the people would benefit by them, so that they may have the benefit of those amendments during the year for which the charter is granted. Consequently, I think there should be an opportunity, even before the charter is granted or renewed for a year, to examine the most important of these amendments. I would not want to take the position that I deprived, or that I had any part in depriving, a large section of the Canadian people of any benefits that would accrue to them by the adoption of certain amendments in this Act. That is the first thing. The second is that I do not think this committee can reasonably be expected to give a full study to this question in the time that we have between now and the time the legislation must be presented. My own suggestion is that the committee discuss the possibility of giving a one-year renewal of the charters, with a study of certain amendments and probably an amended renewal. I feel that if the government had wanted this Act as it stands to-day renewed for ten years, that Act should have been before this committee three or four months sooner than it was, so that we could have had three or four months in order to study and review it. That is my suggestion.

Mr. MCNEVIN: If the C.C.F. had not taken so much time in the house, it might have been down before.

Mr. GRAHAM: Mr. Chairman, I propose to take only a few minutes. It is always very hard not to be moved by speeches made by Mr. McGeer and Mr. Slaght.

The CHAIRMAN: And Mr. Macdonald—

Mr. GRAHAM: And perhaps Mr. Macdonald. But I do want to say, with deference, that I object not to their holding their ideas, because that is their privilege, but to the suggestion that God or the people put those ideas into their heads and that the rest of us sitting here are either hopelessly confused in our thinking or are so completely wrong that we should be classed with the stupidly inefficient.

Mr. MCGEER: Mr. Graham, I certainly object to that. I made no suggestion in my speech of that kind. Any ideas I have came from careful and prolonged study, and I certainly never cast any reflexion upon the understanding, motives or ability of any member of this committee.

Mr. GRAHAM: I am very glad to hear that statement.

Mr. McGEER: I want that statement withdrawn.

Mr. SLAGHT: The remarks of the honourable member for Swift Current were entirely unwarranted.

Mr. McGEER: They were thoroughly impertinent, Mr. Chairman, and should be withdrawn.

The CHAIRMAN: Go on, please, Mr. Graham.

Mr. GRAHAM: In dealing with Mr. Slaght's contribution this morning, may I point out that there is not a single argument that he advanced which could not be advanced under consideration of the bill as proposed by the mover of the motion. But when we come to the matters that Mr. McGeer raised, and the matters that Mr. Blackmore and Mr. Jaques raised, may I say that is the reason that, early in the business of this particular committee, I voted against the bringing before this committee at this time, you will recall, before we considered bill 91, the report of the Bank of Canada. I wish to put myself on record, despite what Mr. McGeer says, that my whole attitude in public life is dictated by a concern for the welfare of the people and the institutions that we have in this country. Where anybody, including Mr. McGeer or any other member of this committee or any witness, can show me that we can improve the banking system, then I am going to support such improvement. I have no preconceived notions of what we will do with each section at all; and like Mr. Macdonald, I propose to reserve my judgment until the conclusion of the evidence, when the committee is called upon to pass judgment upon the different sections. But I did want to say something with regard to Mr. McGeer's amendment, which is that we should first of all discuss the report of the Bank of Canada. He has on more than one occasion in the house and in this committee drawn attention to the statement made by the Governor of the Bank of Canada, "The adjustments required will clearly be of unprecedented magnitude, and bold planning on the part of labour, farm and business organizations, as well as governments, is urgently needed." I put an entirely different interpretation on that statement from the one Mr. McGeer puts on it. If you will notice the section of the report in which that statement is included, it is dealing with large post-war problems and the whole question of the national economy in regard thereto. I would say that there is not a single member of this committee who has not, in one form or another, either in the house or to his people back home, given utterance to that statement, that there is a period of readjustment that will occur after this war that will be of unprecedented magnitude. But I know that Mr. Towers never intended by that statement, which I took the trouble to read again very carefully yesterday, to confine it to a question of our financial policy. He is plainly dealing with a great many larger questions which he indicated when he appeared before this committee. I want to point out to Mr. McGeer that if we were to consider those, we would have to consider what Mr. Jaques proposed that the committee should do, and go into the whole question of international financial policy. In addition, I for one believe that the financial and banking system of this country is only the handmaiden to the great essentials that must be recognized and made part of our policy. I agree with Dr. Clark in what he said when he appeared before the reconstruction committee, and I agree with Mr. Towers when he draws attention to the essentials that we must consider if we want to discuss the problem of unprecedented magnitude that he refers to. If the committee proposes to discuss that particular statement, I would want to go into the whole question of the efficiency of protection as contrasted with a free trade policy. I believe Dr. Clark was right when he said the first essential is Canada's joining with other countries to ensure peace in this world. That is the first essential; the second is the increase of our world markets, and the third is international financial stability, because without that you cannot have free and unrestricted trade between nations. Then, of course, there is the need of a wise domestic financial policy. I would add one or two more requirements to those that have been mentioned. I think that the future demands intelligent leadership on the part of labour. I believe labour largely holds the secret of whether this nation will or will not be able to accomplish what we hope to accomplish. Then, as I have said in the house, I should like to see this country encourage the growth of the true co-operative as a permanent element of true competition. Those are the essentials. But to ask this committee to examine all these things which I consider important, the different matters that Mr. Jaques considers important and the matters that Mr. McGeer considers important, before we get down to our first task of dealing with the bill that is before us, bill 91, is something I think should not be done. No amendment to the bill would in any way affect parliament in its powers of dealing with the matter of our general financial policy in any way it sees fit. I am, therefore, going to vote against the amendment and support the motion.

Mr. McGEER: Mr. Chairman, there is just one question I should like to ask.

The CHAIRMAN: Mr. Ryan has the floor.

Mr. McGEER: If I may, with your consent, Mr. Ryan, I should like to put one question, in view of what the Minister of Finance has said to-day and in view of Mr. Tompkins' statement to the committee. Would it be possible to get a breakdown of items 10, 13 and 15 in the statement, which is exhibit 22 and which appears at page 2620 of *Hansard*?

Mr. TOMPKINS: As I explained last week, I forget the day, I am working on a breakdown of item No. 10; and I indicated that the difficulty was the difficulty of there not being uniform classifications of various items of expenses in the different banks. I have been in communication with them by telephone and by letter, and I hope very early next week to be able to present that.

Mr. McGEER: What about items 13 and 15?

Mr. TOMPKINS: Items 13 and 15, in my estimation, do not involve any breakdown. I mean, those items speak for themselves, I think. They will be dealt with, of course, when the Minister makes his statement, in a general way; but I cannot see that there is any question of breakdown in that respect.

Some Hon. MEMBERS: Question.

The CHAIRMAN: Mr. Ryan has the floor.

Mr. RYAN: Mr. Chairman, as I understand the situation here this morning, there will be no objection on your part and I do not suppose there will be any objection on the part of any members of the committee or that any obstruction will be made to any suggestions or any speeches that the members want to make during the discussion of the bill. Therefore, that being understood, I would ask if Mr. McGeer would not withdraw his amendment. My reason for doing that is this. At the third meeting of this committee I suggested that we start a study of the bill immediately, at the same time as the steering committee was decided on; and to be consistent with myself, if this resolution comes before the committee, I shall be obliged to vote for the resolution. If my resolution had been put into effect after the third meeting, I really believe that to-day we would be more advanced. The speeches that have been made since this committee started certainly have been very interesting and no doubt very instructive. But I think if we were to start off with item No. 1 of the bill, it would be passed in a minute because there is nothing at all to it, or the other items right down to 5. Then we would start with 5— —

Mr. NOSEWORTHY: We are at No. 5 now.

Mr. RYAN: I know, but we have not started yet. Let us start when we get to 5. We can discuss it from now to doomsday if we want to. It is my belief, and I think Mr. McGeer will agree, that nobody will object to his making any suggestions or examining anybody that he wants to examine during the discussion of the bill. I just wanted to say those few words because I would not like any one to think I wanted to make any obstruction for Mr. McGeer or anybody else as to their being able to do anything they want to do in this committee.

Mr. McGEER: In reply to that statement, I would certainly want every member of the committee to feel that I am anxious to act in the same spirit of co-operation that the honourable member for Three Rivers has suggested. But my difficulty is this: I am asked to consider and pass upon a section of a bill without a great mass of evidence which may or may not affect my decision on that particular section. Now, I have been through a great many committees of this kind both in the provincial legislature and in this house, and it does seem to me that if I am going to intelligently pass upon any sections of the bill I should be as well informed as I can be not only upon what that section means but what its relation to the other sections of the bill is. The reason I have suggested to the committee that we should consider the report of the Bank of Canada first is that I believe the Bank of Canada is the basis of our monetary system, and I find a great distinction between the monetary system of Canada which is built around the citadel of the publicly owned Bank of Canada and the commercial banking system. I have very little fault to find with the commercial banking system as such, but when it moves into the realm of public finance then I find myself called upon to decide what are the principles upon which our monetary system should be based and to what extent the commercial banking system should be called upon to carry the burden of public financing. So, while I am heartily in agreement with the suggestion of cooperation, and I hope that is the spirit that this committee will work in, in cooperation with the Minister of Finance and his department, I am still firmly convinced that to rush to a consideration of the bill section by section before the evidence which we ought to have is available—we have had at least five witnesses before us who have not been fully examined—would be a mistake, and I cannot agree to that suggestion.

The committee adjourned to meet Tuesday, June 6 at 11 o'clock a.m.

June 6, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Is it your pleasure, gentlemen, that we begin proceedings by a statement from the Minister?

Some Hon. MEMBERS: Carried.

Hon. Mr. ILSLEY: Mr. Chairman and gentlemen, I have prepared a statement on the inner reserve and taxation position of the chartered banks. It is a long statement. I have had it mimeographed and it will be distributed to the members of the committee so that it can be followed, perhaps, more readily. I shall wait until it is distributed before I begin reading.

Mr. SLAGHT: Will this go into our report of the evidence as well, Mr. Chairman?

The CHAIRMAN: Certainly.

Hon. Mr. HANSON: It is going to be read.

Hon. Mr. ILSLEY: I feel that I should make some reference to the fact that to-day is one of the great days in the history of civilization. It is what is known as "D" Day. I do not think that we should start even a committee, let alone parliament, without making some reference to that fact. I do not know that I have any lessons to draw from that. If I had, I think one would be that members of this committee, like all Canadians, should realize the seriousness of their responsibilities at this time and from this time on.

INNER RESERVES OF CHARTERED BANKS

I have given very careful consideration to the points raised in this committee regarding the inner reserve position of the chartered banks, and, with the committee's permission, I would like to make a statement in regard to the conclusions which I have reached. The discussion has reflected a great deal of confusion and misunderstanding in regard to the subject, and to clarify the whole position my statement has, I regret, to be longer than I would have liked. However, as a wrong decision might so adversely affect the interests of millions of people, I have felt it necessary not only to give the most thorough consideration to the issues raised but also to explain fully to the committee the reasons for the decisions I have reached.

First, let me say a word about the meaning and purpose of the inner reserves of the banking system. Some members of this committee have appeared to suggest that they are unnecessary and must have some evil or sinister purpose. I wish to emphasize as strongly as I can that they are a necessary and universally recognized part of the business of banking. No prudent banker would carry on his business without them. No bank would be likely to survive which overlooked their necessity. The business of banking is based almost entirely on *confidence.* It deals in *credit,* exchanging its own evidences of debt for the evidences of debt of other people. That is to say, it issues its own promises or undertakings to pay cash on demand, or on short notice, which promises or undertakings serve as the popular medium of exchange and as the form in which the liquid savings of the public are held. Going to the other side of the balance sheet, the assets of the banking system, which are the security behind these promises or undertakings given by the banks, are largely only the promises or undertakings of other individuals or business firms or governments to pay cash, usually over a longer period of time. Assuming no intervention of higher authority, the promises or undertakings of the banks to pay cash on demand or on short notice are only good as long as banks are conducted in such a way as to retain the confidence of the public in the banks' ability and willingness to pay, and that confidence can only be retained by prudent selection and conservative management of those promises or undertakings of debtors which constitute their assets.

Obviously, such a business must be attended with very considerable risks. This is the reason for the cash reserve provision and for all the other controls placed upon the business of banking by parliament. Contrary to an apparent belief in certain quarters, the 5 per cent cash reserve requirement is, of course, a limiting, not an expansive provision. What parliament says to the banks is this, in effect: While you hold assets of something over 100 per cent to meet all your liabilities to the public and while you may believe that those assets are sound, nevertheless you must keep non-productive cash in the form of Bank of Canada notes or deposits equal to at least 5 per cent of your liabilities. As we all know, however, the banks have found by experience that they must keep on the average a cash reserve of about double that size. In addition to this 10 per cent cash reserve, they have also found it necessary to keep secondary reserves of substantial magnitude in the form of highly liquid, quickly realizable assets, usually very short term securities of the highest grade. The rest of their assets may be in commercial loans or other types of assets not so quickly realizable. Their total assets, however, must be in excess of 100 per cent of their liabilities to the public, this excess being represented by the amount of the shareholders' equity. That simple and obvious fact seems to be constantly overlooked by those who speak about a ten-to-one ratio. The banks' liabilities to the public are offset and protected by more than 100 per cent of assets; these assets are carefully selected and can be divided into various categories according to the speed with which they can be turned into cash; approximately 10 per cent must be actual cash in the form of notes of or deposits with the Bank of Canada and an additional considerable amount capable of being realized in cash on practically a moment's notice. Analysis of the balance sheet of any bank will make this readily apparent.

Nevertheless, in spite of all the precautions which the banks are required to take by law and by the dictates of experience, if too large a proportion of the promises or undertakings made to the banks by the debtors of the banks is not fully honoured as the debts come due, the banks will not be able to meet the promises and undertakings which they have given to the public. If a bank fails to make full and conservative provision in its balance sheet for possible failure of its debtors to pay in full, it is running the gravest of risks and representing too optimistically its position to the public who are its creditors.

This lesson has been illustrated so many times in the history of Canadian banking that it is amazing that it could apparently be overlooked by some members of the committee. In this connection, I can imagine no more salutary preparation for the work of this committee than a study of the reasons for the failure of those banks which had to suspend operations in the last thirty or forty years, and also of the experience of those banks which had to be taken over by other banks. If I am not mistaken, you will find in every case over-valuation of assets; in other words, inadequacy of inner reserves or failure to provide against the inevitable risks of banking,—aggravated of course in some cases by imprudent or unsound banking. It was this type of problem that caused great concern to previous banking and commerce committees and which led to several of the salient features of our present banking legislation.

The first of these to which I wish to call attention is the form of the annual and monthly returns required by the Act to be made to the Minister of Finance. If you look at section 53 of the present Act, you will find the requirements governing the form of the *annual* statement. From this form it seems to me clear that parliament not only intended the banks to set up inner reserves but required them to do so. Thus, paragraphs (*h*), (*i*), (*j*), (*k*) and (*l*) of subsection 3 require the banks to report their holdings of various types of securities at a figure "not exceeding market value". That is to say, their securities are to be written down to a figure not in excess of that for which they could be disposed of in the open market. Furthermore, paragraphs (*o*), (*p*) and (*q*) of the same subsection require the banks to report their loans at a figure reduced by making provision for estimated losses. The exact phrase, tagged on to the end of each of these paragraphs, is: "estimated loss provided for". Before the 1934 revision of the Act, this phrase read: "after making full provision for all bad and doubtful debts". The same requirements for valuation of loans and securities are to be found in the form stipulated for the *monthly* return, which is schedule H of the present Act. You will note that in neither the annual nor the monthly statement is there any provision for disclosing the amount of estimated loss provided for on loans or the amount by which the value of securities is written down. Neither form includes any item or caption under which these allocations to reserves are to be separately shown. On the contrary, both require that there be shown only the net value of the assets in respect of which loss or depreciation in value is likely to be experienecd. I would emphasize that this is despite the fact that on repeated occasions previous banking and commerce committees had explained to them the practice followed by the banks in setting up inner reserves and discussed frankly the question of whether it was desirable to disclose these inner reserves. Only one conclusion can be drawn, and that is that inner reserves are recognized and required by Canadian banking legislation.

It may be possible that some members of this committee had never previously heard that the banks keep inner reserves, but certainly that could not be said of previous banking and commerce committees. The inner reserve problem was explained and discussed in the revision of 1934, and that of 1923, and that of 1913, and, I have no doubt, in the revisions of earlier years. As I said the other day, several of the banks have referred to them in public statements in the trying period of the early thirties and I called specific attention to them in at least two references in my speech on second reading of Bill 91 in the House of Commons. I am confident that there has been for a long time not only knowledge of their existence, but a healthy appreciation of their necessity in the minds of nearly all members of this committee and of parliament, and I would add also of the general public. Canadians have pride in the strength of their banking system and realize, I believe, that its ability to protect their savings during the early thirties when banking institutions in some other countries were toppling like house of cards, must have been based not only on reasonably prudent management but also on the strength of reserves built up over a long period of time.

I have called attention to certain provisions of the Bank Act to indicate that inner reserves are not only explicitly recognized but also required by law. Here is the way they are set up in practice. At the end of each year, or more frequently, if necessary, the banks go carefully over their loans and investments, writing off those which have been definitely ascertained to be bad and making specific appropriations against loans or other assets where there seems reason to fear a total or a partial loss. But, in addition, banks know from experience that they have made loans and investments which will turn out to be bad or which they will not be able to realize in full, although they cannot at the moment put their finger on the particular accounts. It is impossible for them to know at any given time on which of their loans and investments they will suffer losses and exactly what the amount of the losses will be. Nevertheless, it is most unlikely that any portfolio of current loans amounting to, say, $100 million can be expected to realize $100 million, even though the individual loans may be considered quite good. Experience has proved that unseen bad debts are always present, and that there will always be a percentage of loss varying according to times and circumstances. Therefore, in addition to specific provision for losses, banks necessarily have to set aside a general reserve to meet the losses they are not yet aware of, the inevitable losses that are latent in their loan accounts and the losses likely to be suffered upon realization of other investments or depreciation in the value thereof. These are called general contingency reserves and are indeed what bankers usually mean when they speak of inner reserves.

These reserves will vary from time to time, but unless they are adequate to meet the losses that are bound to occur over a period of years, the banks, assets are being over-valued in the annual report to shareholders and in the annual and monthly reports required to be made to the Minister of Finance. Inner reserves, however, are not a matter in which the managements of the banks are alone concerned—and here I come to two other features of Canadian banking legislation which are designed to guard against unsound valuation of assets and assure the provision of adequate reserves.

The committee will recall the elaborate provision of section 55 of the Bank Act which deals with the shareholders audit—defining the qualifications of the auditors, requiring the minister to prepare a list of persons eligible for appointment as such, prohibiting the same two auditors or members of their firms from being appointed for a period longer than two years, defining the type of the audit to be made and requiring the auditors to report individually or jointly upon any transactions or conditions affecting the well-being of the bank which are not satisfactory to them and upon loans which in their judgment are inadequately secured, specifying the nature of their reports to shareholders, requiring the reports to be read to the shareholders, and so on. All reports made to the general manager and the directors are to be sent simultaneously to the Minister of Finance and the minister may from time to time require the auditors to report to him upon "the adequacy of the procedure adopted by the bank *for the safety of its creditors and shareholders*". Furthermore, the report of the auditors to the shareholders must state, inter alia, "whether, in their opinion, the statement referred to in the report discloses the *true* condition of the bank". It will be apparent that these shareholders' auditors perform a quasi-public duty and those familiar with the long controversy which went on before this system of external audit was provided for will remember that the primary object of Parliament was to safeguard against over-valuation of assets and assure the safety of the banks' creditors and shareholders by providing a system which would disclose the true condition of the banks' affairs. The previous practice of reliance solely upon the system of internal audit had not prevented either the failure of certain banks or the ability of the management of certain banks to cover up for a time an impaired position by failing to write down the banks' assets to their true value. In 1913, therefore, parliament insisted upon this system of audit by external auditors representing the shareholders, and in 1923 it greatly strengthened the relevant provisions of the Act by providing for two shareholders' auditors for each bank, selection of such auditors from a government panel and a system of rotation of tenure of the office to safeguard against possible continuing collusion between management and auditors.

In addition, parliament in 1924 provided for the establishment of the office of Inspector General of Banks, in order to ensure additional examination and inquiry into the affairs of each bank by a government official responsible to the Minister of Finance. Section 56 of the Bank Act requires the Inspector General, from time to time, but at least once in each calendar year, to make such examination and inquiry into the affairs and business of each bank as he may deem necessary or expedient, and for this purpose he has all the powers of a commissioner appointed under the Inquiries Act and may take charge on the premises of the assets of the banks or any part thereof for the purpose of "satisfying himself that the provisions of this Act having reference to *the safety of the creditors and the shareholders* of each such bank are being duly observed and that the bank is in a sound financial position". The results of his examination and inquiry must be reported to the Minister of Finance. Here again, the purpose of parliament was to assure the safety of creditors and shareholders, by seeing that assets are soundly valued and that the banks are maintained in a sound, financial condition.

It will be apparent from what I have said that the inner reserves of the banks are nothing more or less than the reserves for bad and doubtful debts which the banking business requires. They constitute the first line of defence against losses on loans and losses on investments which may have to be realized in cash on a large scale and on short notice and which by law cannot be valued at more than current market prices. If the public functions of banking are to be performed, if the banks' demand obligations to their millions of depositors are to bet met, and if the banks are to provide credit freely for the needs of trade and industry, these reserves must be adequate to absorb the shocks of adverse business conditions or fluctuations in security markets. If inner reserves are inadequate, bank managements will be hesitant to grant credit freely and take the risks that proper service to the public requires. If as a result of inadequate inner reserves, banks have frequently to resort to published rest funds to meet inevitable losses on loans or shrinkage in the value of their investments, public confidence will be impaired—may be lost altogether. Once confidence is impaired, the need for inner reserves becomes all the greater. As a last resort, the central bank may come to the rescue but reliance on the central bank should not be a steady diet or be any excuse for failure of the chartered banks to maintain themselves in a sound and strong condition.

In the case of an ordinary business, a reasonable reserve for bad and doubtful debts is a legitimate charge to operating expenses and, incidentally, I might add that they are rarely disclosed in the balance sheets of ordinary companies. Similarly, reasonable allocations to the inner reserves which are imperative in the special business of banking should be regarded as operating expenses and deducted from gross earnings before taxable net income is calculated. It seems to me that from the point of view of taxation the only real question is whether the allocations to inner reserves are excessive. If such reserves are excessive, if they are more than necessary to take care of the probable losses of the banks, then the excess and only such excess should be subject to tax. Experience in the thirties, however, has shown that the reserves which the banks set aside by way of general provision for losses were by no means excessive. Thus, when England left the gold standard the situation in Canada became such that at one stage the government found it necessary to pass an order in council which permitted banks to value their investments above market value; fortunately that order in council was used only to a limited extent and lapsed after a few months. Moreover, in 1933, as has been pointed out to the committee, several banks found it necessary to transfer substantial amounts, aggregating $29·5 million in all, out of published rest funds in order to replace inside general contingency reserves which had been exhausted or nearly exhausted. I know something of the worries faced by two or three of my immediate predecessors and the Department of Finance in recent years and I can assure members of the committee that up at least until a very recent date these were not worries that the allocations being made to inner reserves were too large.

Decision in respect of whether inner reserves at any time are adequate, less than adequate or more than adequate, is a matter of judgment, a very difficult matter of judgment which must be based on thorough examination and knowledge of the affairs of the banks and on the lessons of experience. In my opinion, it is a responsibility of the shareholders' auditors and of the Inspector General of Banks to see not only that inner reserves are built up to the level of adequacy but also that they do not exceed this level. Look for a moment at the position of the shareholders' auditors. If they allow over-valuation of the bank's assets, they may be jeopardizing the entire investment made by the shareholders of the bank. On the other hand, if they allow real under-valuation of the banks' assets, they are not allowing the shareholders to obtain as fair a return on their investment as the bank's earnings justify. Neither of these errors is justifiable. A proper sense of their trusteeship to the shareholders whom they represent requires the auditors to exercise the soundest judgment they posses in certifying that the assets of the bank are truly valued—that is to say, neither over-valued nor under-valued. In the final analysis, however, it is the Minister of Finance who, with the information and advice supplied by the shareholders' auditors and the Inspector General, must be responsible for reaching a decision, from the point of view of public policy, as to whether banks' reserves are adequate or more than adequate. He is the minister charged by parliament with responsibility for supervision of the banking system in the general public interest. That is a serious responsibility and can only be soundly discharged if he is also responsible for determining when inner reserves are adequate and whether the annual appropriations to them are a proper charge to operating expenses. Knowing this, the Income Tax Department relies on the examination and audit made on behalf of the Minister of Finance and accepted by him, to determine whether the provision for losses made by the banks is a reasonable one. It does not itself set up an independent and competing system of bank examination and audit, but assumes that the Minister of Finance is properly discharging his important public function in respect of supervising the banks. This is the arrangement which has been in effect continuously since the Income War Tax Act was enacted and is, I believe, the only practicable arrangement.

Under this arrangement, to the extent that the inner reserves become larger than are deemed reasonable and necessary, the Minister of Finance has the responsibility of seeing that the annual provision for losses made by the banks is subjected to tax. This is, I will admit, a moral responsibility but I find it difficult to imagine a case in which it would not be effective. Nevertheless, now that the question of the adequacy of inner reserves is becoming more than an academic one and in spite of certain objections, I believe it desirable that the Minister of Finance should have specific legal authority to direct that where, in his opinion, amounts transferred to a bank's inner reserves are in excess of reasonable requirements having regard to all the circumstances, any such excess should be taken into net income and subjected to tax. Therefore I am proposing to move at the appropriate time an amendment to the bill to accomplish this purpose.

While there has not been time to secure the approval of the Department of Justice to the drafting, I expect the amendment will take the form of adding a new subsection to section 56 reading substantially as follows:—

> The Minister, if in his opinion the amounts set aside or reserved by any bank out of income, either by way of write-down of the value of assets or by appropriation to any contingency reserve or contingent account, for the purpose of meeting losses on loans, bad or doubtful debts or depreciation in the value of assets other than bank premises or for such other contingencies as are properly provided for by banks are in excess of the reasonable requirements of the bank, having regard to all the circumstances, shall notify the Minister of National Revenue and specify the amount by which the amounts so set aside or reserved by the bank are in excess of those deemed by the Minister to be necessary and reasonable for the purposes of any deduction under the Income War Tax Act but nothing in this subsection shall be construed to give the Minister any jurisdiction over the discretion of the directors of the bank with regard to amounts set aside, reserved or transferred to any reserve or other fund from income upon which taxes have been assessed under the Income War Tax Act or the Excess Profits Tax Act, 1940.

I wish to emphasize again that inner reserves which are no more than reasonable and necessary, are not part of shareholders' equity. They represent only the writing down of assets to their true value and should not be subject to tax. The committee, however, is interested in whether present reserves are only reasonable and necessary and I want to give it the results of my best judgment on that matter. For reasons which may be obvious to the committee I was not this year able to make a comprehensive review of the banks' positions as early as I would have liked. I have now been able to go over the situation thoroughly with the Inspector General with particular reference to the inner reserve positions of the chartered banks as at the end of their 1943 fiscal years, and I have also taken the opportunity of discussing them with the Deputy Minister of Finance and the Governor of the Bank of Canada. It is our unanimous judgment that the inner reserves of at least seven of the banks are clearly not excessive, but that in the case of two, possibly three banks, the allocations made at the end of the year 1943 may have represented an undue degree of conservatism and may have brought the total reserves of these banks to a level somewhat higher than we, in the light of to-day's conditions and considering only the taxation aspect, could justify as a reasonable safeguard against the probable contingencies of the future. I must emphasize that our view of what is reasonable and necessary is only a matter of judgment, as no rule of thumb can be applied to determine the value of bank assets which vary greatly in character and diversification and as it is given to no man to forecast with assurance the probable contingencies of the future. Moreover, I must admit that we are now acting with the advantage of hindsight to some extent—in other words we have formed our judgment in the light of certain recent, favourable developments, including particularly the declared policy of the Bank of Canada and the Government to maintain a low level of interest rates after the war. That development which was announced only in February of this year was not foreseen when the bank management and auditors had to reach their decision in the latter part of 1943. Finally the differences in judgment fall within a narrow range, having in mind the magnitude of the assets involved. I may add that the banks concerned have been advised of my views and naturally they believe that their own judgment is sounder than that reached by my advisers and myself, and justified by their more intimate knowledge of their own bank's affairs, the experience they have had in the past, and their conception of future contingencies and their bank's responsibilities in relation thereto. Nevertheless I am the one responsible for the public policy aspects of this matter and therefore, after the further examination necessary to determine the precise amount of the excess in each case, I will advise the Minister of National Revenue of the addition which in my opinion should be made to the net income of the banks concerned for the purpose of taxation.

Before I leave this subject of taxation, I wish also to assure the committee that all additions to rest fund, out of earnings, and to undivided profits are made out of net income after taxes have been deducted. Moreover, to the extent that banks have made recoveries in recent years which have made it possible to reduce the annual allocation to inner reserves and still maintain reasonably adequate reserves, the effect is to make the amount of the recoveries subject to tax. Indeed, there have been conspicuous illustrations of the taxation at the much higher wartime rates of recoveries of bad or doubtful debts written off during the bad years of the thirties. One final point in regard to taxation, and this also should be stressed: at no time in the course of a bank's business could shareholders get their hands on those inner reserves unless they were brought into the profit and loss statement and thereby made subject to corporate income and excess profits taxes. Moreover, they would also be subject to individual income tax when paid out as dividends to shareholders.

I come now to the only remaining question, which is whether we should require the banks to disclose the amount of their inner reserves in their published statements and whether I should take the responsibility of publishing to the world at this time the aggregate amount of the inner reserves held by the Canadian banking system as a whole. After the most careful consideration and with a full sense of my responsibility, I have reached the decision that it would be unwise and against the public interest to do either—although I intend to show later the amount the banks added to the general contingency reserves during the last fifteen years.

It seems to me clear beyond peradventure that it would not be in the public interest to require the individual banks to publish their inner reserves. The amount of those reserves is necessarily subject to fluctuations, normally increasing in periods of prosperity and decreasing when business conditions are less favourable. Moreover, the fluctuations, including those due to unsettlement in security markets, are frequently of substantial magnitude. Furthermore, both the size of needed reserves and the probable fluctuations in them will show considerable variation as between individual banks depending on the nature of the business they do and the degree of diversification of their accounts. It would be impossible to apply a common yardstick to all banks and without the most thorough investigation of a bank's affairs it would be impossible to know what conclusions could soundly be drawn from published figures of inner reserves. For instance, small reserves might be considered by certain people as the reflection of a small loss ratio due to specially conservative banking but other persons might be equally likely to draw the conclusion that the bank had been imprudently managed and had been compelled to use up most of its accumulated inner reserves. Similarily, if the reserves appear to be large, the bank in question might be criticized by some as having followed a policy of excessive prudence whereas other persons might jump to the conclusion that the bank was anticipating heavy losses or had to build up large reserves because of imprudent banking. No one not wholly familiar with the bank's affairs could tell which type of criticism was right, and in such a situation it is not difficult to imagine the confusion and misunderstandings that would be created and the dangers that would result to the depositors and shareholders of sound and well-managed banks. There would be the further danger arising each time an individual bank had to draw on its reserves for any considerable amount. A decline in the reserves of one or two banks, particularly while others were showing no decreases or smaller decreases, would almost certainly be interpreted under most conditions as an evidence of the unsoundness of the particular bank or banks, whereas the facts might be quite otherwise.

For these reasons, I do not think that anyone who is really interested in the soundness of our banking system and in the protection of the millions of its depositors will, after mature consideration, seriously recommend that individual banks should be required to disclose their inner reserve position. While some members of the committee may perhaps find it more difficult to understand, it seems to me that the objections to my publishing the total inner reserve position of all the banks are almost equally serious. Certainly, I find them conclusive. The failure to publish such reserves does not involve withholding information from the public but rather misinformation. As I have tried to show, inner reserves are merely a bookkeeping method by which banks assets are reduced to their true and proper value. If they are only reasonable and necessary, they do not represent undisclosed assets or form part of shareholders' equity. Their publication would be certain to mislead the public. It would almost certainly give rise to controversy as to whether they were too large or too small and in the absence of adequate information upon which sound judgment only could be based, the confusion and misinterpretations would, I think, be dangerous to the banks and inimical to the welfare of their depositors. The total amount of reserves at any given time, standing by itself, has very little significance, because the demands upon such reserves must be considered over a considerable period of time. If the total of such reserves can be published to-day, there would seem insufficient reason for not continuing to publish such totals from time to time or year by year. Any substantial reduction in a given year, however, and unquestionably there will be on occasions substantial reductions, would immediately lead to questioning and suspicion which would have no real foundation but which might readily lead to impairment of public confidence in the Canadian banking system.

I am not one of those who like to decide against a proposal because it involves doing something which has never been done before. Nevertheless, it seems to me that a tradition so rooted and so general in the practice of banking throughout the world, that inner reserves should not be published must have some real and valid basis in the experience of men. I have already referred to the special nature of the business of banking and the extent to which it is based on confidence. We know the extent to which the banks are the depositories of the small savings of the public. We know how easy it is to distort facts about technical matters and to start rumours that have no foundation. We know that once started, baseless rumours give rise to whispering campaigns that are likely to cause an untold amount of damage, particularly to persons with small incomes and small savings. I am convinced that we should not lightly take such risks.

If there were some real and valid purpose, my answer might be different, but so far as I can see the only basis for the demand which is now made appears to arise out of a suggestion that the banks may be making too much profit. To my mind such a suggestion is entirely unwarranted. It shows a failure to understand the significance of the figures on bank earnings and expenses which I placed on *Hansard* on May 2nd last.

Let me attempt to make the position clearer by going over that statement which is to be found on page 2620 of *Hansard*. For the moment let us confine ourselves to the record of the fifteen years 1929 to 1943. Current operating earnings for the banking system as a whole averaged $138·7 million during that period. Current operating expenses averaged $112·3 million and it was intended to be clear from the items of supplementary information given at the foot of the table that current operating expenses as used in this table do not include losses. One member, I believe, assumed that losses were included in Item 10. This is not the case—the breakdown of the figures included opposite Item 10 is being given to the committee by the Inspector General. The difference between current operating earnings (that is, $138·7 million) and current operating expenses excluding losses and specific provision for losses (that is, $112·3 million) is $26·4 million. This is the amount which was left over out of "current operating earnings" for *all* other purposes of the banks. On the average the banks paid dividends to shareholders of $13·6 million during the period. Deducting dividends we find (Item 13) that there was left out of current operating earnings only $12·8 million available for losses on loans, investments and other assets and for other contingencies. However, the banks had another source of income (Item 14), namely, capital profits, including non-recurring profits, which averaged $2·5 million per year during the period. Adding Items 13 and 14 together, we get the sum of $15·3 million per year. Item 15 shows, however, that the annual amount required for actual losses or for specific provision for losses on loans, investments and other assets, after taking into account all recoveries, averaged $13·8 million per year during the fifteen year period. Obviously, this means that on the average there was only $1·5 million per year available for additions to rest fund, undivided profits and general contingency reserves. If you make an analysis of the rest fund and undivided profit accounts, you will find that the additions made to them out of earnings amounted to $12·2 million during the period. This leaves the sum of $10·3 million which must have been added to the banks' general contingency reserves during the period. Put another way, the banks added to these contingency reserves during the period only the very small amount of ½ of 1 per cent of the increase in their assets. Surely no one can say that this represents an undue or excessive increase in these contingency reserves.

There is one point which I wish to make abundantly clear. Certain members of this committee have shown by their questions that they do not understand it. The figures in Items 13 and 14, first column, namely, $12·8 million and $2·5 million, totalling $15·3 million, are arrived at *before* provision for losses or appropriation to inner reserves, *not after*. Similarly, the corresponding figure for 1943, namely $22 million, is before any provision for losses or appropriation to inner reserves, not after.

I referred above to the average amount of dividends received by shareholders during the fifteen-year period. It was equivalent to an average rate of only 4·6 per cent on total shareholders' equity. Surely that is a very low rate of return on the investment the shareholders have at stake in the banks even if we overlook the double or excess liability to which bank shareholders were subject during the period. Even if we take as total shareholders' net income, the sum of dividends, net capital profits and net current earnings available for losses less the average annual net amount required for losses, we find that this amounted to only 5·09 per cent of total shareholders' equity on the average for the fifteen-year period. In 1943, which was much better than an average year, it amounted to only 6·03 per cent. These percentages, it will be noted, include the income which was added to general contingency reserves, rest fund and undivided profits. By no stretch of the imagination can earnings such as these be regarded as anything but modest. They are indeed lower, in many cases much lower, than the earnings reported by other businesses subject to similar risks and managed with comparable efficiency. They contrast with an earning rate of 8·8 per cent shown by the Federal Reserve Board for all member banks of the U.S. Federal Reserve system for the year 1943.

The table which I placed on *Hansard* is, I believe, a conclusive answer to the doubts and suspicions that have been raised in this committee as to the profits of the Canadian banking system. Those who take the time to study it carefully will find it a mine of valuable information in regard to bank operations—the sources from which banks derive their earnings and the amount obtained from each source; the various types of operating expense to which banks are subject and the amount of each; the changing trends in the various items of income and outgo over the last fifteen years; the amount which banks had available on the average and for the latest year from current operating earnings and from capital profits in order to meet losses, specific provision for losses and general contingencies; the amount which had to be set aside on the average over the last fifteen years to meet losses and specific provision for losses after taking all recoveries into account; and various aggregates and ratios to facilitate analysis and interpretation.

After careful consideration, I have reached the conclusion that the information contained in the table should be made available year by year; and at the appropriate time, I propose to move an amendment to Bill 91 to require the minister to collect and assemble similar information as soon as possible after the end of each financial year and to prepare a statement for the year along the lines of the one I tabled in *Hansard*, to be published in the *Canada Gazette* and to be tabled in parliament. This procedure will, I believe, enable parliament and the public to obtain regularly the information which is significant for determining whether the banks are making too much profit and whether they have too much left over out of earnings available for inner reserves to take care of their probable requirements over a period of years. It will provide a great deal more information about the Canadian banking system than has ever been published before or than is available to my knowledge in respect of the banking system of any other country, except possibly the United States.

I trust the position I have taken and the actions I am proposing to take will commend themselves to the judgment of all members of the committee who desire to assure a banking system which will be sound and strong, capable of serving all legitimate needs of the public, and ready and able to provide its essential services at a reasonable cost to the community.

Mr. Blackmore: Mr. Chairman, would you mind telling us what course of procedure we propose to follow? Is it the intention to ask the Governor of the Bank of Canada to come forward, or is it the proposal to go on with the resolution that was brought in?

The CHAIRMAN: What is the pleasure of the committee in regard to procedure?

Hon. Mr. HANSON: Before we discuss this matter, may I ask the Minister a question?

The CHAIRMAN: Yes.

Hon. Mr. HANSON: It is a question arising out of the statement which he made. He referred to the order in council that was passed, I think, about 1933, but he did not make clear what I understand is the case, namely that the order in council allowing the banks, shall I say, to over-value securities, referred only to government securities and long-term securities; and of course government securities include provincial securities. Did not that order in council apply only to long-term government securities?

Hon. Mr. ILSLEY: I do not know about that. That may be correct.

Hon. Mr. HANSON: That is a fact which ought to be made clear, because the government of the day has been ruthlessly criticized by certain members of this committee for having taken that stand. I want to make it clear that, because of the situation which arose out of England going off the gold standard, it was felt necessary to do that. As a matter of fact, while it was put into effect, it did not really have any effect and therefore was not reprehensible.

Mr. CLEAVER: Mr. Chairman, I have a few questions I should like to ask the Minister to clear up in my own mind some doubts with regard to the statement tabled by the Minister in his address in the house. It is not my desire to intrude these questions now if the committee has other business it wants to go on with, but there are one or two points that are not clear in my mind.

The CHAIRMAN: Is it your pleasure, gentlemen, to take a vote or to go on with the discussion of the motion that is before the committee?

Hon. Mr. ILSLEY: Mr. Chairman, may I say a word about procedure. There is an amendment before the committee, and after the amendment is disposed of it may be necessary to dispose of the motion. The motion, if I remember correctly, is that the committee address itself to consideration of the bill clause by clause until we finish the bill, which would shut out general discussion altogether. On the other hand, there is an amendment which takes the directly opposite position, namely that we should, before we proceed to the consideration of bill 91 clause by clause, carry on a general discussion. I think that the views of the two sections of the committee should be reconciled. As for myself, I do not think that the committee should be forced to one position or the other. I am in the hands of the committee on that, but I would suggest that one hour be taken with the consideration of the bill clause by clause, and the other hour be taken by general discussion. I would suggest that the first hour of the committee each day should be taken with examination of the bill clause by clause, and the second hour with general discussion. If that were agreed upon, both the amendment and the motion could be withdrawn and that procedure could be adopted. However, I am only one member of the committee here; but, on thinking the situation over, it would seem to me that was the most sensible thing we could do.

Hon. Mr. HANSON: Is it not possible to reconcile both positions by allowing general discussion on appropriate sections of the Bank Act? For instance, there is the section which deals with the revival of the charters. Is it not open there to have very wide discussion? I am referring to section 5. It seems to me you could bring in appropriately discussion on any one of these theoretical points and still we would be following the line of trying to get the bill along.

Hon. Mr. ILSLEY: That was my view.

Mr. CLEAVER: Mr. Chairman, I think the Minister's suggestion is a good one; and by carrying out that suggestion our general discussion could proceed concurrently with our specific discussion on the bill, and I would so move.

The CHAIRMAN: You move an amendment to the amendment?

Mr. CLEAVER: Unless the members who have moved the motion and the amendment are willing to withdraw and one of them will sponsor the proposal of the Minister. If they will do that, that is fine. If they will not do it, I will move that further amendment.

The CHAIRMAN: Mr. McGeer, you moved the amendment. What is your pleasure? Do you wish to withdraw it?

Mr. McGEER: Mr. Chairman, I am most anxious to cooperate with the Minister and to have the committee's proceedings move along the lines which he suggests. On the other hand, I should like to point out that we have started with the examination of Mr. Towers on the Bank of Canada report, and it has only been partially completed. It did seem to me that the general discussion of any other changes that were necessary in the Bank Act would emanate from the observations that he made in that report. Then we have the evidence of Mr. Stewart partially completed on the small loan provision. We also have the evidence of Mr. Wedd partially completed. We also have several requests for information that has not been filed. It does seem to me that the first thing we should complete before we proceed to an examination of the bill, is the examination of the Governor of the Bank of Canada on his report, because that was a report specifically referred to this committee at the time of the committee's first meeting. Can there be any objection to the examination of Mr. Towers being completed and done away with? Of course, I appreciate that once we get into consideration of the bill clause by clause, proper procedure will require the appropriate facts belonging to that particular clause be dealt with, and discussion will be limited to that. There are some general discussions that I should like the committee to consider. I think that the committee has done splendid work in clearing up the question of hidden reserves as far as they have gone. To what extent the statement of the Minister is complete remains to be ascertained by those of us who would like to study that statement further. But the fact that some of the banks are over-reserved, as is indicated by the statement, and the fact that there is a necessity of giving the Minister further power, it seems to me would certainly justify that discussion. As I see our problem today, it is not a question so much as to what the profits are or what the policy of the banks is in so far as commercial banking is concerned; but it is a question of how we are going to be able to finance the period that lies ahead of us. I for one think that the most important phase of that problem will arise when we come to consider how we are going to coordinate the work of the federal government along with the work of the provincial governments and that of the municipal governments. I happen to know something about the financial condition of our municipalities and our provincial governments. While they have accumulated some reserves out of the flood of money that war has put in circulation, those reserves have accumulated very largely from deferred maintenance; and looking into the future, I think that is one of the great problems that this committee should deal with. I think we are moving rapidly towards the segregation of public finance and commercial banking. It seems to me that that discussion would develop out of the observations that the Bank of Canada report contains, and that is the one report that it does seems to me we should finish before we proceed with the bill. As far as any attempt in the matter of holding up the committee or that kind of thing, I wish to dissociate myself from that because I think the situation is altogether too serious for anything of the kind. What I do feel is that this committee, working with the Minister and the Department of Finance and the bankers, can evolve a much stronger position of public finance than we have had in the past. I think by progressing along the lines that we have moved during the last ten years that we can get that result. I for one would certainly like to see the Bank of Canada report examined, as it has been referred to this committee; and I think we would then be in a much better position to deal with the bill clause by clause.

The CHAIRMAN: Are you ready to vote?

Mr. KINLEY: Mr. Chairman, have you decided that the amendment is really an amendment?

The CHAIRMAN: I think we will consider it as such.

Mr. KINLEY: Is it not simply a negative of the motion?

The CHAIRMAN: Mr. Cleaver, what is your amendment?

Mr. CLEAVER: My amendment to the amendment is this: that the first hour of each sitting of the committee be devoted to working on the individual sections of the bill, and that the concluding hour of each sitting be devoted to general discussion.

The CHAIRMAN: I wonder if it would be possible that Mr. Lafontaine would accept that as his motion?

Mr. LAFONTAINE: Yes. I shall be glad to do that.

The CHAIRMAN: Then what is your pleasure? Do you find any objection to that procedure, Mr. McGeer?

Mr. MCGEER: No. As I say, I do not see any reason why we should not go ahead with the Bank of Canada report.

The CHAIRMAN: Yes. Shall we vote on those two issues?

Mr. BLAIR: What are they?

The CHAIRMAN: We have two issues which we will vote on.

Mr. MAYBANK: Mr. McGeer's amendment becomes the main motion?

The CHAIRMAN: Yes, Mr. McGeer's amendment becomes the main motion.

Mr. KINLEY: And Mr. Cleaver's amendment becomes the amendment.

The CHAIRMAN: Yes, it becomes the amendment. We will ask the secretary to read the amendment.

Mr. SLAGHT: Mr. Chairman, may I ask a question. Under our procedure, is an amendment to the amendment receivable by the chair?

The CHAIRMAN: Well, this hardly becomes an amendment to the amendment, as I understand it. It is a matter more or less of informality, I presume. We have two issues before us, plainly. I would ask the clerk to read just what one of them is.

Mr. SLAGHT: My question was this—

The CHAIRMAN: Let us have the statement read first. Then we will give you plenty of opportunity, Mr. Slaght, to argue the matter of procedure.

The clerk read the amendment: that the first hour of each sitting of the committee be devoted to individual sections of the bill and that the concluding hour be devoted to general discussion.

Mr. MCGEER: What is the motion?

The CHAIRMAN: The other is that bill 91 be not considered section by section until the report of the Bank of Canada, covering its operations for the year 1943 and referred to this commitee, shall have been examined and a report made thereon. You have the floor, Mr. Slaght.

Mr. SLAGHT: I rose to inquire from you, Mr. Chairman, whether an amendment to the amendment is receivable by the chair or whether, as in some jurisdictions, you desire to dispose of an amendment to the original motion first, and then receive any amendments to the original motion which may be made.

Mr. Cleaver: If Mr. Slaght will permit me, I should like to say this. As I understand the matter now, the original motion has been withdrawn. Mr. McGeer's amendment stands now as the original motion and my motion would simply be an amendment to the main motion.

Mr. Blackmore: Mr. Chairman, I believe the committee should pass Mr. McGeer's motion. I have no desire to manifest any disposition to be non-co-operative with the government in any respect, but I do believe, Mr. Chairman, that we have met in a time of crisis; the very fact that this day is D-day, as the minister fittingly pointed out, in my judgment has a significance in two respects for this committee. In the first place, we have the task of carrying on the activities of this country to a successful conclusion in the war, but equally important is our task of preparing for the return of our men and their rehabilitation after the war. In other words, as has been so often said, it is our task to consider how we might win the peace.

Now, may I just outline to you some of the basic considerations which underlie my attitude in this respect. It is fundamental to the whole situation which confronts us that we are to-day in an age of plenty—in an age of abundance. Honourable members of the committee will find some thought-provoking material in a book called "The Chart of Plenty," by Harold Loeb, published in 1935; and in that book, among other things set forth is this general situation, that in the United States in 1935 the industrial equipment was such—

The Chairman: Mr. Blackmore, I do not like to interrupt you but could we not get on with this vote? These are matters that have already been discussed in the house. We have had a discussion of the general situation in the house for several months; we have had a discussion in this committee for almost a month; and in the house, after a general discussion, there was a vote taken in regard to the financial set-up of the country, and a bill was brought down. An amendment was moved. It was moved in amendment that there should be state ownership of the chartered banks. That amendment was defeated. Mr. Noseworthy, who represents that point of view, has said in the committee that he is not advocating that point of view in the committee to-day, because it has been disposed of. I think that is your general statement, Mr. Noseworthy? Now, there was the second amendment, and that amendment was that the government should bring down some measure as would take from the chartered banks their power of creation of currency and credit and restore those powers solely to parliament. After a debate in the House of Commons that amendment also was defeated, and then the bill was referred to this committee. It has been the disposition of the committee to allow a general discussion. We all agree with the statements you make, Mr. Blackmore, and with your statement having reference to the importance of this day; but I want again to emphasize that this committee will be judged not by its words but by its deeds, and if it is possible let us please go on with the task that has been assigned to us by parliament.

Mr. Blackmore: Mr. Chairman, if this committee goes through this momentous year of 1944 and passes only relatively unimportant measures like Bill 91 and does not seek to find fundamental causes underlying the difficulties from which we have suffered since 1929, and does not offer a suggestion as to how those causes may be either removed or remedied, then this committee will merit the condemnation not only of this generation but of all generations to come. The fundamental task of this committee, as I see it, is to find out the causes of the difficulties which afflict us.

The Chairman: Mr. Blackmore, are we not a creation of parliament?

Have not we a task assigned to us by parliament? A task has been assigned which is clearly stated in the reference. Surely it is our duty to go on with our task. We are not parliament. We are a committee of parliament.

Mr. BLACKMORE: That is so, and, Mr. Chairman, if it is not the task of the Banking and Commerce Committee of the Canadian House of Commons to examine into the merits or defects of the financial system which Canada uses, would you mind telling me what committee has that responsibility?

Hon. Mr. HANSON: No committee.

Mr. BLACKMORE: Very well; will hon. members tell me who is going to do this job if we neglect doing it?

The CHAIRMAN: Mr. Kinley wishes to ask a question.

Mr. BLACKMORE: I have the floor. If the hon. member has a question to ask, well and good.

Mr. KINLEY: I have a question to ask, yes. I was going to suggest that as we are in the second hour of the committee, to allow Mr. Blackmore to go on would carry out the intention of the amendment, and I suggest that we agree among ourselves to take a vote before this committee adjourns to-day.

Mr. BLACKMORE: I do not suppose the committee can take that vote while I have the floor. Now, may I proceed? I was pointing out that it was well developed in the "Chart of Plenty," by Harold Loeb, that in 1935 in the United States there was industrial capacity such that without adding to the industrial equipment of the United States in that year $4,400 worth of goods and services for every family in the United States could have been produced in that year—$4,400 worth of goods and services for every family in the United States in 1935. Now, the United States was conducting its affairs under a banking system very similar to the one which we have, and under a financial system similar to our own. What was the actual achievement of the United States in 1935? Only twenty-one people out of every 100 in the United States in 1935 were able to obtain the bare necessities of life as measured by any reasonable standard of sufficiency. In other words, seventy-nine people out of every 100 in the United States had to go with too little of oranges or tomatoes or milk or too little fuel or too little clothing; in other words, seventy-nine people out of every 100 in the great United States in the year 1935 were inadequately nourished or clothed, or in some other way had a standard of living lower than they should have had.

Mr. CLEAVER: Is that the fault of the banking system?

Mr. BLACKMORE: It is the task of some committee either in Canada or the United States to find out whether it is the fault of the banking system. If it is not the fault of the banking system we want to find out whose fault it is.

The CHAIRMAN: Mr. Blackmore, I must rule that your statements are out of order. I have no power to prevent you making them; and if you care to go on discussing matters that belong to the house and that have not been referred specifically to this committee all I can do about it is to say that I think you are out of order.

Mr. BLACKMORE: I am positive that I am in order.

The CHAIRMAN: Very well.

Mr. BLACKMORE: I am positive that I am in order, and I will challenge anyone to find the rule under which I am out of order.

The CHAIRMAN: You can appeal from the ruling of the chair; do you appeal?

Mr. BLACKMORE: No, I do not appeal from the ruling; I merely intend to go on talking. And all the talking about the question is not going to stop me; you may just as well refrain.

Hon. Mr. ILSLEY: Mr. Chairman, it seems to me that this matter is getting out of hand entirely. If a member is ruled out of order he either has to stop speaking or he has to appeal from the ruling. Now, if he declines to do either it appears to me that it is defiance of the committee. I do not know whether the hon. gentleman wants to take that position or not, but that is the case.

Mr. BLACKMORE: All I ask of the members of the committee is: am I going to be given the privilege of free speech in this committee or am I going to be throttled because I have something to say which is unpalatable to the minister?

The CHAIRMAN: Now, that is very unfair. It is my ruling that the discussion should be confined to the motions before the committee, and I have ruled that your discussion is not confined to the motions before the committee. You have the right to appeal from my ruling. I will ask the committee for an informal raising of hands if the members agree with my ruling. Now I will ask those opposed to please raise their hands.

(Following a showing of hands)

Mr. Blackmore, I declare that it is the opinion of the committee that you should not proceed with this sort of discussion at the present time.

Mr. BLACKMORE: Mr. Chairman, then I shall proceed with the discussion of the Bank of Canada report. This report was referred to this committee, and the motion as it stands before the committee to-day is as follows—may I read it: "That Bill 91 be not considered section by section until the report of the Bank of Canada, covering its operations for the year 1943 and referred to this committee, shall have been examined and a report made thereon."

Mr. CLEAVER: Speak to the motion.

Mr. BLACKMORE: That is the motion I am speaking to.

The CHAIRMAN: Will you please speak to the amendment: "That the first hour of each sitting of the committee be devoted to the individual sections of the bill and that the concluding hour be devoted to general discussion."

Mr. BLACKMORE: Mr. Chairman, I was endeavouring to follow just that line of reasoning.

The CHAIRMAN: All right, proceed.

Mr. BLACKMORE: My object was to show that under the circumstances this committee is not in a position to tell whether it ought to pass this Bank Act or whether it ought not, for the reason that came up a few minutes ago in the committee: was the trouble in 1935 in the United States due to their banking system or was it not?

The CHAIRMAN: You are out of order.

Mr. BLACKMORE: Very well. I am merely raising the question.

Hon. Mr. HANSON: I move that the question be now put.

Mr. SLAGHT: This is my first opportunity to address the chair this morning—

Mr. CLEAVER: I second the motion. This is not debatable.

The CHAIRMAN: It is not debatable.

Mr. SLAGHT: I desire to move an amendment.

The CHAIRMAN: I beg your pardon but this is not debatable. The question is that the first hour of each session of the committee be devoted to the individual sections of the bill and that the concluding hour be devoted to general discussion. All those in favour please stand.

Mr. SLAGHT: Before you put that motion I have asked that I have the opportunity of moving an amendment and I still desire to do so. You informed me that an amendment could be moved to the amendment, and I want an opportunity to move an amendment.

The CHAIRMAN: The question is on Mr. Hanson's motion that the question be now put. All in favour stand.

Mr. SLAGHT: There is a subamendment I desire to move before you put your question. Before you announce any vote I desire—

The CHAIRMAN: Will all opposed stand?

Mr. SLAGHT: The proposal I have to make—

The CHAIRMAN: Will all who are opposed stand? Mr. Slaght, please wait; I am taking the consensus of the committee. Will all opposed please stand. Twenty-one have voted that the question be now put, and seven have voted the opposite way.

Hon. Mr. HANSON: The motion is carried.

Mr. SLAGHT: Now, Mr. Chairman, may I ask you whether on the original motion—

The CHAIRMAN: I am advised by the clerk that the next order is to read the motion: "That the first hour of each sitting of the committee be devoted to the individual sections of the bill and that the concluding hour be devoted to general discussion." All those in favour please stand. Twenty-three have voted for the motion; four against.

Mr. SLAGHT: There is an amendment before the chair.

The CHAIRMAN: This is the amendment.

Mr. SLAGHT: You said it was the motion.

The CHAIRMAN: The amendment is a motion.

Mr. SLAGHT: You have a motion before the committee, and I desire to move an amendment to the motion.

Hon. Mr. HANSON: The amendment has been carried by a large vote, I understand; therefore it is not necessary to put the motion.

The CHAIRMAN: The amendment is carried.

Hon. Mr. ILSLEY: Mr. Slaght is in doubt as to this procedure, and I am speaking on the procedure now. I am more interested in having that correct at the moment than in anything else. There was an amendment before the committee, the amendment being that the first hour of the sitting of the committee be devoted to the individual sections of the bill and that the concluding hour be devoted to general discussion. That was before the committee. Mr. Hanson moved that the question be now put, and he was supported by the committee. That question was then put and was then carried. Now that disposes of the motion so far as I can see, because it would be impossible to proceed to this motion because the motion is inconsistent entirely with that. So the action of the committee prevents any further dealing with this matter so far as I can see.

Mr. MAYBANK: Mr. Chairman, while I think it is perfectly clear that what the minister says is the correct situation in this committee at the present moment, I think it must also be clear that Mr. Slaght has now a perfect right to move any motion that he desires.

The CHAIRMAN: That is not disputed. Mr. Slaght may move his motion, certainly.

Mr. MAYBANK: Only it is not an amendment; it is a motion. Any motion is allowable now, is it not?

The CHAIRMAN: As long as it is not inconsistent with the motion which has just been carried.

Mr. MAYBANK: We are in general discussion and any motion pretty nearly would be all right.

Mr. SLAGHT: My motion is as follows:—

> that the chartered banks, each of which has applied to parliament for a ten-year renewal of their respective charters, should be directed and are hereby directed and required to disclose to parliament through this committee, forthwith, the total aggregate amount of hidden inner reserves, and (1) the source of the money; (2) the method of furnishing same to the inner hidden reserves; and (3) the details and amounts thereof for the past fifteen years down to the present time.

I have a word to say in support of the motion. If you desire me to present it now, I should be glad to do so.

Hon. Mr. HANSON: Mr. Slaght, before you make your argument, would you make this a notice of motion? I think that is the proper procedure.

Mr. SLAGHT: I have just been told that my motion is now in order, so I should like to move it.

The CHAIRMAN: I think the motion is in order.

Hon. Mr. HANSON: I did not hear that. I do not think that is correct.

Mr. SLAGHT: It has been ruled that it is in order.

The CHAIRMAN: May I just say that the committee has not laid down any rule in regard to notices of motion.

Hon. Mr. HANSON: I think it should. I tried to get it to do so.

The CHAIRMAN: As we have not laid one down, it seems to me that Mr. Slaght's motion is in order. You have the floor, Mr. Slaght.

Mr. BLAIR: Speak to your motion.

Mr. SLAGHT: Then, Mr. Chairman, in view of some observations I made the other day, it will not be necessary for me to detain the committee long in support of this motion. You will note that I have inserted in the motion for disclosure the phrase that the chartered banks disclose in the aggregate. That will obviate the necessity for any individual chartered bank disclosing its own special inner reserve and will obviate one of the possible objections that a committee member might have in singling out an individual bank. I may say to the Chairman that in the evidence adduced a few days ago we learned that Mr. Tompkins also has in his possession the information from each individual chartered bank as to its inner reserve during the past nineteen years and as to the amount of the inner reserves at the present moment. Therefore all the chartered banks need to do, if the committee agree with this motion, is to indicate to Mr. Tompkins their view that either he—I will wait till you get through talking before continuing.

The CHAIRMAN: I think, Mr. Slaght, you will find that the matter you are discussing will come up later on under section 53, or so I am informed. If you could withhold your motion until that time, it might be better.

Mr. SLAGHT: It will come up under section 5.

The CHAIRMAN: Well, section 5 and section 53. Suppose we wait until we come to section 5 or section 53.

Mr. SLAGHT: I am most anxious to facilitate the proceedings of the committee, but I am also most anxious to record a vote of this committee as to whether or not we are to be kept in the dark as to these reserves or whether we are to have them in the aggregate, so that it will not embarrass any particular bank to disclose its inner reserve. If your suggestion is that I reserve discussion of this motion until we come to section 5, an early section, and without prejudice to my not approving of any of the sections for the reasons I gave in committee before, and if you think that it will facilitate the discussion, I shall be glad to have the motion which is now before the committee stand until we reach section 5 of the bill, and then address the committee on it as I am addressing it now. In the meantime, representatives of the banks are here. They will be able to consider whether they want this committee to force them to disclose their reserves or whether they will say to Mr. Tompkins, "We are content to have this information disclosed." In this connection, if you will pardon me for a moment, may I say that Mr. Tompkins has an inhibition under section 145 of the Act, from disclosing these reserves even to this committee. That is statutory and until we amend section 145, I think Mr. Tompkins is bound by it. Mr. Tompkins has told us, as has the Minister, that both the Minister and the Deputy Minister have had this information in their possession for the past fifteen years; so that, if the committee do direct the disclosure of the information by the banks, they can do so without going home, without preparing any data, but by simply saying to the Deputy Minister, "We are content to have this information disclosed rather than have the committee pass upon whether or not they are going to force us to disclose it." That being so, as I understand it, that with the approval of the committee I may discuss this matter and my motion when we come to section 5 of the Act, I will fall in with that suggestion.

An Hon. MEMBER: Carried.

Hon. Mr. ILSLEY: What is carried?

Mr. KINLEY: That we take it up under the section of the bill.

Mr. SLAGHT: I have had the assurance from the chairman, at the instance of the committee, that when we reach section 5 of this bill—that is, assuming that we proceed in chronological order—I shall then have the right to discuss my motoion which is pending and adjourned until that stage.

Some Hon. MEMBERS: Agreed.

Mr. KINLEY: Nobody can take that right away from you.

Mr. MCCANN: You do not need any motion.

Hon. Mr. ILSLEY: Would you prefer to proceed now, Mr. Slaght?

Mr. SLAGHT: No, sir, not if I have the assurance of the committee, which apparently all the members have given, that this motion of mine, instead of disappearing, may be discussed by me at least when we reach the fifth section of the bill. If I have that assurance, I am content to defer my discussion of it until that date, and I would prefer to do so, in fact, because I have some questions to ask the honourable the minister arising from the very able statement that he presented to-day. Is that clear, Mr. Minister?

Hon. Mr. ILSLEY: Well the motion is contrary to my statement. The motion requires the production of information which I have said, in my judgment, is not in the public interest to disclose. I would prefer to have the discussion go right on and find out whether I am to have the support of the committee or not.

Mr. SLAGHT: If it is the desire of the minister against the desire of the rest of the committee that this be determined, all right.

Some Hon. MEMBERS: Oh, oh!

Hon. Mr. HANSON: No, I do not think the committee is in that position.

The CHAIRMAN: Would you ask the committee to make a statement? Do you appeal to the committee, Mr. Slaght?

Mr. MCGEER: Go on with your motion.

The CHAIRMAN: As I understand it, Mr. Slaght has asked if the committee supports the minister in his contention.

Mr. SLAGHT: I did not make any such suggestion.

The CHAIRMAN: Well, we will have the record read.

Mr. SLAGHT: All right, have it read.

Mr. NOSEWORTHY: I was going to ask the minister, Mr. Chairman, if in his opinion it would not be well to give the members of the committee some little time to study the statement more carefully. I do not think that we want to make a snap judgment on the Minister's statement.

Hon. Mr. ILSLEY: I did not tthink it would come to a vote to-day. I thought there would be discussion on it. The only point is that I should like to have a decision at the earliest possible moment. I have said what I have to say about it.

Mr. SLAGHT: Mr. Chariman, I think it will expedite matters if, in the hour that you use tomorrow for general discussion, some of us might be permitted to ask the minister some questions arising out of his statement. For instance, they have discovered that three of the banks have created an inner reserve that is too high, and I should like to know from him if he can tell us by what amount the treasury of Canada will be enriched by this discovery, and by the direction of the minister, which he has given as I understand it, that they shall make part of this inner reserve subject to taxation in the current tax year.

Hon. Mr. ILSLEY: I can answer that right now. I do not know the amount. It will take a lot of examination.

Mr. SLAGHT: Then in the morning you can have that?

Hon. Mr. ILSLEY: No, I cannot have it in the morning. It will be months before I will have it. You cannot do these things in that way. It is a matter of judgment, of fine judgment, as to what is adequate and what is more than adequate.

Mr. SLAGHT: Would the minister have any objection to my asking, to-morrow morning at the appropriate time, some questions of him arising out of this report? Then the committee, as well as myself, will have had a better opportunity of digesting it; and we can probably, as occurs in court, by that study overnight, reduce to the minimum the questions we desire to ask, and in that way save time ultimately.

Hon. Mr. ILSLEY: Oh, certainly. I will answer any questions that I can. How does that fit into the course of procedure adopted by the committee?

Mr. SLAGHT: It would have to fit into the hour for general discussion.

The CHAIRMAN: The second hour.

Hon. Mr. ILSLEY: That is all right, if the other members want to forego their examination of Mr. Towers.

Mr. SLAGHT: I do not want to interfere with the examination of Mr. Towers; but before my motion is dealt with by the committee, I do desire to ask some questions of the minister arising out of the statement he has just delivered to us to-day.

The CHAIRMAN: Mr. Hanson has the floor.

Hon. Mr. HANSON: I think we have reached more or less of an impasse. There is a direct issue, I believe, as between the minister on the one hand having regard to his statement and Mr. Slaght's motion. I suggest that Mr. Slaght's motion stand as notice of motion. We can study the two of them together. In the meantime, the committee might proceed as directed by the vote. I do not care whether we take up general discussion or not.

Mr. CLEAVER: We have only a few minutes left this morning to finish out our second hour. If it is your pleasure, I have a few general questions that I want to ask the minister with respect to the earnings statement included in his speech to the house on May 2, questions which perhaps the minister could answer now and thus save time at a future date.

Hon. Mr. ILSLEY: Yes.

Mr. CLEAVER: Mr. Ilsley, referring to item (14) in your statement, net amount of capital profits, including non-recurring profits, 2·5 million dollars, should that amount be added to item (4) of operating earnings, 138·7 million dollars in order to disclose the total amount of the average yearly earnings of the banks during the period 1929 to 1943 inclusive?

Hon. Mr. ILSLEY: Well, capital profits are not current operating earnings and should not be included in the figure of current earnings.

Mr. CLEAVER: Should that figure be added to the current operating earnings in order to show the average gross earnings of the banks during that period?

Hon. Mr. ILSLEY: Well, I do not know that it should be called "earnings." I do not know whether that is exactly the right term or not. But this statement clearly shows that that was a gain of the banks.

Mr. CLEAVER: Yes. Then may I put the question in another way. If we add the 2·5 million dollars to the total current operating earnings, item (4) of 138·7 million dollars, do we then arrive at the total bank earnings over that period?

Hon. Mr. ILSLEY: Yes, that would be correct. That would be gross.

Mr. CLEAVER: Are there any other bank earnings of any nature that are not included in those items, item (4) and item (13)?

Hon. Mr. ILSLEY: No, there are not.

Mr. CLEAVER: Then referring to item (10), is my understanding correct that the committee is to have a breakdown of that item from the Inspector General, and that that item does not include anything in the way of write-off or set-up for bad debts?

Hon. Mr. ILSLEY: That is right. Both statements are correct.

Mr. CLEAVER: Coming to item (15) 13·8 million dollars, is that item an average over the fifteen-year period?

Hon. Mr. ILSLEY: Yes.

Mr. CLEAVER: Of all losses sustained by all of the banks?

Hon. Mr. ILSLEY: It is exactly what it says. It is "average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries during the fifteen financial years ending the year to which this return relates." That is for all the banks.

Mr. CLEAVER: I want to make sure of that. I am asking these questions to clear up doubts in my mind. Does item 15 include all of the losses of all of the banks during that fifteen-year period?

Hon. Mr. ILSLEY: Yes.

Mr. NOSEWORTHY: You say other losses and provision for other losses.

Mr. CLEAVER: Does that item reflect the actual losses or the actual losses plus provisions that have been made during that year?

Hon. Mr. ILSLEY: Losses plus provisions, and over a long period of time it would mean the same thing when you take into account the recoveries.

Mr. CLEAVER: At the end of the fifteen-year period there would still be a part of the amount made as provision against losses left there; it would not reflect the total losses, actual losses over the period?

Hon. Mr. ILSLEY: It is almost impossible to draw a distinction between losses and provision for losses.

Mr. SLAGHT: Will you tell us which item that is? We were told that each year they set down a figure of actual losses. You say in addition to that they make a provision for future contingencies and possible losses. Does that 13·8 million dollars include both or is it one?

Hon. Mr. ILSLEY: It does not include the general contingencies at all; it includes a specific provision for losses.

Mr. SLAGHT: Does it include the item which the directors reach and write off as actual losses?

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: And it includes on top of that another sum for possible future losses?

Hon. Mr. ILSLEY: Specifically allocated to securities or loans—loss recoveries.

Mr. SLAGHT: And not to be determined until a future date?

Hon. Mr. ILSLEY: A lot of the determination will take place during the period by the recoveries.

Mr. SLAGHT: During what period?

Hon. Mr. ILSLEY: During the fifteen-year period.

Mr. SLAGHT: If it does not take place until then it is not a current year determined loss; it is a current year determined loss, let us say, X, plus a contingent future loss or possible loss Y — X plus Y.

Mr. CLEAVER: The other item of 1·5 million dollars—

The CHAIRMAN: Mr. Cleaver has the floor. I suggest we allow Mr. Cleaver to continue his examination without interruption.

Mr. CLEAVER: Does the amount included in item 15 of 13·8 million dollars include the amount of 1·5 million dollars annually set aside and referred to in your statement as increases to the inner reserves?

Hon. Mr. ILSLEY: The 13·8 million dollars does not include that.

Mr. CLEAVER: No; the 13·8 million dollars. I think that answers the question.

Hon. Mr. ILSLEY: It does include—

Mr. CLEAVER: The 13·8 million dollars does not include the 1·5 million dollars set aside annually over the fifteen years for inner reserves.

Hon. Mr. ILSLEY: General contingent reserves.

Mr. CLEAVER: General contingent reserves, which we understand as inner reserves. But I take it it does include that feature of reserves with respect to actual earmarked accounts?

Hon. Mr. ILSLEY: That is right.

Mr. CLEAVER: Then does this item 15 include any of the 29·5 million dollars transferred by the chartered banks from their normal reserve account to their inner reserve account to take care of exceptional losses during the depression period?

Hon. Mr. ILSLEY: Does that account include that?

Mr. CLEAVER: Does the item 13·8 million dollars include any of the 29·5 million dollars transferred by the banks from their ordinary reserve accounts during the depression years to bolster up or to reinstate their inner reserves?

Hon. Mr. ILSLEY: Well, some of the amount that went into the inner reserves from the published rest funds may have gone to the payment of the losses included in item 15.

Mr. CLEAVER: My question is this—you may not be able to answer it to-day, but I would like to know the answer eventually: either this item of 13·8 million dollars is a composite all-inclusive item of the total losses sustained by the banks during the fifteen-year period or it is an addition to the transfer of 29·5 million dollars from rest account to reserve account, to inner reserve during that period.

Hon. Mr. ILSLEY: Perhaps I had better think that question over. I do not think it would be in addition to it. I do not think they would be two things you could add together.

Mr. CLEAVER: Mr. Chairman, it is almost 1 o'clock.

The CHAIRMAN: Gentlemen, before the committee rises, I have been asked to make an announcement. The House of Commons will not meet at 3 o'clock owing to the King's broadcast. There will be radios in room 16, the speaker's office and in the clerk's office. The house will meet immediately after the broadcast.

I may say that we are having filed with the clerk a statement on behalf of Mr. Stewart concerning personal loans, and Mr. Tompkins has some information to file.

Mr. TOMPKINS: May I say that the information I have consists of the lists of firms, companies and corporations in which bank directors are directors or partners. These are returns which are required to be made by the banks under section 113-2 of the Bank Act as well as the subsequent notifications sent to the minister of changes, also referred to in that subsection.

The committee adjourned to meet Wednesday, June 7, at 11 o'clock, a.m.

June 7, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, shall we allow section 1 of bill 91 to stand? Section 2 also seems to be somewhat controversial. Shall we allow that to stand. Section 3—

Mr. McGEER: Mr. Chairman, before we proceed to deal with the bill, it does seem to me that this statement presented by the Minister of Finance is of such importance, so sweeping in its admissions and so unique in its development of banking policy, that it is one thing that should be discussed before we go on with the bill. We have not had this statement before us for very long, but I am sure that the members of this committee, and I think parliament and the people of Canada, would think we were rather remiss if we simply took a statement of this kind and let it go out to the public without dealing with some phases of it. After all, Mr. Chairman, while every one will agree with the need of facilitating the work of the committee and getting down to business, members of the committee have a duty to the public, and I think the public should be informed with regard to some features of this statement. There are some questions that I should like to ask Mr. Ilsley for the purpose of clarifying this statement, and I think there are other members of this committee who are in the same frame of mind. I am sure there is not going to be any attempt to railroad this bill through, or to exclude evidence or discussion of the essential things before this committee. Certainly this statement throws an entirely new light upon the whole position of the relationship between the chartered banks and the people of Canada, through their parliament and through their Department of Finance.

The CHAIRMAN: The committee voted on the matter at the last meeting and it was decided there, as I recall it, to proceed for the first hour with the clauses of the bill; and I would suggest that in the second hour, and promptly on the second hour, we take up the matter you have in mind, Mr. McGeer, the one that you have mentioned, and that we have a full discussion. I think that carries the approval of the Minister of Finance.

Hon. Mr. ILSLEY: Yes.

The CHAIRMAN: As I recall it, he declared himself yesterday to that effect.

Mr. McGEER: I beg your pardon, Mr. Chairman?

The CHAIRMAN: We shall proceed in the second hour with that matter.

Mr. SLAGHT: Mr. Chairman, may I have a word to record my personal position. I quite appreciate that the committee have decided that we are going to proceed now clause by clause with the bill.

The CHAIRMAN: Yes.

Mr. SLAGHT: I mentioned at an earlier stage that I thought I would compromise the position I take and am taking in a motion which the committee will be called upon to deal with a little later, if I acceded to the passing of any of the clauses of the bill, starting with 1, 2 and 3. I have reconsidered the position. If I were to simply say that I object to clause 1, it would automatically throw it over, as I understand it. I do not propose to do that; but by sitting mute and not approving of any of the clauses of the bill, I want to preserve the position that proceeding in this way is against my protest, and we ought to have these hidden reserves disclosed before we go on at all.

(The committee proceeded to discussion of Bill 91 clause by clause for the first hour)

The CHAIRMAN: Now gentlemen, shall we consider we are in the second hour?

Mr. CLEAVER: We have ten minutes to go, if you want to start with section 5.

The CHAIRMAN: I think we had better consider ourselves in the second hour. My clock is a little fast.

Mr. BREITHAUPT: I would so move, Mr. Chairman.

Hon. Mr. ILSLEY: Mr. Chairman, if we are starting on the second hour, may I ask are we on Mr. Slaght's motion or something else?

The CHAIRMAN: I think Mr. Slaght has a motion.

Mr. SLAGHT: If the committee so pleases, I should like to clear up with the honourable the minister some questions arising out of his statement that interested me before proceeding with my motion, and I fancy that all of the members would be anxious to have whatever there is to be asked about in the minister's statement disposed of before we go into the motion.

The CHAIRMAN: Would you like to read your motion so that we will have it before us?

Mr. SLAGHT: Yes.

Hon. Mr. ILSLEY: That course of procedure is agreeable to me. The only thing is that I should like to have the motion proceeded with and disposed of as soon as possible, because the statement I made yesterday as to the disclosure or non-disclosure of inner reserves is not only my statement but is the statement of the government, and I should like to know whether the government in respect of this matter has the confidence of the members of this committee or not at as early a date as possible.

Mr. McGEER: Of course, that does not preclude discussion of the statement.

Mr. SLAGHT: As soon as the examination of Mr. Ilsley is concluded, I shall be glad, if the committee agrees to discuss my motion.

The CHAIRMAN: We have the motion before the committee. Just read it, Mr. Slaght, if you do not mind.

Mr. SLAGHT: Shall I read it?

The CHAIRMAN: Yes. You are speaking to the motion.

Mr. SLAGHT: No. I was going to proceed with some questions to Mr. Ilsley.

Hon. Mr. ILSLEY: Yes. All right.

Mr. SLAGHT: Mr. Chairman, I desire to say to you and the minister, just before proceeding with the questions, that my questions on this problem of the hidden reserves, because that is all that he dealt with in his report of yesterday, are not intended as a reflection of any kind on the minister or on the government. In all fairness it must be remembered that the minister did not frame or pass this Act, nor did his government frame or pass this Act under which we have been operating for ten years. It was placed on the statute books in 1934 by the then government of the day, after examination by a committee of which you, sir, were not the chairman. One further word, so the minister and the committee may know wherein I agree not only with the minister but with the banks. I believe (*a*) that a reserve such as the disclosed reserve of $136,000,000 is prudent and desirable; (*b*) that the determination each year of the actual loss sustained in that year—and I emphasize "actual"—is necessary, and that the deduction of that loss from earnings and profits of that year is a just and proper deduction, that the loss actually suffered in a given year is a proper operating expense in that year, and there is just as much right to deduct it from profits as to deduct wages paid their clerks, taxes and other operating expenses; (*c*) that the setting aside in that year of a further amount for possible future losses in some bad year is also a prudent, necessary and desirable thing to do.

Now then, here is where we part. I believe that further amount set aside for a future bad year should be added to the general reserve of $136,000,000, which is the total, right out in the open in that year, and that taxes should be paid on it and on all of it, because it was a profit made in that year not required to be used or paid as an expense incurred in making that profit in that year, and not a bad debt actually incurred in that year. My quarrel, therefore, is not with setting it aside. My quarrel is with hiding it, and my quarrel is in the fact that, by hiding it and the bookkeeping that is done, the banks evade payment of taxes on it. I do not use the word "evade" is an offensive sense at all, but that is the result of what they do.

Mr. FRASER (*Northumberland, Ont.*): They are not called upon to pay taxes.

Mr. SLAGHT: They are not called upon to pay taxes because of the present situation under the Act, if you like; and the minister at least holds the view that under the Act it is quite proper for them to hide the reserve and not to pay taxes on it. Now I go further and say that if and when in some future year you need to use part of that inner reserve to pay the losses of that year, when you determine that there are losses in that year, it is quite proper so to do; and further, that to use it, there it is, just as available for use as the disclosed reserve is available for use for the same purpose; and it goes into the operating loss for that year when the loss is established and reduces the net profit and therefore reduces the bank's taxes for that year when the loss is established. I have tried to make my position clear and that will shorten, I am sure, the matters that I want to ask the minister about.

Hon. Mr. ILSLEY: It would be a disclosed reserve, would it not?

Mr. SLAGHT: Yes, sir, it would be a disclosed reserve. In other words, the total that we are given by Mr. Tompkins of the disclosed reserves of the ten banks as of December 31, 1943, is $136,000,000 odd. That is disclosed. Then as you told us yesterday, there are three things they do at the end of a fiscal year. They sit down and decide what their losses from bad debts are in that year, and they deduct them, along with other operating expenses, I say quite properly and of course you do. The second thing they do is estimate that in some future year, two, three, four, five, six or seven years hence, it is possible that with regard to certain securities they hold they may in a future year and not in that one incur a loss; and that amount they set aside and hide and do not add to the disclosed reserve. The third thing they do is to pick out a further sum from gross or current earnings for the year, net earnings, and they say, "We will not pay it all out in dividends but a certain amount we will carry to the rest reserve fund"; and that they disclose. That as disclosed now is $136,000,000, as Mr. Tompkins will assent. Have I made that clear?

Hon. Mr. ILSLEY: You have made it clear; but I do not know whether the practice is to add to the rest fund year by year or not.

Mr. SLAGHT: No. They have not added to it lately. But I am putting it this way, and in using this figure I want you to feel that if you reply to me with reference to this, you do not in any way assent to the amount that I suggest. The disclosed reserves at the end of last year amounted to $136,000,000. If the hidden reserves were $50,000,000 and were, as I believe they should be, disclosed and added to the disclosed reserves, the disclosed reserves would be $186,000,000, and there would not be any hidden reserves of the banks and the banks would not have escaped any taxes on an amount which is set aside in case that in a future year, as Mr. Fraser made it clear, there should happen to be a loss. I hope I have made that clear, sir.

Mr. FRASER (*Northumberland, Ont.*): It is considered a case of prognostication.

Mr. SLAGHT: It is considered a guess. As Mr. Morrison Wilson said ten years ago, "If you make a good guess, then you lose it all in five years or some future year; if you make a bad guess and it is not needed, then you do not use it at all." It is the shareholders' money as Mr. Tompkins says, and it may be paid out in dividends to the shareholders at any time the directors see fit to pay it out in dividends, and it has not been touched.

Mr. TOMPKINS: In which event it must be taxed.

Mr. SLAGHT: All right; in which event it must be taxed. Of course, in the meantime, in the five years the government has lost the taxes. However, I do not want to make a presentation now. I should like to ask the minister to clear up for us some matters. I hope the committee will understand the spirit in which I am approaching this, and that the only difference I have is against hiding these reserves, not in creating them and against not paying taxes on them in the year that they are earned. Then Mr. Minister, I want to refer you, for convenience, to the evidence of Mr. Morris Wilson, who was General Manager of the Royal Bank when he testified ten years ago.

Hon. Mr. ILSLEY: Excuse me just a minute, Mr. Slaght. Your position is that there should not be any inner reserves at all, or that there should not be any undisclosed reserves at all?

Mr. SLAGHT: Quite so.

Hon. Mr. ILSLEY: That is right?

Mr. SLAGHT: Yes.

Hon. Mr. ILSLEY: And that there should be nothing set aside for bad or doubtful debts in future years that is untaxed?

Mr. SLAGHT: You have entirely misunderstood me. Oh yes, that is untaxed.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: Yes. But you should go on. It is prudent and necessary banking, after you have done the first act at the end of the fiscal year, namely, the directors have said, on the advice of their accountants, "We have lost $4,000,000 this year in this bank" to immediately charge that off as an operating expense; they thus reduce their profit on which they are taxed, and I say that is proper. The second thing they do is say, "Let us look ahead and see what we may lose some year, three or four or five years hence," and they, with no check on them, as we heard, decide that they might lose in those future years on securities that are now existent with them, say $5,000,000 more. So they pass over into the hidden reserve $5,000,000 and escape taxation on it. Then, if I must say it again, they do the third thing. They have not put anything into the disclosed reserve for some years; you are quite right about that. They have not since 1933, as I recall it.

Mr. TOMPKINS: A relatively small amount.

Mr. SLAGHT: Yes, a very small amount. But they do decide, whether after having put this in the hidden reserve for that purpose, they will then pass over to the disclosed reserve any more and build that up a little higher. I do not care whether they do it or not. My point there is simply, as I see it, that when you have done your writing off of all debts incurred in that year, then in guessing or estimating what you might lose in a future year, you should add that; and if it is $5,000,000, you should increase your disclosed reserve by that amount. That is the only difference between me, you and the banks.

Mr. CLEAVER: Would you mind an interruption, Mr. Slaght, just to clear the air?

Mr. SLAGHT: No. Do you want to ask me a question?

Mr. CLEAVER: Yes.

Mr. SLAGHT: I shall be glad to answer.

Mr. CLEAVER: In arriving at that conclusion, have you not missed one fact, namely, that bank loans to industry are of necessity of a continuing nature?

Mr. SLAGHT: No. I have not missed that fact at all.

Mr. CLEAVER: If I may continue for just a minute, may I say this. As I understand your proposal, each year should be put in a separate compartment by itself.

Mr. SLAGHT: Well, so it has been.

Mr. CLEAVER: The banks should determine in each year the amount of money they have lost?

Mr. SLAGHT: In that year.

Mr. CLEAVER: In order to do that, are you not losing sight of the fact that loans to industry are of necessity of a continuing nature, and in order to carry out your proposal the banks would have to ask all of their customers each year to repay their loans, in order to find out what the losses are?

Mr. SLAGHT: Not at all.

Mr. CLEAVER: All right.

Mr. SLAGHT: The banks sit down, as we have been told, and figure what their actual losses in that year have been, and they charge them off as an expense.

Mr. CLEAVER: But the actual losses cannot accrue unless the bankers call in all their loans.

Mr. SLAGHT: Oh, do not talk that way. How can you make such a statement? The banking business is a continuing business. They know what actual losses have accrued and they make them up and they charge them off, and I am content. But they do more than that, as I have said twice now, Mr. Cleaver. They guess about the future and they say, "We are pretty sure to have losses in four or five years on some of the securities that we now have in our portfolio, and therefore we are going to hide in an inner reserve something so that if it happens five years hence we can use that to pay the losses that accrue." There is no misunderstanding of that fact by me.

Mr. CLEAVER: I have not made my point clear. I follow you up to a point, but beyond that point I cannot follow you. Take a manufacturing concern that manufactured automobiles, let us say. When they sell those automobiles, they know whether they have made a profit or a loss on those automobiles.

Mr. FRASER (*Northumberland, Ont.*): Providing they do.

The CHAIRMAN: Order, please.

Mr. CLEAVER: But in the banking business, in the business of loaning to industry, the very essence of the transaction and the very custom of the transaction is that it is a continuing business; and the only way, to my mind, that a bank can find out whether it has made losses with respect to a given loan to industry would be to call for payment of the loan. If the industry goes into insolvency, it has made a loss. If the loan is paid, it has not made a loss. I think therefore, of necessity you cannot put each bank year into one compartment and say, "In this year we made a profit" and "In this year we made a loss".

Mr. SLAGHT: That is a matter of argument. I do not want to spend more time with Mr. Cleaver; but when you say you cannot put a bank year into a compartment, with all respect may I say that you are entirely wrong. They do put a bank year into a compartment. The government put it into a compartment for taxation purposes, the directors do also; they make a statement of gross earnings in that compartment year and they make a statement of gross operating expenses in that compartment year, and they find, as a result, a net profit for that year. So do not suggest you cannot put a banking year into a compartment.

Mr. CLEAVER: That is why these reserves are set up.

The CHAIRMAN: Order, please.

Mr. SLAGHT: I recognize, once and for all, that four or five years hence there may come in, in that particular compartment year, an established loss on a security on which there has not yet been any loss at all but on which the directors think there might be.

Mr. CLEAVER: It is a continuing loan, a loan made five years ago.

Mr. MAYBANK: Mr. Slaght, may I ask you to do something?

Mr. SLAGHT: Yes.

Mr. MAYBANK: Would you differentiate this type of reserve from the reserve a wholesale company sets up for bad and doubtful accounts? I am not arguing at all. I am just asking you to differentiate those reserves which you are talking about.

Mr. SLAGHT: May I have that exhibit of the Massey Harris Company which Mr. Fraser filed here?

Mr. FRASER (*Northumberland, Ont.*): It was Canadian Canners.

Mr. SLAGHT: That will answer your question. If you will turn that up, you will find that. Can you point it out to me? Mr. Fraser. Canadian Canners do just what you are talking about.

Mr. FRASER (*Northumberland, Ont.*): Here you are.

Mr. MAYBANK: I am only asking you to differentiate the two types of reserves; that is all. I am not arguing about anything.

Mr. SLAGHT: Well, the Canadian Locomotive Company statement is here. Is this the same company?

Mr. FRASER (*Northumberland, Ont.*): No. That was Canadian Canners.

Mr. SLAGHT: Where is Canadian Canners, because that is before this committee. Will you show me the item you read out. where they lay aside reserves, as I recall it, for bad debts in the future as well as the present, and they put it in their disclosed reserve and they pay taxes on it.

Mr. MAYBANK: They pay taxes?

Mr. SLAGHT: Yes.

Hon. Mr. ILSLEY: I think that is misleading. The taxes are not paid on reserves for bad and doubtful debts.

Mr. MAYBANK: No. That is what I want to get clear. Commercial practice is to have, whenever the income tax department will allow it, a bad and doubtful debt reserve.

Hon. Mr. ILSLEY: Yes.

Mr. MAYBANK: And if it is allowed by the income tax department they do not pay taxes.

Hon. Mr. ILSLEY: That is right.

Mr. MAYBANK: I want to find out the differentiation between these two.

Mr. SLAGHT: The item, Mr. Maybank, to which I referred in this exhibit No. 20 is on page 2 and it reads as follows:—

"Investment and contingent reserve, $1,600,000."

Mr. MAYBANK: That is before taxation?

Mr. SLAGHT: So that this company put a reserve aside for investment and contingent reserve, which means if they have losses they can use that reserve to reimburse their losses.

Hon. Mr. ILSLEY: Does this company show its bad debts reserves on that statement?

Mr. SLAGHT: The contingent reserve is a bad debt reserve.

Hon. Mr. ILSLEY: That reserve, I think, is comparable to the rest fund which is published—to the published reserve which was published by the banks. I think it is comparable to that, not to the bad debts reserve, which, if I am not mistaken, is not shown there and is not taxed.

Mr. SLAGHT: I think you are in error, for the very first item on page 2 is, "Profit from operations after deducting all expenses of manufacturing, selling, administration and taxes." They tab every item that they take into account in reaching a net profit of $497,000 and they do not show as a deduction there at all anything by way of hidden or rather inner or contingent reserve.

Hon. Mr. ILSLEY: They would not show it if it were an inner reserve.

Mr. SLAGHT: Of course they would show it if it were an inner reserve.

Hon. Mr. ILSLEY: By definition an inner reserve is not shown. Company after company has an inner reserve for bad debts not shown.

Mr. MAYBANK: I desire to get one point clear. Would it be correct, Mr. Slaght, that this would be your position in this examination, that you would say there has to be a differentiation between commercial practice and the banks in that in commercial practice in setting up reserves for bad debts in the first place it is open, and in the second place, they pay taxes on them; is that a correct statement of your position?

Mr. SLAGHT: That is my view of what happens in a commercial transaction.

Mr. MAYBANK: If you are wrong about that it can be cleared up by the income tax people.

Mr. SLAGHT: Yes. Let us assume that I were wrong about that, my submission to the committee is that we had better start now, as far as banking business is concerned, and not have to guess as to a possible future loss to escape taxation in the year the money was earned. I am not at all limited by what may or may not be. I have not directed my mind to that. I would be better able to deal with it and Mr. Ilsley may be better able to deal with it.

Mr. KINLEY: May I say this: this inner reserve is not an innovation since the inception of income tax in this country; it was there before.

Mr. SLAGHT: It is not an innovation, because Major Power, a present colleague of the minister, fought the matter in 1934 in the committee but was not able to prevail.

Mr. KINLEY: The point I want to make is that the suggestion of evasion of income tax is rather overstated, is it not, in view of the fact that this has been going on for many years, and to suggest that the banks are evading income tax is a bit of an overstatement.

Mr. SLAGHT: No, it is not an overstatement. I think the preferable thing would be to say that they escape income tax.

Mr. KINLEY: You also know that in commercial companies there is such a thing in war time as an inventory reserve that is used for the purpose of covering shrinkage of income of industry in the future, which might compare with this inner reserve of the banks for future depreciation.

Mr. SLAGHT: Do you suggest that industry hides it, or puts it on their balance sheet?

Mr. KINLEY: Industry need not disclose their reserves to the public.

Mr. SLAGHT: Do you know of any industry that hides them?

Mr. KINLEY: There is no such thing as hiding it.

Mr. SLAGHT: Or refuses to disclose it?

Mr. KINLEY: They must disclose it to the income tax authorities, and they are the only people that perform the test.

Mr. SLAGHT: I will show you if you permit me to make this statement that the banks do not disclose to the Income Tax Department the amount of their inner hidden reserves.

Mr. KINLEY: But they disclose them to the bosses of the Income Tax Department.

Mr. SLAGHT: Who are the bosses?

Mr. KINLEY: To the minister or the deputy minister.

Mr. SLAGHT: You are entirely wrong. Let me assert, after making the inquiry I have, that you are entirely wrong. If the committee wants to digress for a moment I will show you the return under the Act that the banks make, and it is schedule H, and in schedule H—I did not intend to digress this way, but if the committee pleases we can clear up these matters. I will take the existing law; it is practically the same in the proposed new Act, bill 91. You all have bill 91, but perhaps you have not got the other. I am referring to page 96.

Mr. MCCANN: Page 96 of the old Act?

Mr. SLAGHT: It so happens that it has a different number and a different schedule in the new Act; it is in schedule L at page 95 and in the old Act it is in schedule H at page 90, and it becomes item 15 in the new Act whereas it was item 16 in the old Act. The item reads just the same, and it reads: "Rest or reserve fund." I think, although I have not turned it up, that I asked Mr. Wedd as regards that item in schedule H, what did they insert; did they insert the disclosed reserve or did they insert the disclosed plus the inner reserve, and if I recall he told me they inserted only the disclosed reserve. However, to make this clear we can clear it up with the Income Tax Department if you wish: that when the banks make their return in writing and tax themselves as we all have to do, and they send a return to the Income Tax Commissioner, in that return they show only as reserves the disclosed reserves and they do not show the commissioner the amount of the inner hidden reserves.

Mr. MAYBANK: There would be a differentiation in any event between that and the commercial practice.

Hon. Mr. ILSLEY: But they disclose the amount of their appropriations to inner reserve year by year to the Inspector General and through him to the Minister of Finance on whom the Minister of National Revenue relies and has since 1917. And just one point more, and this is important. I want to point to the reference to the inner reserve of Canadian Canners Limited in its statement. Now the amount in its consolidated balance sheet of February 29, 1944, assets, the third item, is accounts and bills receivable less reserves $1,525,905.04. Now, there is your reserve, your inner reserve in Canadian Canners not disclosed but referred to.

Mr. FRASER *(Northumberland, Ont.)*: May I say a word at this juncture? We have been arguing about the position of the banks in connection with their inner reserves and their taxation as comparable to an industrial company like Canadian Canners or Canadian Locomotive or any other industrial company. Now, I submit, Mr. Chairman, that an industrial company sets up a reserve, as the minister has just said, say, in 1943, for bad debts, and we will say that the reserve is $125,000. That reserve is a deduction from their gross profits to take care of the bad debts that have accrued during the current year of 1943. That is correct?

Hon. Mr. ILSLEY: Or may accrue.

Mr. FRASER *(Northumberland, Ont.)*: No, not "may"; or may accrue in 1944. But when an industrial company submits its financial statement and its returns to the income tax branch at the end of 1944 the Commissioner of Taxation comes back and he finds the actual amount of the bad debts that have been charged against the reserve that was set aside for that current year, and if against the $125,000 of bad debt reserve the company only shows that it has sustained a loss of $105,000 then the $20,000 is charged back by the income tax branch for taxation purposes against the current year for which the reserve was set aside.

Hon. Mr. ILSLEY: There would be another reserve set up in 1944.

Mr. FRASER *(Northumberland, Ont.)*: I will agree with that; there would be another reserve set up to take care of the bad debts for the ensuing year, there is no question about it; but at the end of the period the Commissioner of Taxation will say: all right, you have only sustained a certain amount of bad debts in that aggregate against that reserve for bad debts and you are immediately, once again, in the continuing process charged income tax and the balance is charged back into the statement as profit and you pay income tax thereon. Now, since the war broke out, as shown by the Canadian Canners' statement and numerous other statements, companies have been permitted to set up an inventory reserve, a reserve to take care of anticipated losses on inventories through deflated values. We will say that a company sets up a quarter of a million dollars as an inventory reserve—take a paper company or any other company—against inventory deflation, or deflation in inventory value, but the taxing department, when that inventory is disposed of, will say: "You only required $125,000 of your $250,000 set aside", and back goes the $125,000 into your statement of profits for which it was set aside and on which you pay tax or excess profits tax.

The next point is this that while the figure on the statement of Canadian Canners may be set out as $1,800,000 as a contingent reserve or whatever it is, don't forget that as far as they are concerned they are not permitted by the taxing department to carry that balance forward either into a declared reserve or into inner reserves; they are not permitted to do that. The point I want to bring before this committee at the present time is this: is it necessary—I did not hear the minister yesterday and I have not had time to read his statement through—but is it necessary in the banking business—I will not say whether it is or not—to do two things: to permit the banks to carry forward into a hidden reserve the unused portion of a bad debt account from any current year that has not been consumed by the bad debts in those years and on which they have not paid taxes? Secondly, is it necessary for the banking business—and nobody has more respect for the stability of Canadian banking institutions than I have—

is it necessary for the banking businesses to permit them privileges that are not permitted to industrial business or commercial business, inasmuch as they are permitted to carry the untaxed portion forward year by year into a hidden reserve fund?

Now, the two points made by Mr. Slaght are these: should they be permitted to carry that tax free balance year by year into a hidden reserve; should they be permitted in the interest of banking and in the interest of the Canadian public—my good friend Mr. Macdonald of Brantford City would say in the interest of the depositors and the working men and everybody else—to have a hidden reserve? I think that is the question before the committee. It is acceptable that they have that privilege and if the committee is convinced by the banks that it is necessary in the interests of the banks and business and the public to have those two privileges, all right, let us have it on the table and be done with it. But the fact remains that they have those two privileges. Now, should they or should they not have them?

Mr. SLAGHT: May I say to Mr. Kinley—and then I would like to go on with Mr. Ilsley if the members think that proper, without interruption—that the minister has answered him when he has stated that those hidden reserves, as to amount are required to be disclosed and are disclosed by the banks to Mr. Tompkins, the Inspector General, and to Mr. Ilsley, the Minister of Finance, but are not disclosed to the Commissioner of Taxation. That answers your question from the lips of the minister.

The CHAIRMAN: May we allow Mr. Slaght to continue without interruption?

Mr. KINLEY: I think I should say this: except that the Inspector of Income Tax is a servant of the Department of Finance.

The CHAIRMAN: No, National Revenue.

Mr. KINLEY: Yes, National Revenue. But if the principal knows the conditions I think we could say that the servant also knows the conditions.

Mr. SLAGHT: I tell you, Mr. Kinley, that he was forbidden to disclose them to his minister.

Mr. FRASER (*Northumberland*): I want to get at this one point—

The CHAIRMAN: Mr. Slaght, has Mr. Fraser your permission?

Mr. SLAGHT: Yes.

Mr. FRASER (*Northumberland*): The one point that arises is this: would it not be better if this hidden reserve is necessary and develops from the sources that have been acknowledged—would it not be better in the interests of the banking system itself if, instead of as Mr. Slaght says, those balances being carried over into hidden reserve, why not carry them out into the published reserve so that they will be out in the open? It seems to me it would be in the interest of the banking business and of the public to show that.

The CHAIRMAN: Mr. Fraser, I suggest that as you were not here yesterday if you would read the minister's statement it will throw some light on your misapprehension.

Mr. SLAGHT: In passing I will say that I agree with Mr. Fraser that it will be in the interests of the bankers themselves and in the interests of stability and of public confidence to put this matter in the open instead of into hidden reserves; but they will lose this, they will lose the taxes they have been saving by not paying on them. If you can balance off the loss of taxes they are escaping as against stability and putting things in the open, then on balance the bankers are better off.

Hon. Mr. ILSLEY: There are two different points: one is the tax question and the other is the question of disclosure.

Mr. SLAGHT: You cannot separate them.

Hon. Mr. ILSLEY: You certainly can.

Mr. SLAGHT: I think not.

Hon. Mr. ILSLEY: I would like to say that in reply to Mr. Kinley you said that somebody had said he could not disclose them to the minister.

Mr. SLAGHT: The statute says so—section 145.

Mr. TOMPKINS: I can disclose them to the minister and to the deputy minister.

Mr. SLAGHT: You can disclose them to this minister and this deputy minister. I say you can. But somebody said, he is in the Department of National Revenue, and what he knows his minister knows. Now, can you disclose them to your Minister of National Revenue?

Mr. TOMPKINS: No.

Hon. Mr. ILSLEY: But the Minister of Finance can.

Mr. SLAGHT: Of course he can; but he told us a week ago that he has not disclosed them to Mr. Towers.

Hon. Mr. ILSLEY: My answer was that I did not know whether Mr. Towers knew that or not. I could not remember to what extent the disclosure had been. That was my answer then. Mr. Towers knows it now.

Mr. SLAGHT: Yes, because he was brought in in the last ten days for a conference when you discovered that two or three banks were putting too much aside.

Mr. Minister, may I call your attention to something which Mr. Wilson has put so cleverly and truly here. If you haven't got your volume of the 1934 evidence of the committee will you accept mine and I will read from the note I have made. I am reading from page 443 where Mr. M. W. Wilson, General Manager of the Royal Bank, is under examination by Mr. Bothwell. I think it is about half way down. After explaining inner reserves, this question appears about three-quarters of the way down on the page, Mr. Minister:—

> Does that account—

That is speaking of the inner reserve.

> —ever appear in the statement that is filed or published by the banks for the information of the public?—A. As a separate item? No.
>
> Q. Does it appear in the statement at all?—A. It affects the statement in this sense: It is used to write down assets. The theory is this: regardless of how careful you may be in loaning money, there are weak spots in your loans all the time. Sometimes you know them; other times you find out about them next week or next month. It is to take care of what I would call the surprises in your loan accounts that you have this extra contingent account. When you make up the balance sheet you naturally deduct that special contingent account from your loans, and show only the net amount of the loans in the balance sheet.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: The next question is:—

> Q. Is not the general reserve available for that purpose?—A. Yes.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: I take it that you agree with that, Mr. Ilsley?

Hon. Mr. ILSLEY: Yes. I agree with that.

Mr. SLAGHT: All right. Then at page 444—

Hon. Mr. ILSLEY: Just a minute. I think you ought to say what you are driving at. What Mr. Wilson says there is that the rest fund, the published reserve, is shown in the balance account, and that the inner reserve is not. Is that not what he is saying? That is what I am agreeing to, anyway.

Mr. SLAGHT: He is saying more than that. I do not want you to agree to anything that is not clear. I will clarify it for you. He says more than that. He says before you show in your balance sheet the amount of your loans, as assets, you start with the amount of the loans and take this hidden reserve from the amount of your loans, and you only show in your balance sheet as current loans and discounts not otherwise included, estimated loss provided for; that is, you show an amount which is the true amount of your loans less the hidden reserve.

Hon. Mr. ILSLEY: So does the Canadian Canners.

Mr. SLAGHT: You can tell me that as often as you like. I am talking about the banks just now.

Hon. Mr. ILSLEY: Let me show it to you.

Mr. SLAGHT: Yes, but—

The CHAIRMAN: Order, please, Mr. Slaght. Let the minister have an opportunity to make a reply.

Hon. Mr. ILSLEY: Let me show it to you. That is what inner reserves are, and I have never been clear that that was understood by yourself, Mr. Slaght. Just let me read this. I have a statement here which reads:—

Canadian Canners Limited and Subsidiary Companies, Consolidated Balance Sheet, February 29, 1944.

ASSETS

Current:

Cash on hand and in banks........................	$842,366.65
Marketable securities and government bonds (at cost)	$1,075,000.00
Accounts and bills received, less reserve.............	$1,525,905.04

Now, the amount, the par amount—

Mr. JACKMAN: The face value.

Hon. Mr. ILSLEY: The face value of the accounts and bills receivable are not shown in the balance sheet of the Canadian Canners. It is the face amount less their reserve, which is an inner reserve. It is merely, therefore, judgment as to what those things will likely be worth; that is all that an inner reserve is, and that is all the banks do. They write down the value, the face value. They write down the book value. That is the proper word. They write down the book value in their statement, their published statement and in their returns to the department. They are required by law to do it, I submit, on a proper interpretation of the Act; but they are not pursuing a different practice in so far as concealing reserves is concerned from that pursued by Canadian Canners and by any number of other companies.

Mr. SLAGHT: Assuming that you are right, do you approve of Canadian Canners concealing from the income tax department what the amount of their inner reserve is?

Mr. FRASER (*Northumberland, Ont.*): They do not.

Hon. Mr. ILSLEY: They do not.

Mr. SLAGHT: Can you find there what they are?

Hon. Mr. ILSLEY: I cannot. That is the point.

Mr. SLAGHT: Then I suggest to you that the banks do not disclose to the tax department what their inner reserves are.

Hon. Mr. ILSLEY: But they disclose them to the government.

Mr. SLAGHT: We have heard that several times. I am not on that point now.

Hon. Mr. ILSLEY: That is an arrangement which has been in existence since 1917.

Mr. SLAGHT: The government are pretty busy and the Minister of Finance has really more than we ought to put on his shoulders. But we just discovered this when this committee started two weeks ago. You then looked into the inner reserves. You had made no check-up at the end of 1943 and had not stirred the tax people up. Now we find that two or three banks have over-charged their inner reserves. That is not a job that should be put on your shoulders, in my view. It is in the interests of the system of taxation that the truth should be shown right on the tax return. Then the tax collector can tell what he ought to do.

Hon. Mr. ILSLEY: Of course, on that point, the condition at the end of 1942 was all right, without any doubt, I should say. At the end of 1943, in the light of conditions which have developed since, our judgment differs from that of the banks in two or perhaps three cases. But there should be no deduction drawn from that fact that there has been an over-reservation on which everybody would agree. That is a matter of judgment.

Mr. SLAGHT: Would it be improper for me to ask you when you made the discovery of the error in judgment? Was it after this committee started?

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: It was after this committee started?

Hon. Mr. ILSLEY: That is right.

Mr. FRASER (*Northumberland, Ont.*): It would have been discovered anyway.

Hon. Mr. ILSLEY: It would have been discovered anyway. "Discovered" is not the right word. We would have come to that conclusion anyway sooner or later.

Mr. SLAGHT: At page 444, Mr. Minister, if you can find it, the second question from the top of the page, we find the following:—

> Q. Is there any special reason why the public cannot get the information as to what the inner reserves of the bank are, in the same way as they get information as to what the general reserves are?—A. Well, I suppose one reason is like so many things in the world, it has never been done. Those things are supposed to be confidential; and the banks guard very jealously the amount of those inner reserves, so-called.
>
> Q. In the report of the Royal Bank of November last—I am not sure whether it was the 30th or the 1st— —A. November 30.
>
> Q. In that annual report I think the statement is made that you transferred $15,000,000 from general reserves to inner reserves.—A. That is correct, and we stated that we did it to reimburse our inner reserves for the abnormal charges of the last four years, and in addition to provide extra reserves for anything that may happen in years to come.

Then farther down the page there is the following:—

> Q. Where does it appear in the annual statement? Under what item is it included, or is it included at all?—A. Well, if you ask me whether it appears as a separate item, obviously it does not.
>
> Q. Whether as a separate item or not, does it appear?—A. I say it is reflected—I think that is a better term—in the item loans and advances. Because what we do is this, we take the amount of this contingent account and we deduct it from the amount of our loans and advances.

Do you agree with that, that they take it from the amount of their loans and advances?

Hon. Mr. ILSLEY: That is what an inner reserve is. It is a writing down of book value of the loans and advances.

Mr. SLAGHT: I wanted to establish that.

Hon. Mr. ILSLEY: It has been established one hundred times. I said it over and over again yesterday. Everybody knows that who knows anything about inner reserves.

Mr. SLAGHT: Would you agree with this:—

> We may be right; we may be wrong. It depends upon the course of business of future years; but that is how that particular item is treated in the bank's balance sheet. That is the way the Canadian banks do it. On the other hand, the English banks show it as a liability. Where you see the item "depositors and other accounts", the expression "other accounts" includes contingent accounts. That, I understand, is the English practice.

Have you looked into that?

> Mr. Tompkins: They are not separated.
> Mr. Kinley: Do they not show both sides in English practice?
> Mr. Tompkins: They are not disclosed in Great Britain.
> Mr. Slaght: Continuing:—
> Q. Well then, looking over the bank statement, where we see the item "loans and other advances" or whatever that item is, we can take it that that particular item includes the amount of the inner reserves?—A. Yes; you can say that represents the amount of the bank's loans and advances, less the amount of any contingent appropriations which may be set up to cover future, perhaps non-ascertained losses. I think that answers your question.
> Q. You say "less"?—A. Yes, you deduct it.
> Q. Is that correct?—A. Oh, yes.

Then Mr. Fraser of Cariboo, at page 445, asks Mr. Wilson this:—

> Q. Do I understand this, Mr. Wilson, that the amount of current loans reported from month to month is not really the amount of the current loan; that you have a certain amount more than that?—A. Well, it is the amount of our current loans, less provision we have made for bad debts.
> Q. Then you actually have more current loans?—A. Yes, we would have if they liquidated 100 cents on the dollar.

Hon. Mr. ILSLEY: Well, they were required to do that by the Act.

Mr. SLAGHT: They are not required to hide it.

Hon. Mr. ILSLEY: They are.

Mr. SLAGHT: To hide it?

Hon. Mr. ILSLEY: Absolutely. Let me refer you to this statement.

The CHAIRMAN: Order, please.

Hon. Mr. ILSLEY: The statement to the public, and the statement called for by the Act, is the amount of their loans, less estimated loss provided for. Here it is here. "Current loans and discounts in Canada, not otherwise included, estimated loss provided for;" "current loans and discounts elsewhere than in Canada, not otherwise included, estimated loss provided for." If they have a $100 loan to a person, and they estimate that there will be a loss on that loan, they are required by law not to put it in at $100 but to put it in at $100 less the estimated loss.

Mr. McGeer: Where are they barred from disclosing what the estimated loss is?

Mr. Slaght: Not at all.

Mr. McGeer: There is nothing there which says that the estimated loss should not be disclosed?

Mr. Slaght: Let me suggest this—

Hon. Mr. Ilsley: It is not to be disclosed in that statement.

Mr. Slaght: Why not?

Mr. McGeer: There is nothing in that at all to that effect.

Mr. Slaght: There is nothing there that says, "Do not disclose it." Now, Mr. Minister, if in making the statement they are following the law as it is now, and if it is as you say it is, I think it is high time we changed it. If you followed that out and if there were current loans and expenditures of $100 and an estimated loss of $10, the net amount of the current loans and expenditures, after deducting the estimated loss, is $90. Do you say you would be breaking the law by showing that?

Hon. Mr. Ilsley: Yes.

Mr. Slaght: That is my point.

Hon. Mr. Ilsley: Just a minute now. I want to deal with Mr. McGeer's point.

Mr. Slaght: All right.

Hon. Mr. Ilsley: What we are talking about and what Mr. Slaght was suggesting was whether the banks were not doing something reprehensible or breaking the law or doing something they should not do by not putting $100 in this statement opposite every $100 loan. That was your statement, Mr. Slaght.

Mr. Slaght: Plus deducting then anything that they wanted to show and showing the net, because it would then be the truth.

Hon. Mr. Ilsley: But the statement calls for a report of the amount of loans, estimated losses provided for.

Mr. Slaght: The result being that it allows them to hide that.

Hon. Mr. Ilsley: It does, exactly.

Mr. McGeer: From the income tax department.

Hon. Mr. Ilsley: No.

Mr. Slaght: I suggest that this committee should change that statement, if you have given the correct interpretation of it, and let them show their true amount of loans less the $10 estimated loss. The net amount of the loan of $100, after the estimated loss of $10 is deducted, is $90. Then they have the truth. Do you oppose that?

Hon. Mr. Ilsley: Well, I am under pretty skilful cross-examination to-day and if I say yes or no I am bound to that for all time to come, and it will be read and published and so on.

Mr. Slaght: Surely we can all be flexible.

Hon. Mr. Ilsley: What I am suggesting to you now is this. You are simply attacking the whole principle of non-disclosure. That is what you are attacking.

Mr. McGeer: We are discussing the situation.

Hon. Mr. Ilsley: No. You are attacking it.

The Chairman: Order, please. Let the minister finish his remarks.

Hon. Mr. Ilsley: You are wrong too, Mr. McGeer, because Mr. Slaght is attacking it.

Mr. Slaght: The minister is quite right.

The Chairman: Order, please. Let the minister finish.

Hon. Mr. Ilsley: He is attacking it because he says if the law is in this position, it should be changed.

Mr. SLAGHT: That is quite right.

Hon. Mr. ILSLEY: Yes. If the law is changed in the way that Mr. Slaght suggests, then the inner reserve becomes an inner reserve no longer.

Mr. SLAGHT: That is right.

Hon. Mr. ILSLEY: It becomes a disclosed reserve.

Mr. SLAGHT: That is right.

Hon. Mr. ILSLEY: So you are attacking the whole principle, which is what I understood you were doing. You are attacking the whole principle of non-disclosure.

Mr. SLAGHT: That is right.

Hon. Mr. ILSLEY: It comes down to the point of whether it is right or wrong, whether it is wise or unwise, for the banks of the world, and the banks of Canada specifically, to have inner reserves. I believe they must have inner reserves in order to satisfactorily carry on banking business, for the reasons I gave you yesterday.

Mr. SLAGHT: Quite so. That is, you must continue to hide them?

Mr. KINLEY: Which are controlled, in the last analysis, by the government.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: And of which the income tax commissioner knows not the amount.

Now, Mr. Ilsley, may I come to that statement very shortly. At page 3 of the statement—and I can help you find it because of my sheet I have put little items opposite, and it is difficult for you to find it unless I indicate it. On page 3 you make this statement: At the end of each year the banks write off bad loans and make specific appropriations against loans where there seems reason to fear a loss. That is correct, I take it?

Hon. Mr. ILSLEY: Where is this?

Mr. SLAGHT: "At the end of each year the banks write off bad loans—"

Hon. Mr. ILSLEY: I have page 5 here.

Mr. SLAGHT: It is on page 3. I am sorry I gave you the wrong page.

Mr. HAZEN: It is the second long paragraph on page 3.

Hon. Mr. ILSLEY: You are asking me if I agree to something I put in my statement yesterday?

Mr. SLAGHT: No, I am not asking that. I want to call attention to the fact that your statement yesterday indicates that at the end of the year banks do write off their bad loans.

Hon. Mr. ILSLEY: You are asking me if I agree to something that I put in my statement yesterday.

Mr. SLAGHT: No, I am not doing that. I want to call attention to your statement where you state that at the end of the year the banks do write off their bad loans, they definitely ascertain losses and they write them off and charge them in operating expenses. I think we are all agreed on that.

Hon. Mr. ILSLEY: I certainly agree that what I said yesterday is correct.

Mr. SLAGHT: All right, I am commenting on it. Now, at the letter "B": In addition to that they set aside an inner reserve to meet losses, "they are not yet aware of." The letter "B" should be opposite.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: I end on your language, that in addition to writing off their bad debts they set aside an inner reserve to meet losses "they are not yet aware of." That is true?

Hon. Mr. ILSLEY: Don't ask me if what I said yesterday is true; it is all true.

Mr. SLAGHT: On page 4 you have an idea there about a long controversy when parliament finally wanted to get an external audit set up. Do you find that, Mr. Ilsley? "In 1913, therefore, parliament insisted upon this system of audit by external auditors representing the shareholders, and in 1923 it greatly strengthened. . . .". That is not the paragraph about the long controversy.

Hon. Mr. ILSLEY: It is further on, about the middle of the paragraph: "It will be apparent that these shareholders' auditors perform a quasi public duty. . ."

Mr. SLAGHT: Thank you. ". . . .and those familiar with the long controversy which went on before this system of external audit was provided for will remember that the primary object of parliament. . .". I am interested to know, before parliament succeeded in getting that matter of compelling the shareholders' audit onto the books, whom was the long controversy between?

Hon. Mr. ILSLEY: I would like to ask the deputy minister that.

Mr. SLAGHT: Yes, he gave you that phrase, probably. Dr. Clark, will you tell us whom the long controversy to get the shareholders' auditors appointed for the banks was between?

Dr. CLARK: It was a controversy that went on in the public press and to some extent in parliament as to whether it was desirable to have an external audit. As I recall, some bankers took the view that it would be undesirable and some took the view that it was desirable. There was a difference of opinion among the banks themselves. People writing on the subject also took different points of view, and after a series of failures, parliament came to the point of view that it was wise, everything considered, to have this.

Mr. SLAGHT: And against those bankers who did not want a shareholders' auditor in their banks, parliament forced them to have one as a result.

Dr. CLARK: Yes, as against those. There were other people who disagreed with it too.

Mr. KINLEY: Who were they?

Dr. CLARK: I would have to turn to the record of that time. That is a long time ago. But I think you will find a good many public writers and speakers on the subject. There were members of parliament at the time who opposed it and others who supported it.

Mr. McGEER: Have you any record of the people at that time?

Dr. CLARK: I think I could find the record.

Mr. McGEER: I do not think you can.

Mr. SLAGHT: I will now direct my question to the minister. On page 4, Mr. Minister, against my mark "B", there is some language of yours there that I have not got, but my question is: Is it true that certain banks covered up their position for a time by falsely stating the value of their assets?

Hon. Mr. ILSLEY: I always understood it was.

Mr. SLAGHT: That certain banks covered up the true value of their assets and covered up their position by so doing, to the public?

Hon. Mr. ILSLEY: Yes, and they failed. It is the greatest temptation to do it in the world, if you are going to fail.

Mr. SLAGHT: I am very sure that these hidden reserves are a temptation.

Hon. Mr. ILSLEY: That is not fair. They were doing the reverse of inner reverves, they were over-valuing their assets, not under-valuing their assets.

Mr. SLAGHT: They were doing something that you regard as dishonourable.

Hon. Mr. ILSLEY: I have to think about that, but I say improper, certainly improper.

Mr. SLAGHT: That is good enough for me. I do not like the word "dishonourable" either. And you think they did so by collusion between management and auditor.

Hon. Mr. ILSLEY: I do not know whether they did or not.

Mr. SLAGHT: You put it in your statement.

Hon. Mr. ILSLEY: I did not say they did.

Mr. KINLEY: Is the word "collusion" there?

Mr. SLAGHT: I think so.

Hon. Mr. ILSLEY: It is a safeguard again possible continuing collusion between management and auditors.

Mr. SLAGHT: Parliament stopped a state of affairs where there was or there might be a continuation.

Hon. Mr. ILSLEY: Now, Mr. Slaght, you misunderstand the meaning of the word "continuing". The meaning of the word "continuing" there is continuing over a period of years, possibly after this change was made. What we are talking about was this, a system of rotation of tenure of office which prevented one auditor or one firm of auditors remaining the same auditors in a bank for a long period of years, in which event there would be possible continuing collusion between the management and the auditors.

Mr. SLAGHT: I am glad you cleared that up. If I understand you, you cleared it up this way—I will read your language again: "Parliament did this to safeguard against possible continuing collusion between management and auditors"; and you are telling us now that there had been no previous collusion.

Hon. Mr. ILSLEY: I am not telling you that; I do not know whether there was or not.

Mr. SLAGHT: I think you were right.

Mr. MAYBANK: The word "possible" makes the meaning clear does it not? If it had existed and he knew it, he would not have used the word "possible".

The CHAIRMAN: The possibility of.

Hon. Mr. ILSLEY: It removed the possibility of a continuing collusion. It must be borne in mind that before a certain date the auditors were not selected from a government panel. Before 1913 there was an internal audit only, and a certain time came when an external audit was provided for, the auditors being selected from a government panel, which is the condition at the present time.

Mr. MCCANN: What do you mean by a panel?

Hon. Mr. ILSLEY: A list of approved auditors, bank auditors, approved by the government.

Mr. SLAGHT: That has been given to us; it is on file.

Mr. TOMPKINS: I merely gave you a list of the present auditors.

Mr. SLAGHT: That is enough. Would you agree with Mr. Tompkins that under the present Act, if we do not amend it, the directors have the sole discretion as far as the present law is concerned as to how much they put away in the hidden reserves?

Hon. Mr. ILSLEY: I just do not want to agree with that.

Mr. SLAGHT: Would you disagree with that? He told us positively.

Hon. Mr. ILSLEY: To begin with, by law the shareholders' auditors certainly have a responsibility there, and they are obliged to sign a statement that this represents the true condition of their bank, among other statements; and in view of that I do not know that I would be prepared to assent to your statement categorically.

Mr. SLAGHT: It is not mine; it is Mr. Tompkins'.

Hon. Mr. ILSLEY: There may be other qualifications as well.

Mr. SLAGHT: In that connection, may I point out that Mr. Wedd told us: I do not care what the shareholders' auditors do in their own searching and looking; that the banks' statements were so prepared that even their shareholders could not see the amount of the inner reserve. Do you recall that?

Hon. Mr. ILSLEY: I do not recall that.

Mr. SLAGHT: Let me tell you that Mr. Wedd told us that. The bank directors—

The CHAIRMAN: Have you got Mr. Wedd's statement?

Mr. SLAGHT: I have not got it here.

Mr. JACKMAN: He said that the shareholders had never asked at an annual meeting for the disclosure of the inner reserves, but if they were so demanded they would be told.

Mr. SLAGHT: That is right, he did; but even he told us that—he told us that any one of those ten statements that they prepare for submission to shareholders are prepared in a manner that the shareholders reading them could not know the amount of the inner reserves; but he said that if a shareholder came along and asked the amount he might be told what it was.

Are we agreed upon this, that if the directors, as Mr. Tompkins has asserted, have the sole discretion under the law as it now stands to fix the amount of those inner reserves, if they fix them at an excessive amount, as has been found in two or three of them—you have—

Hon. Mr. ILSLEY: That is a matter of judgment.

Mr. SLAGHT: Of course it is; but if they do they escape taxation on the excessive amount that they, the directors, fix.

Hon. Mr. ILSLEY: Not necessarily.

Mr. SLAGHT: They do not escape it?

Hon. Mr. ILSLEY: Not necessarily. They do not pay taxes on it in that year.

Mr. SLAGHT: Then the government does not get the taxes on their excessive amount in the year the government ought to have got the taxes?

Hon. Mr. ILSLEY: I do not know. I do not agree with that.

Mr. SLAGHT: What is wrong with that?

Hon. Mr. ILSLEY: Because it may not be the year in which the government should have got the taxes.

Mr. SLAGHT: I understand you to tell us in your report that with the assistance of Mr. Tompkins, Dr. Clark and Mr. Towers, they decided that two or three banks have excessive reserves, inner reserves, and you have reported, or you were going to report them to the Minister of Inland Revenue. I suggest to you that when you do report them he has got no power under the present law to make them pay; that you have vested in those directors exclusive power to determine what they are. That is only a matter of amending, do you agree?

Hon. Mr. ILSLEY: Now, you are talking about excessive reserves only, and the extent of the excess.

Mr. SLAGHT: Oh, no, they fix all the inner reserves; they fix the entire amount, sir.

Hon. Mr. ILSLEY: That is what I want to find out. If you are talking about excessive reserves and the extent of the excess that is set aside in a particular year then it is correct to say that tax is not paid on that amount in the year in which it ought to be paid; but it is not correct—it is not necessarily correct to say that they escape taxation, because they may come back into profit and loss for taxation in a subsequent year.

Mr. JACKMAN: And at a much higher rate.

Hon. Mr. ILSLEY: Yes, and they do.

Mr. SLAGHT: But in the year they ought to have been paid on the excessive reserve the government is without that much money while the poor man is paying his taxes in full because they are deducted at source; is that true?

Hon. Mr. ILSLEY: You are complicating the situation in a skilful way now.

Mr. JACKMAN: Mr. Ilsley, if the banks had continued this policy of setting up more than adequate reserves—assuming that they did—during the thirties so their notes and their accounts were underestimated as far as eventual recovery was concerned—if they had stated what Mr. Slaght termed their true profits through the thirties they would have been subject to 18 per cent tax on the profits?

Hon. Mr. ILSLEY: Yes.

Mr. JACKMAN: If they had underestimated those notes and their receivables they will find when they have collected in the forties they will be subject to not an 18 per cent tax on the true profits but the excess profits tax, namely 100 per cent, and I suggest to Mr. Slaght that if he makes an examination of the returns of the chartered banks he will find that the federal treasury is not only as well off but probably four or five times better off than they would have been if the banks had given a more accurate statement of their losses over those years.

The CHAIRMAN: Order, gentlemen, please.

Mr. NOSEWORTHY: It would work the other way if taxes are reduced.

The CHAIRMAN: It is 1 o'clock. There are several matters that I should like to place before you. In the first place, Mr. Tompkins has some papers to file. Mr. Tompkins, will you explain the nature of those, please?

Mr. TOMPKINS: In response to Mr. Slaght's request, I file a break-down of item No. 2 in the statement on *Hansard* with respect to the fiscal year 1943 and also a break-down of item No. 10 in the same statement.

Mr. SLAGHT: What exhibits do they become?

The CLERK: Exhibits 29 and 30.

The CHAIRMAN: Gentlemen, a caucus has been called for to-morrow morning at 11 o'clock. What is your pleasure as to adjournment. Shall we meet at 4 o'clock to-morrow or 4 o'clock this afternoon?

Mr. FRASER (*Northumberland*): I move we meet this afternoon at 4 o'clock.

The committee adjourned at 1.05 p.m. to meet again at 4 p.m. this day.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Mr. Slaght had the floor, I believe, when the committee adjourned.

Mr. SLAGHT: Mr. Minister, in your report on page 6—I do not think we need turn to the language of it—as I read it you indicated that the minister has a responsibility to check inner reserves that are too large. I think we are all agreed on that.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: And discovering reserves to be, in the opinion of the minister, too large, could you tell the committee just what the remedy is under the existing law? I ask the question because if the power is not full enough, then the committee might desire to see that it was made more ample.

Hon. Mr. ILSLEY: Yes. I propose to make it more ample myself.

Mr. SLAGHT: I beg your pardon, sir?

Hon. Mr. ILSLEY: I propose to make it more ample myself; I suggested it yesterday. What the Minister of Finance ought to do is communicate with the Minister of National Revenue and say that, in his opinion, the reserves are more than adequate as tax-free reserves.

Mr. SLAGHT: Which would be a way of setting in motion, possibly under the present law if we do not amend it, the Minister of National Revenue towards forcing the banks to disgorge arrears of taxes.

Hon. Mr. ILSLEY: Well, it would not be disgorging arrears of taxes. I would set in motion the Minister of National Revenue to disallow part of the reserves claimed by the banks as reasonable, to disallow part of it as a tax-free reserve. I propose to make that statutory, to impose a statutory duty on the Minister of Finance to do that by the amendment that I suggested yesterday in my statement.

Mr. SLAGHT: Then suppose the Minister of National Revenue does not take orders from the Minister of Finance. Do you suggest that we might give him, the Minister of National Revenue and his commissioner of taxation, the direct power to see that this tax be paid?

Hon. Mr. ILSLEY: He has that power now.

Mr. SLAGHT: I beg your pardon?

Hon. Mr. ILSLEY: He has that power now.

Mr. SLAGHT: But we have been told that it is a blind-fold power because these inner reserves, as to quantity, are not disclosed to him under the present law.

Hon. Mr. ILSLEY: He may get them at any time from the banks.

Mr. SLAGHT: He may get them, but they are not disclosed to him under the law at the present time.

Hon. Mr. ILSLEY: Well, they are open to him if he desires to obtain them.

Mr. SLAGHT: But as I read your statement, you told us that the practice was that he accepted the auditor's statement as coming from the banks and did not go behind that with an audit of his own.

Hon. Mr. ILSLEY: I think that is correct. He relies on the audit or examination of the Minister of Finance.

Mr. SLAGHT: That being so, I am looking to see if we cannot better that state of affairs; and you have already suggested an amendment to the Act resulting, I take it, from the inquiry you have made as the result of the investigation started by the committee.

Hon. Mr. ILSLEY: No. It does not result from that. It really resulted from the suggestion that was made in the committee the other day, which was that the responsibility is now a moral responsibility on the part of the Minister of Finance.

Mr. SLAGHT: As Mr. Tompkins told us?

Hon. Mr. ILSLEY: Yes; and it was suggested that it should be a statutory responsibility.

Mr. SLAGHT: Instead of a moral responsibility?

Hon. Mr. ILSLEY: Instead of a moral responsibility, with which I agree.

Mr. SLAGHT: I understand that.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: And in the draft act which you presented to parliament there was no word of that at that time?

Hon. Mr. ILSLEY: No, because it was working all right.

Mr. SLAGHT: It was working all right?

Hon. Mr. ILSLEY: It would work all right, I think, without the statute.

Mr. SLAGHT: Well, if we have a conscientious Minister of Finance, of course.

Hon. Mr. ILSLEY: Well—

Mr. SLAGHT: But ministers change at times, both as to industry and their view of hidden reserves, possibly.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: Would you tell the committee at what date you first went over the situation with the Inspector General regarding hidden reserves, as to whether last year's hidden reserves by the banks were satisfactory or not, because he told us in effect they were.

Hon. Mr. ILSLEY: For 1943?

Mr. SLAGHT: Yes.

Hon. Mr. ILSLEY: I cannot tell you.

Mr. SLAGHT: You cannot tell me when you first went over the situation?

Hon. Mr. ILSLEY: I do not know.

Mr. SLAGHT: But it is a matter of recent conversion that you have brought about with him, is it not?

Hon. Mr. ILSLEY: I beg your pardon.

Mr. SLAGHT: It is a matter of recent conversion due perhaps to the conference the four of you had?

Hon. Mr. ILSLEY: I do not like phrases like that, "recent conversion."

Mr. SLAGHT: Well, recent change of mind, then.

Hon. Mr. ILSLEY: You will have to ask the Inspector General about that.

Mr. SLAGHT: All right.

Hon. Mr. ILSLEY: I did not have the opportunity. These banks' years end at different times. The last one ends on December 31, 1943, the end of the calendar year. That is the last bank year. Some of them begin ending before that; some end on October 31, some at the end of November and others at the end of December.

Mr. SLAGHT: They are not uniform?

Hon. Mr. ILSLEY: No. There are returns, investigations, consideration and discussion. I did not have the opportunity this year of going over that matter until recently.

Mr. SLAGHT: Until just recently. Your statement says that there are two or three of the chartered banks whose inner reserves are excessive.

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: Are there two or are there three?

Hon. Mr. ILSLEY: I do not know. There is one that is very doubtful in my mind at the moment.

Mr. SLAGHT: But there are two that are definitely in that position?

Hon. Mr. ILSLEY: That in my judgment are.

Mr. SLAGHT: In your judgment?

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: And the third one is just perhaps a border-line case?

Hon. Mr. ILSLEY: I would consider it so. Do not let the impression be given that there is a hard and fast rule that you can apply. As I have tried to explain time after time, it is a matter as to which no formula that I know of can be applied. It is a matter of judgment.

Mr. SLAGHT: I think you put it in a nutshell when you said there is no rule of thumb.

Mr. ILSLEY: That is right.

Mr. SLAGHT: I agree with you. But may I put this to you by way of a suggestion. The matter being of great importance as affecting other taxpayers, as to whether the banks pay each calendar year when they earn their income, and as to whether they pay in full or do not pay in full because of excessive hidden reserves, may I put it to you that every ten years parliament, through this committee, should have the opportunity of lending you the benefit of the judgment of this committee as to whether you, Mr. Tompkins, Dr. Clark and Mr. Towers are right or wrong in saying that the other seven chartered banks have not put aside excessive inner reserves.

Hon. Mr. ILSLEY: Parliament does not do it for any other taxpayer. They rely on the Minister of National Revenue, and of necessity have to.

Mr. SLAGHT: Will you leave the other taxpayers out for a moment.

Hon. Mr. ILSLEY: You brought them in.

Mr. SLAGHT: Then I am going to leave them out for a moment and ask you this. I observe that we are getting a laugh from the bankers.

Mr. FRASER (*Northumberland, Ont.*): I am enjoying it. That is good.

Mr. SLAGHT: All right. I do not want to confuse this question with other taxpayers. Before I leave them out, however, let me ask you this. Take, for example, a brakeman on a railway getting $140 a month who might think he would fall sick next year, have to have an operation and need to be relieved from paying taxes on the whole year because he is going to have a loss to the doctor next year. He has no chance to be left out so far as a hidden reserve is concerned, has he?

Hon. Mr. ILSLEY: Mr. Slaght, there is no distinction between the treatment of rich and poor whatever in our taxing legislation. A man may be ever so poor; if he is in business—for instance, take a struggling corner grocer—that taxpayer has a right, under our law, to set up a reserve for bad and doubtful debts, and to have that allowed for taxation purposes as a deduction from his yearly earnings. Not only that, but he does not have to disclose that either. That may be as inner, hidden and secret as he likes, so long as it is communicated to the taxation authorities.

Mr. SLAGHT: Yes, but—

Hon. Mr. ILSLEY: Just let me finish, please. On the other hand, take a man who is ever so rich. If he is not in business, if he has a salary income or wage income, a fixed income and so on, he is allowed no reserve of any kind against that because his earnings, salary or whatever it is that is of that character, not being business income, is not subject to any deduction for taxation purposes. Rich and poor are treated exactly alike. The reason that a reserve is allowed to a person in business, on his business operations, is that the tax is on his profits. It is on his income after proper deductions. It is not allowed to the brakeman or to the poor person that you mentioned the other day who is not in business, because that person is not being taxed on profits. He is being taxed on fixed income, which is a different thing.

Mr. SLAGHT: Let us go back to your corner grocer that you just brought in.

Hon. Mr. ILSLEY: Yes?

Mr. SLAGHT: It was a very long answer which you made, and you will correct me if I am wrong. But as I listened to you, I understood that you said he is entitled to a reserve against loss next year if he discloses to the tax collector what the amount is.

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: To the income tax department.

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: We are clear about that?

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: The little corner grocer must, in his income tax return, disclose to the income tax department what the amount of the hidden reserve he claims for next year is.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: That is right.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: Now we have just heard that the banks do not do that.

Hon. Mr. ILSLEY: No. I beg your pardon?

Mr. SLAGHT: We have heard from you this morning that the banks do not have to disclose to the department of taxation the amount of their hidden reserves.

Hon. Mr. ILSLEY: That is a very technical question. There is no other authority—

Mr. SLAGHT: Clear it up.

Hon. Mr. ILSLEY: Just a minute, please. There is no other governmental authority over the little corner grocer. No other department takes responsibility for the solvency and soundness of his business. No other department has any supervision over him. The Minister of Finance always has had supervision over the banking system of Canada, and he must exercise a very serious responsibility with regard to both the adequacy and the reasonableness of these reserves; and it seems to me perfectly reasonable that the Minister of National Revenue should be guided by his judgment rather than setting up a competing judgment which might disagree with it, although he has power to do so.

Mr. SLAGHT: I point out that you introduced the corner grocer into this discussion.

Hon. Mr. ILSLEY: Because I wanted to get rid of this idea that we are treating the poor in one way and the rich in another, that we apply one rule to the poor and another one to the rich. We apply the same rule to both rich and poor, both as regard business income and salary income.

Mr. SLAGHT: I want to endeavour to show you that you are not doing that.

Hon. Mr. ILSLEY: Go ahead.

Mr. SLAGHT: You just acceded to my suggestion that the corner grocer must disclose the amount he claims for a reserve.

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: To the commissioner of taxation.

Hon. Mr. ILSLEY: And the bank has to disclose it to the Minister of Finance.

Mr. SLAGHT: Well, you are quick to tell me that.

Hon. Mr. ILSLEY: Where is the discrimination there?

Mr. SLAGHT: Where? Before we come to whether or not it is, let me ask you if you agree with my point of different treatment accorded to the two. The one man has to disclose it direct to the tax officer who will tax him and make him pay, but the banks do not have to disclose it there. That is true, is it not?

Hon. Mr. ILSLEY: They have to, if the Minister of Finance requires it.

Mr. SLAGHT: Oh, I did not ask you that.

The CHAIRMAN: Please, please, Mr. Slaght.

Mr. SLAGHT: All right. If he requests it.

Hon. Mr. ILSLEY: The same law applies.

The CHAIRMAN: Mr. Slaght, please show a little courtesy. Even the minister is entitled to some courtesy.

Hon. Mr. ILSLEY: I am not complaining.

The CHAIRMAN: Well, I am complaining.

Mr. SLAGHT: Mr. Chairman, your complaint is ill-founded, if I may suggest it.

The CHAIRMAN: Very well. The record will show whether or not it is.

Mr. SLAGHT: The minister and I are getting along very well, and I do not think you should make any trouble between us.

The CHAIRMAN: We are not trying to make any trouble, but I think we ought to have a quiet, reasoned investigation.

Hon. Mr. ILSLEY: The same law applies to both. The Minister of National Revenue has the same rights, the same access to the books of the banks as he has to those of the corner grocer; and if he chooses to rely on the access which the Minister of Finance has to them, that is a thing completely within his powers to do, and a sensible arrangement.

Mr. SLAGHT: I do not want to argue it with you. You have announced it to be a sensible arrangement. I want to establish the fact, if it be such, that the corner grocer who, we will assume is poorer than the bankers in the aggregate, is compelled under the existing law right on the face of his tax return to show the dollars and cents of any inner reserve or future possible loss claim that he presents when he sends his cheque forward with his return for taxes. Is that right?

Hon. Mr. ILSLEY: That is right, I believe, yes.

Mr. SLAGHT: Yes, I am quite sure it is.

Hon. Mr. ILSLEY: I was Minister of National Revenue and I think that is the case.

Mr. KINLEY: He puts it in his statement.

Mr. SLAGHT: He puts it in his statement.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: When the banks send a statement to the Minister of National Revenue, they do not put it in. Why should they not put it in?

Hon. Mr. ILSLEY: Because another department of government has got it.

Mr. SLAGHT: Oh!

Hon. Mr. ILSLEY: From them.

Mr. SLAGHT: That the bankers are to be treated differently and allowed to leave out the amount of their hidden reserves and thereby hide them from the commissioner of national revenue is a proper thing to do, you suggest—although you make the little fellow put it in—because some other department has that knowledge, but not the tax collecting department.

Hon. Mr. ILSLEY: It is more than some other department.

Mr. SLAGHT: If that is your position, we can understand it between us exactly.

Hon. Mr. ILSLEY: Well, it is more than some other department. It is the department and it is the minister that is charged with the responsibility, and a most serious responsibility, both to see to it that the reserves are adequate and that the reserves are not unreasonable. As I said before—and I do not think I can add to it—the Minister of National Revenue has a right at any time to get that information from the banks.

Mr. SLAGHT: All right.

Hon. Mr. ILSLEY: And if he is not getting it from the banks, which I do not believe he is, it is because the Minister of Finance is getting it.

Mr. SLAGHT: Yes?

Hon. Mr. ILSLEY: And he would report at once, if he is doing his duty, if he considered the reserves were unreasonable.

Mr. SLAGHT: Would it be fair for me to put this to you, that the Minister of National Revenue is charged with the responsibility of seeing to it that every corner grocer in Canada tell him in writing, on the responsibility of not making a false return, the exact amount of his inner reserve?

Hon. Mr. ILSLEY: No, that is not true.

Mr. SLAGHT: That is not true?

Hon. Mr. ILSLEY: No, that is not true. He has the right to take any method he wishes to arrive at the proper net taxable income of the corner grocer. It is merely a rule of practice when he gets him to report to him.

Mr. SLAGHT: You told me a moment ago that under the law the corner grocer was obliged to show on the face of his return the amount of that claim made by him. Do you wish to correct that? You told me that he was obliged by our law to do that.

Hon. Mr. ILSLEY: Did I? You are a pretty good cross-examiner, and you may have got me to say that by the law he was entitled to do that. I am not sure whether that is the case or not. By practice, he does; and certainly, so far as the Minister of National Revenue is concerned, it is his duty to ascertain what those reserves are, and what the net taxable return is.

Mr. SLAGHT: That is, it is his duty to ascertain the amount from the corner grocer.

Hon. Mr. ILSLEY: I want to correct that. It is his duty to ascertain the correct taxable amount. He could rely on another minister in the case there, if he utterly relied on it and had every reason to rely on it.

Mr. SLAGHT: Then I think we understand the facts, and I am going to leave it with just one question. Will you tell me why there is one minister, namely the man who has the duty to make him pay, to whom the corner grocer must disclose, and there is another minister whose duty is not to make him pay, namely the Minister of Finance, to whom the banks instead are permitted to disclose?

Hon. Mr. ILSLEY: I am as much interested in the revenue as the Minister of National Revenue is.

Mr. SLAGHT: But it is primarily not your business.

Hon. Mr. ILSLEY: Well, it is primarily my business.

Mr. SLAGHT: To collect it?

Hon. Mr. ILSLEY: Not to collect it, no.

Mr. SLAGHT: Not to collect it?

Hon. Mr. ILSLEY: To see that the treasury does not suffer; and nobody in this Dominion of Canada believes that I do not do my best to see that the treasury does not suffer.

The CHAIRMAN: Hear, hear!

Some Hon. MEMBERS: Hear, hear!

Mr. SLAGHT: I will applaud that, with the chairman and the other members of the committee. But let me put it to you that the Minister of National Revenue would be surprised to hear you say that it is as much your business to see to it that the taxpayers who make their returns to him and not to you pay their taxes, as it is his business. I suggest there is a very different sphere of activity. Would I be right in that?

Hon. Mr. ILSLEY: Well, there is a different sphere of activity.

Mr. SLAGHT: All right. We will leave that.

Hon. Mr. ILSLEY: He is no more interested that I am nor, I should imagine, would he be as much interested; because at the end of each year I have to come forward and show how much we collected and make as good a showing as I can. Certainly I would be the last one to take a course that would cause the treasury of this country to suffer.

Mr. CLEAVER: And who has to bring down the painful budget?

Hon. Mr. ILSLEY: Exactly.

Mr. SLAGHT: There is my friend suggesting pain of some kind. Let me put it this way. The Minister of National Revenue—

Mr. JACKMAN: I suggest that perhaps Mr. Slaght is entitled to an answer from the minister as to why the banks should be treated, in regard to their return, in a way somewhat different from the corner grocery store.

Mr. SLAGHT: I think he has given me his answer.

Mr. JACKMAN: I would want a more ample answer.

Mr. SLAGHT: I would have liked it.

Mr. JACKMAN: I believe the banking system has an effect on all the people of Canada and on all of the business of Canada which the corner grocery store or the aggregate of the corner grocery stores cannot possibly have. I think perhaps there is a very sound reason which the committee is entitled to have as to why they make returns to the Minister of Finance, the Inspector General and the Deputy Minister and not directly to the Minister of National Revenue.

Hon. Mr. ILSLEY: I will say this; the interest of the public of Canada in the adequacy of the reserves of banks is very much greater than the interest of the public of Canada in the adequacy of the reserves of any other business in Canada that I know of, because the creditors of the banks of Canada are such a terrifically important class. They are the depositors, millions and millions of them all over Canada, and for that reason there is a responsibility right on the Minister of Finance to take charge of that thing, both as to adequacy of reserves and to reasonableness of reserves, which he has done, and the Minister of National Revenue has relied on it from the beginning.

Mr. SLAGHT: Then, just a word about the duty, not only the privilege but the duty of this parliamentary committee we are now in. I need not read you the reference but would you agree with me it is to inquire into all matters and things connected with the Bank Act and banking and the proposed amending act under 91?

Hon. Mr. ILSLEY: Do I agree with the terms of reference?

Mr. SLAGHT: That that is the duty of this committee, all matters and things connected with the revision of the Bank Act at the ten-year period, the Act itself?

Hon. Mr. ILSLEY: I do not think I should be asked to say whether I agree with the terms of reference or not.

Mr. SLAGHT: Then, I indicate to you that those being the terms of reference why should not this committee once in ten years learn the amount and volume of the inner reserves instead of allowing the bankers to come here and tell us in effect that it is not of our business?

Hon. Mr. ILSLEY: That is not a fair question.

Mr. SLAGHT: What is unfair about it?

Hon. Mr. ILSLEY: The unfairness of it is that it is not a question of allowing the committee to know or allowing the bankers to say that it is none of the committee's business—

Mr. SLAGHT: Politely.

Hon. Mr. ILSLEY: It is a question of making the reserves public to the world or relying on the judgment and the character of the Minister of Finance as to deciding whether those reserves are adequate or inadequate, reasonable or unreasonable. That is the question, and the reasons that I gave, the reasons why I do not believe it is in the interests of the public of Canada or the banking system of Canada or the depositors in the banks to make the reserves public I gave yesterday in detail.

Mr. SLAGHT: I will only ask you about one or two of them. If you adopted my system suggested this morning and assumed, without assenting to its accuracy, that $50,000,000 would be added to the disclosed reserves of the banks, and the public would know there was a reserve disclosed, all of which would be available to them in case of losses, I suggest to you that would inspire even greater dollar confidence in the banks than to know that the public know that there is some hidden amount in there which the banks will not tell anybody about. What do you say to that?

Hon. Mr. ILSLEY: A good many persons might draw the conclusion there were so many bad loans they had to make very heavy appropriations against them. The time might come when the $50,000,000 would disappear and another $50,000,000 with it, in which event the public would get the impression that the Canadian banking system was tottering.

Mr. SLAGHT: Then, Mr. Minister, may I point out to you that since the year 1933 the banks' reserves have not been depleted $1 below the $136,000,000 which they then were, and the hidden reserves, according to Mr. Tompkins, have been piling up somewhat in the last ten years, and therefore if you take $50,000,000 of hidden reserves and put it on top of the $136,000,000 disclosed what lack of confidence would the people have in the banks because you did that thing in the open sunshine? I cannot follow you. I want to get exactly how you can put it to us and make us feel that by telling people in disclosed reserves the banks have against possible future losses, and have had for ten years back, there is $186,000,000 lying there instead of $136,000,000 it will shake confidence in the banks?

Hon. Mr. ILSLEY: I cannot make it any clearer than I did yesterday.

Mr. SLAGHT: Very well; we will leave it with that answer. Will you indicate to this committee for our guidance in determining the propriety of the motion I am about to move when I get a chance approximately the amount of taxation that will accrue to the treasury of Canada if the banks are compelled to pay on the excessive hidden reserve—that is two or three banks—that they have put aside last year?

Hon. Mr. ILSLEY: I cannot tell you.

Mr. SLAGHT: You cannot do that?

Hon. Mr. ILSLEY: No.

Mr. SLAGHT: Could you not tell us that might be $10,000,000?

Hon. Mr. ILSLEY: No, I do not want to give a figure until this matter is taken up much more fully than it has been at the present time. I do not know whether I could ever give a figure, but I certainly am not in a position to give it now.

Mr. SLAGHT: Can the committee not be trusted with knowing how much has been recovered to enable us to decide whether or not every ten years the whole picture ought to be laid on the table as to how these reserves accumulated and piled up, and how much they amount to in the year 1944? Why can you not trust the committee to that extent?

Hon. Mr. ILSLEY: I cannot give you the figures because I do not know them. I have not got them.

Mr. SLAGHT: Well, I only want them approximately. Take a leeway of $5,000,000 on that.

Hon. Mr. ILSLEY: I am not going to do anything like that.

Mr. SLAGHT: Pardon?

Hon. Mr. ILSLEY: I am not going to give figures with a leeway of $5,000,000 or any leeway.

Mr. SLAGHT: Then, we have got to be in the dark about how much you have picked up as a result of this inquiry in the last twelve days? We cannot know that?

Hon. Mr. ILSLEY: I cannot inform you for the reasons I have stated.

Mr. SLAGHT: Can you tell me why parliament ought not to know that important factor?

Hon. Mr. ILSLEY: I cannot tell you at the moment, at any rate.

Mr. SLAGHT: All right, we will pass that.

Hon. Mr. ILSLEY: Understand that—that does not mean that I know and will not tell; that means that I do not know.

Mr. SLAGHT: If you did know would you tell us?

Hon. Mr. ILSLEY: I do not know.

Mr. SLAGHT: You do not know if you did know whether or not you would tell us?

Hon. Mr. ILSLEY: Now, Mr. Slaght, the cross examination of a minister of the Crown reaches a point after a while where it passes the realm of the proper, and I want you to keep within those limits.

Mr. SLAGHT: All right, and a member of the committee representing the people of the country and parliament for the time being is entitled to answers that are within limits, may I suggest?

Hon. Mr. ILSLEY: I am answering pretty faithfully.

Mr. SLAGHT: Well, I think you are quite faithful. Do not misunderstand me. I have no suggestion of lack of faith on your part. I want to repeat that as often as I can. The difference between you and me is on what parliament ought to know, upon what a committee charged by parliament to investigate and report and bring witnesses before it ought to know, and your view as to what they ought not to know. That is all there is to it, Mr. Minister. You spoke on page 7 of the shareholders getting their hands on an inner reserve. I think perhaps we can agree on this, that an inner reserve could be paid out as dividends if the directors see fit?

Hon. Mr. ILSLEY: I beg your pardon?

Mr. SLAGHT: This inner reserve could, if the directors saw fit, be paid out, as Mr. Tompkins put it, to the shareholders as additional dividends?

Hon. Mr. ILSLEY: Only if they pay two sets of taxes.

Mr. SLAGHT: They have not paid any when they are in there.

Hon. Mr. ILSLEY: By the time they get them to the shareholders' hands through that course they would have paid two.

Mr. SLAGHT: But, Mr. Ilsley, if you are through—pardon me—

Hon. Mr. ILSLEY: I want to explain how that is. If inner reserves were moved into the profit and loss account, which they would have to get into before they could get into the shareholders' hands, if they were moved into the profit and loss account they would immediately become taxable at corporation rates. The corporation tax would be paid on that, and then when the dividend was declared—

Mr. JACKMAN: One hundred per cent.

Hon. Mr. ILSLEY: In some cases it probably would be 100 per cent. It would be 40 per cent or 100 per cent, and then when the dividend was declared and the shareholder received the dividend he would pay individual income tax on those if he was taxable.

Mr. SLAGHT: I quite apprehend all that, but may I put it to you fairly that, aside from whether they come out of a hidden reserve and get flipped in there, last year a bank shareholder, the taxpayer, would pay on the dividends and on the disclosed reserves the corporation paid its tax, so that two taxes were paid on everything that was paid in dividends last year? Is that not true?

Hon. Mr. ILSLEY: I presume so, but I do not see the relevancy of it.

Mr. SLAGHT: Well, I suggest that the relevancy of it is that when I asked you whether that could be paid out to shareholders as dividends if the directors saw fit you put forward that it would mean two taxes on them, and I put forward to you that every dividend a bank shareholder gets has two taxes on it.

Hon. Mr. ILSLEY: Has not the whole suggestion been that there has been an appropriation to a tax-free reserve which then may be divided up among the shareholders without any tax being paid on it?

Mr. SLAGHT: I have never heard anybody say that, never heard anybody say that.

Hon. Mr. ILSLEY: So long as it is clear it is all right.

Mr. SLAGHT: It has been clear to me from when Mr. Tompkins first gave us the answer that it could be paid to the shareholders.

Mr. TOMPKINS: I interjected this morning, subject to taxes.

Mr. SLAGHT: Would you agree with me that this would be fair, that having reached a decision of importance in the last ten days, with the assistance of Governor Towers of the Bank of Canada, it would be well for us in amending this Act to make it necessary for the banks to disclose to Governor Towers of the Bank of Canada as well as to you and Mr. Tompkins their hidden reserves?

Hon. Mr. ILSLEY: It might very well be considered. The bill that was introduced in parliament provides for an amendment which authorizes for the first time the inspector general of banks to communicate details of the banks' business to the Governor of the Bank of Canada. It does not compel him to.

Mr. TOMPKINS: Section 148.

Hon. Mr. ILSLEY: It authorizes him to.

Mr. SLAGHT: But does not compel him to. Would you agree with me that this is fair, that we ought to compel him to?

Hon. Mr. ILSLEY: I would have to give consideration to that. I would want to see the Governor of the Bank of Canada about that and see whether there are not some objections that do not occur to me at the moment, but certainly I do not see any myself at the moment.

Mr. SLAGHT: I am suggesting that when we set the Bank of Canada up it was done with the purpose of putting a control over banks and bankers in some respects. Would you agree with that?

Hon. Mr. ILSLEY: A control over banks?

Mr. SLAGHT: A control over our chartered banks and bankers through the knowledge and powers of the Bank of Canada?

Hon. Mr. ILSLEY: Only to the extent set out in the Bank of Canada Act.

Mr. SLAGHT: To some extent in that Act.

Hon. Mr. ILSLEY: It is not a control—it is a control over the volume of credit and currency. That may in a sense be a control over banks and bankers.

Mr. SLAGHT: Then, I will have to leave it. You are not saying we should not insist on them disclosing that to Mr. Towers for the moment, so that we are—

Hon. Mr. ILSLEY: Now, I want to add to an answer I gave a few minutes ago that these inner reserves might be paid out as dividends. If that had the effect of depleting the inner reserve below what I considered to be a level of adequacy I certainly would not let that happen, because the shareholders would then benefit at the expense of the safety of the depositors.

Mr. SLAGHT: Do you agree with Mr. Tompkins that the reason he prepared the statement to be submitted by you on *Hansard* at page 2620—it turned out it was submitted on that page—that did not show that there was a hidden reserve was because it was not desirable for parliament to know that?

Hon. Mr. ILSLEY: I disagree entirely with that suggestion, and it is patently absurd. When I present a statement to the House of Commons and refer to an inner reserve at the time I present it I am not presenting the statement in such a way as to conceal from parliament the fact there are inner reserves.

Mr. SLAGHT: Mr. Minister, I have not suggested that you did present it to conceal the fact. I asked you whether when Mr. Tompkins tells us that as he assisted in the preparation of that he approved of it being a statement which by looking at the statement a man who did not follow your speech—it took two or three hours to deliver, and I was not privileged to hear it—a man who only read the statement could not find on the face of that statement there was such a thing as hidden reserves?

Hon. Mr. ILSLEY: You can find provision for contingencies, and if the phrase that was used there—what phrase do you think we should have used? Your favourite phrase is "hidden reserve." Do you think there was some obligation to say something about hiding in this statement?

Mr. SLAGHT: Yes, or a word that would convey the truth because they are hidden. You could use "inner hidden reserve" or "inner undisclosed reserve" would be a better banking term probably. The man on the street would say when you hide it you hide it and he would not refine it as to whether it was undisclosed or hidden, but I would suggest this with all deference—and I am not saying that you conceived the idea of concealing anything from us in parliament when you put that on the record; I do not believe you did—that we are told by the man who is the co-author of it with somebody, I fancy Dr. Clark and not you, that his idea was that the statement itself should not show there was such a thing as an inner reserve because it was not desirable for parliament or the public to know there was such a thing?

Hon. Mr. ILSLEY: I do not think he said any such thing.

Mr. SLAGHT: You do not think he did?

Hon. Mr. ILSLEY: I do not think he did. I did not hear him.

Mr. SLAGHT: May I just direct you to what he did say at page 292? I am examining Mr. Tompkins. I am just six lines from the foot of page 292:—

> Mr. Slaght: I see. You had do with the preparation of the statement placed in *Hansard* at page 2620?
>
> Mr. Tompkins: I had something to do with it, certainly.
>
> Mr. Slaght: And bearing in mind that it was not desirable for parliament to know that there was a hidden reserve. you did not disclose that fact in that statement?
>
> Mr. Tompkins: Quite true.

Hon. Mr. ILSLEY: Let me see that.

Mr. TOMPKINS: As a specific item; I said, "Not specifically, no" in the preceding answer.

Mr. SLAGHT: Perhaps I will read on so that the committee may decide what he did say. I do not know whether you were here that day, Mr. Minister?

Hon. Mr. ILSLEY: I was here, but I certainly did not get that meaning out of it, and I think the following words indicate he did not mean that in that way.

Mr. SLAGHT: Let us follow it at the top of page 293, because I was rather surprised and I wanted to have the witness understand exactly what he was telling me, so I went back to it:—

> Mr. Slaght: Quite true. That is a serious answer and a serious question. I do not want to be unfair and hurried in this matter. My question was this: Bearing that in mind, in preparing a statement to be presented to parliament you prepared it in a manner that would conceal the fact that the banks had a secret and hidden reserve system.
>
> Mr. Tompkins: No. I object to that question entirely. The statement was prepared very carefully. It is a correct statement as it stands, and I stand by all the figures in it.
>
> Mr. Slaght: But you stand by it also and like it better because, as you have told us, your view is it ought not to be disclosed; and you are unable to show in that statement itself where that fact is disclosed.
>
> Mr. Tompkins: For the very reasons I have already explained.
>
> Mr. Slaght: For those very reasons you have explained. You thought it was desirable not to disclose it?
>
> Mr. Tompkins: Yes.

Hon. Mr. ILSLEY: Well, Mr. Tompkins will have to answer that for himself. He certainly disclosed the fact that there was provision for several contingencies here, but I want to recall that the atmosphere in this committee that day was not very calm, not an unhurried atmosphere.

Mr. SLAGHT: We must try and get away from that.

Hon. Mr. ILSLEY: We certainly must. I remember definitely that the questions were coming very fast and very loudly and the witness was doing the best he could to cope with a rather overpowering cross-examination.

Mr. SLAGHT: I would not like to think that.

Hon. Mr. ILSLEY: And if he said something there that can be taken to be an admission that he did not want to disclose the fact that there was an inner reserve I cannot think he meant it because inner reserves have been under discussion since at least 1913. There has been no secret before in the Banking and Commerce Committee about there being inner reserves, nor has there been in the banks' statements themselves. Several of the banks referred to inner reserves in their statements a few years ago, and I feel that Mr. Tompkins could not have meant that he was trying to make public that there were no inner reserves when everybody knows there are.

Mr. TOMPKINS: Certainly not.

Hon. Mr. ILSLEY: I have a lot of sympathy for Mr. Tompkins because I feel myself that in saying Yes or No to these questions that are so carefully put after a great deal of preparation that I am saying something myself that later will be different from what I really intended.

Mr. SLAGHT: I do not think you are.

Hon. Mr. ILSLEY: I hope not.

Mr. Slaght: Would you look with me at page 259, if you challenge the suggestion there was anything unfair in the questions and answers I have just read you. I refer you to page 259 at about fifteen lines down from the top—and as I recall this was in a very calm atmosphere:—

> Mr. Slaght: Oh, I know; they say they are trustees for this one and trustees for the other one, and trustees for the future; but we have a duty to the public to perform here.

Now, attend to this please:—

> However, I have your view on record; you do not think anybody should be allowed to stop them and that in any given year they should be allowed to pass over it to the inner reserve paying no taxes on it and not disclosing it to their shareholders nor giving an accounting to parliament even. . . .

That means the directors:—

> . . . . .and that is the situation you think we should perpetuate and still renew their charters.

Mr. McGeer: You asked the question: "Is that it?"

Mr. Slaght: Yes, I wound up, "is that it?" And Mr. Tompkins says, "That is it."

> Mr. Slaght: That is it. All right.
> Mr. Tompkins: Yes.

May I remark, Mr. Minister, that I do not want to engross your time too much with me, but may I invite you to take the statement you put on *Hansard* at page 2620 and it is also in our evidence at page 136, and would you indicate to the committee how an ordinary member of the House of Commons or any man on the street who was interested in reading it would determine from reading that statement that the banks had a hidden inner reserve system? Mr. Tompkins has said that there is not any; perhaps you will find it for me.

Hon. Mr. Ilsley: Well, there is a reference to other contingencies here.

Mr. Slaght: Certainly.

Hon. Mr. Ilsley: Let me see. There is the amount of the banks' gains. The average amount for those years, it is apparent from the statement, was 15·3 million dollars. That is the sum of 12·8 and 2·5 million dollars.

Mr. Slaght: Yes.

Hon. Mr. Ilsley: Now, the average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries during the fifteen financial years ending the year to which this return relates, 13·8 million dollars. So there was 1·5 million dollars that something was done with and it does not show anywhere. It would be an inner reserve or a general contingency reserve.

Mr. Slaght: I think that was a fair answer. There is a difference between those figures which show there was something, that is some chunk of money that something had to be done with that this statement does not tell.

Hon. Mr. Ilsley: And the amount that went into the rest fund and undivided profits is shown elsewhere.

Mr. Slaght: It is suggested to me that supposing the assets, as we heard from you this morning and from Mr. Morris Wilson at one time—supposing the assets were written down without disclosing how much it was and the minimum amount was put in, say, a figure after that write-down, again that did not disclose the existence of hidden reserves.

Hon. Mr. ILSLEY: The object of this statement was not to deal with the inner reserve situation at all and it did not purport to be dealing with matters of that kind. This statement was dealing with the profitableness of banking operations, the earnings of the banks and the expenses of the banks, and it was put in for that purpose, and the amounts include any amounts that were appropriated to reserve; nothing was kept out of this statement; not a dollar was kept out of this statement and not shown.

Mr. CLEAVER: Might I recall to Mr. Slaght's attention the fact that in *Hansard* at page 2620 at the top of the page a discussion appears among Mr. Hanson, Mr. Quelch, Mr. Coldwell, and the Minister of Finance with regard to hidden reserves, and might I also call attention to the fact that there is a footnote to the statement which calls attention to the inner reserve. The footnote says: "less average, annual net amount required for losses. . . . ". Now, if that is not an indication of an inner reserve set-up for losses I do not understand the language. Further on in the next column the minister says, "against the sums available out of current operating earnings and capital profits must be set the requirements for losses. . . ." and so on. Obviously the whole matter was fully discussed at the time the statement was tabled.

Mr. SLAGHT: I thank Mr. Cleaver for that information. He says he does not understand the English language if he could not determine from this language net income less average, annual net amount required for losses. When losses are established they are losses, when they are guesses into the future they are not losses. So that there is nothing here to show that on top of what they take out each year for losses, as we heard this morning, that something else is taken out of gross revenue for a guess against something that will happen in the future. I point that out. At all events—

Hon. Mr. ILSLEY: Do you think there is some obligation on somebody to make a specific reference to reserves in that kind of statement?

Mr. SLAGHT: I do.

Hon. Mr. ILSLEY: Why?

Mr. SLAGHT: Because that statement purported to show to members of parliament that they were getting the whole picture about banking.

Hon. Mr. ILSLEY: It did not; it purported to show the earnings and the expenditures of carrying on banking, the total earnings. The point in this statement was and the object of this statement was to give a picture as to whether banking operations in Canada were unduly profitable or not, and that has nothing to do with the question of inner reserves.

Mr. SLAGHT: If inner reserves turn out not to be required five years hence and can be by a dividend route returned to shareholders surely that has something to do with whether the shareholders are getting a profit out of hidden reserves? You see what I mean.

Hon. Mr. ILSLEY: No, the thing here was to work out the return to the shareholder on the money that he had in the business—that the shareholders had in the business. That is the point in that; and all the earnings were included, including those of secondary importance. The important thing was to show whether banking operations in Canada were unduly profitable or not. There were a great many people saying that banking operations must be unduly profitable because the banks create money costlessly, fountain pen money, and that it does not cost them much to do this business. The experience of the last fifteen years was published for the first time and the experience of the year 1943 was shown also which was a profitable year, a much more profitable year. It is quite open to anyone to argue obviously that the banks made profits in 1943 higher than are necessary for banking. That information was given to the committee so they could consider that. I am not saying that they did in

1943, having in mind that there must be good years and bad years, but the whole object of this statement was to give that information to parliament and to the public for the first time.

Mr. SLAGHT: "For the first time" is correct, and that is why I think it is so important, again being assured that you intended to give all the thought that should be given to it. Unless a person reading that could divine, as Mr. Cleaver with his super-intelligence appears to be able to divine, he would not know when you say less average, annual net amount required for losses, that that does not mean guesses that means losses; and then there is another annual amount which is a guess that something might happen or might not happen.

Mr. CLEAVER: In view of Mr. Slaght's remarks may I suggest that it does not require any divining, and I wish to read from Hansard at page 2619:—

> Mr. Hanson (York-Sunbury): May I ask the minister if those figures are disclosed in the monthly or annual returns, or are they confidential figures?
>
> Mr. Ilsley: They have never been disclosed before.
>
> Mr. Hanson (York-Sunbury): They are not in the returns.
>
> Mr. Ilsley: No; they could not be.
>
> Mr. Hanson (York-Sunbury): The banks are not obliged to disclose them?
>
> Mr. Ilsley: They cannot be ascertained from the returns.

Then there follows Mr. Quelch's question: "Is the minister including the inner and hidden reserves?" And Mr. Ilsley replies, "Yes. Certain percentage ratios are also given in order to facilitate interpretations of the table. I shall put the table on at this stage and discuss it later." I say with all deference to Mr. Slaght that it does not require any wizard to reach a conclusion from that discussion that there are inner reserves.

Mr. MCGEER: Where were the inner reserves subsequently discussed?

Mr. CLEAVER: I am answering Mr. Slaght's question.

Mr. MCGEER: Were they subsequently discussed there?

Mr. SLAGHT: Yes, twice Mr. Ilsley referred to inner reserves.

Mr. MCGEER: There was no disclosure or discussion.

Mr. CLEAVER: The question of inner reserves was discussed in the house and we are quibbling over something that has happened. Every member in the house knew there were inner reserves when the minister completed his statement.

Mr. SLAGHT: It is very appropos of my hon. friend Mr. Cleaver who has stated that everyone knew and he was so sure about the contents of that statement—it is interesting to recall that only yesterday he put this question to you, Mr Minister:—

> The 13·8 million dollars which, as you pointed out to me, is item 15 which is referred to to-day does not include inner reserves but does include losses on individual earmarked accounts. He asked you that question, and that was the answer you made him.

Hon. Mr. ILSLEY: What answer did I make?

Mr. SLAGHT: He asked whether the 13·8 million dollars in item 15 did or did not include inner reserves and the record I took of your answer—I haven't got the transcript—was that you said it does not include inner reserves but does include loss of individual earmarked accounts.

Hon. Mr. ILSLEY: I do not think that was my answer.

Mr. SLAGHT: Perhaps that was Mr. Cleaver volunteering. Is it a fact or is it not?

Hon. Mr. ILSLEY: Let us see what the answer was.

Mr. SLAGHT: It is item 15, Mr. Minister.

Mr. CLEAVER: Mr. Chairman, I asked certain pointed questions so that the position could not be misrepresented by anyone, and I submit I was quite within my rights in asking the questions, and the record will show.

Mr. SLAGHT: No one is questioning your right to ask questions, but it is interesting that as it was obvious and clear to parliament that my friend Mr. Cleaver was apparently in doubt about whether or not he would like the minister to tell us now.

Mr. CLEAVER: I was not in doubt at all. The only reason I asked the question was so that other people would not be mistaken.

Mr. SLAGHT: It was consideration for the rest of us.

Mr. CLEAVER: No, it was a protection for myself. A lot of very glaring misstatements had been made, I suggest, Mr. Chairman, by members of this committee especially in regard to this expansion of ten to one which took place, and I did not want any misapprehension as to the figures in the present statement.

Mr. SLAGHT: I do not know what members of the committee have been making misstatements. I have not heard of any.

Mr. CLEAVER: I remember a speech in the House of Commons where a motorcar incident was brought up which I think and still think was entirely incorrect.

Mr. SLAGHT: The hon. member is as elusive as a mosquito. He said a moment ago that in this committee members had made statements that were inaccurate and then when asked to say who they are he jumps back to the house where somebody said something about a motorcar.

Mr. CLEAVER: You made a statement in the House of Commons with regard to motorcars which was wholly inaccurate.

Mr. SLAGHT: That is what you think. If you read it again you will find how accurate it is. At all events whether Mr. Cleaver was asking these questions purely as a philanthropist or whether he was a little puzzled himself, perhaps the minister will be good enough to tell us now whether item 15 which is 13·8 million dollars does or does not include inner reserves or whether it does include merely losses on individual earmarked accounts or merely losses established for a particular year.

Hon. Mr. ILSLEY: It does not include general contingency reserves.

Mr. SLAGHT: By "general", sir, do you mean the ones that are disclosed or undisclosed?

Hon. Mr. ILSLEY: Undisclosed. But that is not the whole story there. This item 13·8 million dollars shows—well, I did read it so many times; it is all there to read.

Mr. SLAGHT: I do not think we need bother with it. Your statement agrees with what I noted yesterday and which was suggested by Mr. Cleaver to you, and are you telling us now that you agree with the 13·8 million dollars does not include inner reserves.

Hon. Mr. ILSLEY: I am not saying that.

Mr. SLAGHT: Perhaps Mr. Cleaver will like this; he is so clear about this statement.

Hon. Mr. ILSLEY (Reading from official report of June 6): "Mr. Cleaver: The 13·8 million dollars does not include the 1·5 million dollars set aside annually over the fifteen years for inner reserves."

Of course, that is obviously the case.

Mr. SLAGHT: I would think so.

Hon. Mr. ILSLEY: I used the term "general contingent reserves".

Mr. SLAGHT: Quite so.

Hon. Mr. ILSLEY: Mr. Cleaver said, "General contingent reserves, which we understand as inner reserves. But I take it it does include that feature of reserves with respect to actual earmarked accounts?". My reply was, "That is right."

Now, you may call this inner reserve or not depending upon what nomenclature you use; it is appropriations against those accounts.

Mr. SLAGHT: I agree with you on that statement. Mr. Cleaver thinks he knows what you should call them. Now, I have a few more questions to ask and I will try to get out of the way. A word about taxation. Will you look at that same page for a moment and there under the heading of current operating expenses—I am going to select last year if I may, 1943, because it is simpler to take one year—under item 7 of current operating expenses, page 136, the average was 10·5 million dollars over the fifteen-year period and last year it was 15·9 million dollars. That statement does not read—and I am interested in this—it does not read, "taxes paid in the fiscal year"; it reads, "provision for taxes, 15·9 million." Now, could you break that down for us?

Hon. Mr. ILSLEY: Into what?

Mr. SLAGHT: The provision for taxes.

Hon. Mr. ILSLEY: A breakdown of what?

Mr. SLAGHT: It is a provision for taxes. What is the provision and what are the taxes? Perhaps that is a more proper question to ask Mr. Tompkins. Can you do that?

Mr. TOMPKINS: The use of the words "provision for taxes" is because of this, that at the end of each year no bank is able to determine to the last cent what the amount of its taxes will be.

Mr. SLAGHT: They do not have to until April of the following year.

Mr. TOMPKINS: They do have to make a full statement. The provision for taxes, I know from experience, works out very, very close indeed to what they subsequently find they have to pay.

Mr. SLAGHT: Let us assume that.

Mr. TOMPKINS: It was simply felt that the words "provision for taxes" was the more correct expression to use.

Mr. MCGEER: That is the average for fifteen years.

Mr. TOMPKINS: Yes, inclusive to 1943.

Mr. SLAGHT: No. It did not include 1943.

Mr. TOMPKINS: Excuse me; 1929 to 1943 inclusive.

Mr. SLAGHT: Oh, thank you. You are quite right. The other fourteen years are in there. There was not any guessing about it. They were all fixed. Do you suggest that the banks have to file their tax returns any earlier than individuals; that is, some time in April?

Mr. TOMPKINS: They have to file them within the time required for corporations.

Mr. SLAGHT: That is in April, is it not?

Mr. TOMPKINS: I am not sure of that. At any rate, they now have to pay in instalments well before that date.

Mr. SLAGHT: Yes. So do we all. Coming to the actual taxation on banks, I wish to say just a word about that. I am looking at the deductions from income not allowed, and I am interested in this item. It is section 6 of the Income War Tax Act, as amended, chapter 99. You may not have it before you. Perhaps Dr. Clark has one there. I will show you this one, if you will look at it, please.

Mr. TOMPKINS: Yes.

Mr. SLAGHT: These are the items, deductions from income not allowed; and I presume that would cover banks as well, would it not?

Mr. TOMPKINS: I presume so.

Mr. SLAGHT: The section reads:—

Deductions from Income Not Allowed

6. In computing the amount of the profits or gains to be assessed, a deduction shall not be allowed in respect of

(*d*) amounts transferred or credited to a reserve, contingent account or sinking fund, except such an amount for bad debts as the Minister may allow and except as otherwise provided in this Act.

Do you know of any other provision in this Act which provides for exemptions?

Mr. TOMPKINS: I am not entirely familiar with that Act. I think you had better direct your question to the minister in that particular. He knows more about it than I do.

Hon. Mr. ILSLEY: I do not know of any other provision.

Mr. SLAGHT: I cannot find any other, but I am subject to error.

Hon. Mr. ILSLEY: Except depreciation.

Mr. SLAGHT: Yes, except depreciation. But I am interested that the committee should know how this works out; and Mr. Minister—I will come back to Mr. Tompkins, perhaps—I think you are the one who might tell us. The minister here, of course, is the Minister of National Revenue.

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: Not the Minister of Finance.

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: It is not yourself. So that with regard to the banks, I find the tax law is this. They cannot secure exemption from taxation on amounts transferred or credited to a reserve, contingent account or sinking fund except such amounts for bad debts as the Minister of National Revenue may allow. How is he going to allow it if he does not know the amount of the inner reserve?

Hon. Mr. ILSLEY: He can rely on his colleague.

Mr. SLAGHT: I beg your pardon?

Hon. Mr. ILSLEY: He can rely on his colleague, the Minister of Finance.

Mr. MCGEER: Has his colleague told him?

Mr. SLAGHT: Yes; has his colleague told him what these bad debts are that he may exempt? He is the one who can exempt them, and the taxpayer, the bank, cannot have them exempt unless the minister allows the bank the exemption for bad debts. As I pointed out and you agreed, the banks do not tell him what the inner reserves are, but he could go to his colleague, the Minister of Finance and say to him, "What are the bad debts?"

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: Would it be disclosing inner departmental matters if I asked whether he has ever gone to the Minister of Finance and asked him that?

Hon. Mr. ILSLEY: Well, I do not know about that. This arrangement has been in existence since 1917.

Mr. SLAGHT: I know it has.

Hon. Mr. ILSLEY: And it has been followed by every Minister of Finance and every Minister of National Revenue and every Commissioner of Income Tax.

Mr. SLAGHT: I assume that.

Hon. Mr. ILSLEY: And every deputy minister of taxation. I do not know the extent of the consultation that has taken place, and I do not think that I should answer as to the amount of consultation that has taken place between myself and my colleague, the Minister of National Revenue.

Mr. SLAGHT: I will withdraw that question. I think perhaps I was going a little too far. May I put this to you? I want to know if you see the point I am driving at. It is that this committee ought to amend this Act in a way to provide for direct contact with the taxpayer, the bank, and to put on that taxpayer the responsibility of signing a written statement himself, certifying it is true, putting it before the Minister of National Revenue and saying, "My inner reserves are thus and so" like the little grocery man does, and not to have to depend upon this remote information source, another minister of the crown who is busy and as busy as can be. That is my point; and if you say that you think I am unreasonable in asking for an alteration to our Bank Act, will you tell the committee why?

Hon. Mr. ILSLEY: I do not think you need that. You do not need any legislation for that. I would suggest this. I have not given it as much consideration perhaps as I should, but I think an indication of the wishes of this committee that the Minister of National Revenue should do that, would be all that would be needed; because he has all the powers to do it right now.

Mr. SLAGHT: I am sure it would perhaps be sufficient with our present minister and with yourself; but we are faced in this country with the possibility of other ministers in both portfolios, and I should like to see it in the law.

Hon. Mr. ILSLEY: Yes?

Mr. SLAGHT: And not in the whim of the two ministers.

Hon. Mr. ILSLEY: Well—

Mr. SLAGHT: However, I wanted you to understand my reason for inviting you to comment on that.

Hon. Mr. ILSLEY: It is not usual in legislation to direct ministers too precisely by imperative words. Perhaps it should be, but it is not usual. The language usually used is "may" rather than "shall", when imposing a duty upon a minister. I would think in ninety-nine cases out of one hundred that is the case. Then the minister is assumed to do what he considers to be his duty.

Mr. JACKMAN: And carry out his oath of office.

Hon. Mr. ILSLEY: Yes, and carry out his oath of office. The Minister of National Revenue has ample powers to require the banks to do as you suggest should be required; and I would have no objection to his getting that information direct. He has always had power to do it.

Mr. SLAGHT: The "shall" I want to impose is not upon you.

Hon. Mr. ILSLEY: I know.

Mr. SLAGHT: Nor upon Mr. Gibson, the other minister. The "shall" that I am going to suggest the committee should impose is that the bank shall disclose to the Minister of National Finance the inner reserves, and you say there is no real objection to that.

The CHAIRMAN: You mean the Minister of National Revenue.

Mr. SLAGHT: Yes, pardon me; I mean the Minister of National Revenue.

Hon. Mr. ILSLEY: Every taxpayer must disclose anything that he is required to disclose by the Minister of National Revenue.

Mr. SLAGHT: But they do not.

Hon. Mr. ILSLEY: They disclose them to the Minister of Finance, that is true; and the Minister of National Revenue takes the disclosure to the Minister of Finance as being sufficient.

Mr. McGeer: They disclose to the inspector of banks and he discloses to the Minister of Finance.

Hon. Mr. Ilsley: That is right.

Mr. McGeer: Have you disclosed to the Minister of National Revenue?

Hon. Mr. Ilsley: Well, I do not think I should be asked to answer that question.

Mr. McGeer: Why not?

Hon. Mr. Ilsley: That is a matter between ministers. I do not think it is proper to go into these inter-communications between ministers. They certainly would be refused in parliament, and if that could be asked, the next question would be, "What did you say?" and "What time of the day was it?"

Mr. McGeer: Oh, no. Do not be afraid of that.

Mr. Slaght: I am going to leave this with this last suggestion, Mr. Ilsley. You can disagree with it or think that it is reasonable, as you wish, of course. Instead of leaving it to what I desire to call the loose-gated present system put in ten years ago, for which you have no responsibility whatever, of allowing banks not to be compelled to show the amount of the inner reserves to the Minister of National Revenue, trusting to the fact that he has the time and inclination and will go over to a colleague, the Minister of Finance, and that that minister happens to have handy by him the information from the ten different banks in order to tell him what these inner reserves are, I suggest that we stop all that nonsense in this old legislation and put in the new Act a clause which compels the banks to tell the Minister of National Revenue exactly what they are hiding in their inner reserves. If you want to make any comment on that, all right, because I am through.

Hon. Mr. Ilsley: I certainly would not make any adverse comment on it.

Mr. Slaght: I thank you.

The Chairman: Mr. Cleaver has the floor.

Mr. Cleaver: I take it we are now back to Mr. Slaght's motion before the chair. I have an amendment.

Mr. Slaght: I thought there were a number of other gentlemen who had questions to ask the Minister of Finance. I will move the motion gladly right now and debate it, if you wish.

Hon. Mr. Ilsley: You want to question me more?

Mr. Slaght: No, I am through. I want to thank you for your absolutely friendly desire to assist this committee with regard to every question that you have been asked, and I wish to compliment you.

The Chairman: I understood you put a motion yesterday. Is that right, Mr. Slaght?

Mr. Slaght: I did.

The Chairman: The motion is before the committee.

Mr. Cleaver: I have an amendment to the motion.

Mr. Kinley: Let us hear the motion.

The Chairman: The secretary will read the motion.

Mr. McGeer: What is the motion?

The Clerk read the motion: Moved by Mr. Slaght that the chartered banks, each of which has applied to parliament for a ten-year renewal of their respective charters, should be directed and are hereby directed and required to disclose to parliament through this committee forthwith, the total aggregate amount of the hidden inner reserves of the ten banks as to (1) the source of the money; (2) the method of furnishing same to the inner hidden reserves; and (3), the details and amounts thereof for the past fifteen years down to the present time.

Mr. Cleaver: Then, Mr. Chairman, my amendment to Mr. Slaght's motion is as follows: That the reasons expressed by the Minister of Finance as to why, in the public interest, inner reserves of the banks should not be publicly disclosed, are adequate; and that, in furtherance of the amendment to the Bank Act suggested by the Minister of Finance in his formal statement to the committee on June 6 regarding inner reserves, complete information regarding these reserves be furnished yearly to the Minister of National Revenue and the deputy minister for taxation only, in addition to those who by law now receive it.

The Chairman: You will file that motion.

Mr. Slaght: What are we on now? Are we on the amendment?

Mr. Fraser (*Northumberland*): Before either the motion or the amendment is put, I should like to make a few observations in connection with this discussion regarding hidden reserves and taxation as applied to the banks. Before doing so, Mr. Chairman, I should like to heartily congratulate the Minister of Finance on the submission that he made to the committee yesterday in connection with both these subjects. I have now had time, Mr. Chairman, to read that submission carefully. I should also like to make reference to the evidence, to the cross-questioning and to the facts that have been brought out or presented to the committee, both by our good friend Mr. Slaght and Mr. McGeer. Undoubtedly out of this discussion a great deal of information has been placed before the committee, and I believe a great deal has been accomplished towards the end that Mr. Slaght has presented. But I should like to place upon the record some observations. We have heard from two of Canada's leading legal lights, who have the training and the ability for cross-questioning, emphatically sometimes, the Minister of Finance, and have the ability of legal technique in bringing out extremely persuasive arguments before this Banking and Commerce committee. I humbly submit, Mr. Chairman, that anything that I have to say will not be the result of legal training but, as I have said before, simply the observations of an obscure farmer.

In the first place we have before us the revision of the Bank Act. In going over the clauses of that bill this morning a large number of clauses were marked stand, and I submit to you, Mr. Chairman, that in those clauses which were asked to stand there will be ample opportunity for all phases of public opinion as represented by the members of this committee, to present their opinions, to make their suggestions in connection with any matters that they may consider important to the banking system of the Dominion of Canada, and to impress in the forcible and convincing language I mentioned a minute ago in connection with Mr. Slaght.

At this particular juncture, as I said this morning, it seems to me we are dealing with two definite things. We are dealing first of all with undisclosed, or to use Mr. Slaght's phraseology, hidden reserves of the banks. Secondly, we are dealing with the method or custom of applying the taxation statutes to the banks' profits, and to those profits as they have been carried, and are carried annually, from those earnings, not only to their reserves after taxation is paid as disclosed under their reserve item, but we are discussing taxation as applied to the hidden reserves. One point that I brought out a week or ten days ago before the committee, one custom that seemed to me to be perhaps one favouring the banking fraternity was the matter of taxation on these hidden reserves as transferred from profits. In the submission made by the Minister of Finance yesterday that point, in my humble opinion, has been definitely dealt with. It is definitely dealt with on page 6 of his submission and I should like for the purpose of the record to read what the minister said yesterday to this committee, what he submitted to this committee regarding the point that has been discussed both by myself and other members of the committee. This is what he said:—

Therefore I am proposing to move at the appropriate time an amendment to the bill to accomplish this purpose.

While there has not been time to secure the approval of the Department of Justice to the drafting, I expect the amendment will take the form of adding a new subsection to section 56 reading substantially as follows:—

> The Minister, if in his opinion the amounts set aside or reserved by any bank out of income, either by way of write-down of the value of assets or by appropriation to any contingency reserve or contingent account, for the purpose of meeting losses on loans, bad or doubtful debts or depreciation in the value of assets other than bank premises or for such other contingencies as are properly provided for by banks are in excess of the reasonable requirements of the bank, having regard to all the circumstances, shall notify the Minister of National Revenue and specify the amount by which the amounts so set aside or reserved by the bank are in excess of those deemed by the Minister to be necessary and reasonable for the purposes of any deduction under the Income War Tax Act but nothing in this subsection shall be construed to give the Minister any jurisdiction over the discretion of the directors of the bank with regard to amounts set aside, reserved or transferred to any reserve or other fund from income upon which taxes have been assessed under the Income War Tax Act or the Excess Profits Tax Act, 1940.

Mr. Chairman, as I interpret that submission and definite statement made by the Minister of Finance it is his intention at an early date or, as he says, at the proper time to bring in an amendment to the Act whereby the banks will be placed in exactly the same position as other organizations regarding taxation on the unused portion of contingent or hidden reserves, as set aside out of income.

I submit, Mr. Chairman, to yourself and to this committee that should definitely clear up any question or any doubt that the same method of taxation will not be applied in future to the banks as is applied to industrial companies. I further submit that should meet the presentation and representations made by Mr. Slaght in that particular connection.

That leaves of the two questions that have been under discussion only one. We are finished with one. Before leaving the matter of taxation may I again, for the sake of keeping the record straight, submit to this committee that when the minister brings in that amendment and that amendment is passed and embodied in the Bank Act the banks will not be in a more favoured position in comparison to industrial companies. The banks will pay the same taxes on the same unused balances and in addition are subject to additional supervision as has been brought out in evidence by the statement of the Minister of Finance, the additional supervision of the Minister of Finance where his decision will be final in connection with the profits set up and the annual statements that they make.

May I draw to your attention, Mr. Chairman, that in connection with industrial companies—and I may say this was my purpose last week when I made reference to the statement of the Canadian Canners—that industrial companies invariably set up contingent reserves which are not broken down in their financial statements. For instance, I have got before me the statement of Dominion Foundries and Steel. Apart from their depreciation, accelerated and otherwise, they have set aside in their 1943 statement a reserve for contingencies of $300,000. I have before me the statement of the Canadian Locomotive Company and they have set aside, not broken down, not disclosed, a contingent reserve of $150,000, and as in the case of the chartered banks as long as that contingent reserve remains as an item on their books it is under the jurisdiction of the shareholders and the executive or board of directors of those companies. I submit there is nothing different as far as the hidden reserves of the banks are concerned except, as has been pointed out by Mr. Slaght, that they simply carry their hidden reserves, when they are noting their assets, into an item which says "Current loans and discounts in Canada, not otherwise included, estimated loss provided for".

Mr. McGEER: How much?

Mr. FRASER (*Northumberland, Ont.*): Your hidden reserve is in the statement of the estimated loss provided for.

Mr. McGEER: How much is it?

Mr. FRASER (*Northumberland, Ont.*): And deducted from their profits.

Mr. McGEER: The difference is that in one place they disclose the amount and in the other they do not.

Mr. FRASER (*Northumberland, Ont.*): I am going to deal with that. I heartily agree with my good friend, Mr. McGeer, but I want to unquestionably place on the record that the contingent reserve account is arrived at by the same method except that the banks do not state in their statements, or in their submission to the Minister of Finance, the amount of that contingent reserve.

Mr. SLAGHT: Why should they not?

Mr. FRASER (*Northumberland, Ont.*): I am going to deal with that.

Hon. Mr. ILSLEY: Mr. Fraser, would you mind a short interruption of your statement? You have not dealt with the real undisclosed reserves of industrial companies such as the one I pointed out this morning, that is, when instead of stating the book value of their accounts receivable on one side and the reserve against it on the other side, they merely state the net amount of the value—what they think is the value of their accounts receivable, as was the case in Canadian Canners. In that case, and it is common, there is a real inner reserve or, as Mr. Slaght would like to say, a hidden reserve. It is undisclosed to the public. It is not the kind of reserve that you have mentioned there in the $300,000 and the other figure. It is an amount which is undisclosed and it is a very common practice.

Mr. FRASER (*Northumberland, Ont.*): Mr. Minister, I am very glad for that interjection and I quite appreciate what you say is true. I repeat that was one of the fundamental purposes for which I referred to that statement last week, but let me go one step further in that connection. Apropos of what you say in connection with that particular statement, Canadian Canners, or simply Brown and Jones and Smith, submit a statement, and instead of a statement such as the banks submit in connection with investments or deposits, as you rightly say, they submit a statement in connection with 10,000,000 feet of lumber, but before the item is put in their statement in connection with the 10,000,000 feet of lumber the value of that lumber is determined by their board of directors, or by their chief accountant or by their valuation department as being certainly not more than the present market value, plus the fact that since the war the custom has been adopted and permitted in connection with the 10,000,000 feet of lumber that the company would be permitted, in addition to the reserve they may create by valuing their inventory, to set up in their statement an inventory reserve. I say in connection with that inventory reserve the same as I said in connection with the banks' undisclosed reserve, that the matter has been corrected by the submission you have made to this committee that you will bring in that amendment, because if that stock reserve or merchandise reserve is not consumed by the deflation of prices then it will be changed back into the statement and passed on to the National Revenue Department and they will pay taxes for the year in which that reserve is set up.

Hon. Mr. ILSLEY: The year when it is brought back.

Mr. FRASER (*Northumberland, Ont.*): It will be taxed in the year it was deducted—in the year that applies to it. You propose the same thing here. That is exactly what you propose here. Now, Mr. McGeer says I have not dealt with the matter of hidden reserves. Mr. Chairman, I submit that this committee is charged with the responsibility of dealing with the revision of an Act covering institutions that affect over 5,000,000 people in the Dominion of Canada. I submit that is not only a serious responsibility, but it is dealing with organizations which, in the words of Mr. Towers, discharge a service to the people of Canada and are in a position of holding the most sacred trust of any organization in the Dominion of Canada, not even excepting the insurance companies.

If, in connection with private companies the management of a private company through their misjudgment, error, cause a loss they are affecting only the shareholders of that company. They are going to lose the shareholders' money, and perhaps bank money, too, but in connection with the organization which we have under discussion a mistake in judgment, unforeseen contingencies, international movements, economic trends, may wipe out the savings of hundreds of thousands of small depositors across the Dominion of Canada. I submit, Mr. Chairman, that this committee cannot sit here and consider the revision of the Bank Act in the same light as we can sit here and consider the renewal of a charter of an industrial company.

Mr. BLACKMORE: We have to be more careful.

Mr. FRASER (*Northumberland, Ont.*): I do not say, Mr. Chairman, nor am I endeavouring to impart that either the banking system or the bank management in this country are perfect by any means. I think that the Canadian chartered banks between 1926 and 1930 to a very large extent through either misjudgment or avarice or misjudgment and avarice contribute to such an extent to inflation in the Dominion of Canada that they carried tens of thousands of small investors into chaos and over the Niagara Falls of finance. I do not think there is any question about that. I think steps should be taken in the revision of this Act to correct every condition of that kind in every clause of this Act that will prevent misjudgment, misapplication or avarice by a combination of bankers and brokers to inflate acquired assets and hand them to the public. I am all for having such steps taken. From my experience with banks the greatest direct criticism I could make of banks is not that they loan too little but that they loan too much, not that they refuse to make loans but that they grant too many loans.

Mr. McGEER: At the wrong time.

Mr. FRASER (*Northumberland, Ont.*): At the wrong time.

Mr. McGEER: They give you an umbrella in the sunshine and they take it away from you when it rains.

Mr. FRASER (*Northumberland, Ont.*): I agree with you. That is exactly the point I am bringing out, and what we are endeavouring to do to correct those conditions is to barricade the possibilities of the weakness of human judgment and set up an Act that will control ten chartered banks in Canada who have a sacred trust to the people of the Dominion of Canada and who are the custodians of their stored-up energies and production as well as being the bookkeepers of the nation. That is our job to-day. That is not something we can fail to take cognizance of or fail to recognize. That in my opinion is the imperative position, and the important thing before this committee. That is the foundation upon which it should build as a basis for consideration. I am quite willing to co-operate, quite willing to sit either with Mr. Blackmore or Mr. McGeer or Mr. Slaght or anybody else in any movement that is going to improve the banking system, but I want to say, Mr. Chairman, that I am diametrically and emphatically and irrevocably opposed to anything that will weaken the banking system of the Dominion of Canada or anything that will weaken the confidence of the Canadian people in that banking system.

Mr. FRASER *(Peterborough West)*: So are we all.

Mr. FRASER *(Northumberland, Ont.)*: I am not questioning that. I am assuming that every member of this committee has the same thing in mind. I repeat respectfully that I am not casting any doubt in that connection. I am making a statement as to where I stand.

There is another point, Mr. Chairman. Hidden reserves, in my mind, resolve themselves into this, as to whether it is in the best interest of the people of the Dominion of Canada to disclose those reserves or not. I made the statement this morning that I believed it would increase the confidence of the people in the banking system if those hidden reserves or those transferred reserves were carried into the contingent reserve account. They would see behind them; they would recognize that the banks were increasing the reserves behind their deposits. I said that this morning. I must admit that this afternoon I am a bit in doubt. I hope I am not so dogmatic in anything that I am not ready to change my opinion, because I tried to balance against that belief the fact that if these hidden reserves were disclosed they might have the tendency to convey or they would convey to the people of Canada the weaknesses and the misjudgment of our banking system which might have a greater adverse reaction than not to disclose them.

Mr. MCGEER: They might be corrected.

Mr. FRASER *(Northumberland, Ont.)*: They might be corrected. I am not questioning that, and I have an open mind, but I think each and every member of this committee should carefully analyse the pros and cons of the effect it would have one way or the other. We are dealing with a business proposition firstly; we are dealing with an established organization secondly; and we are dealing with a business that enters into the realm of public interest every hour of every day of every year. Those are the things that seem to me to be of importance in discussing this important bill.

There is another point I wish to mention. When I, as a member of this committee, recall my judgment as to whether those hidden reserves should be disclosed or not I am confronted with one other thing. This is where I say that the submissions made by my hon. friend have done much during the last few weeks to bring these matters to the notice of the committee and there is much which is indicative in those submissions to improve the situation. But as a member of this committee I have to decide in my own mind, as I said a moment ago, on the pros and cons of the effect of one policy or the other, and I submit in the discussion, Mr. Chairman, that none of us should be particularly dogmatic on that point. As my good colleague mentioned a moment ago, we have the same objective, we have the same aspirations, not only to recognize the Canadian banking system as the best banking system in the world on its record but to make it a better banking system, to make it a banking system that will serve to the very limit of the ability not only of the executives of the banks, the knowledge and experience and ability of the deputy minister, of the Governor of the Bank of Canada, of the Minister of Finance, and of the government of the day, but a banking system that will serve to the very limit of possibilities within the range of safety for the depositors, for the customers, for the institution; safety for the dominion; the greatest service to all the people of the Dominion of Canada.

Now, Mr. Chairman, let us deal with facts, don't dilute the thing, deal with the actual facts we have before us that are certainly extensive enough so that each and every member of this committee will be able to form an intelligent opinion. As my friend said a moment ago we have all the same objective. We are trying to achieve the same thing. It is only on the altar of that fact, Mr. Chairman, that I have presumed to take up so much of the time of this committee with the observations I have made.

Mr. KINLEY: Before the motion is put, we have a resolution from Mr. Slaght and an amendment by Mr. Cleaver, and I was going to say that before we pass premature resolutions we should wait for the amendment of the minister. I say that in view of the statement made by the minister that he intends to submit an amendment which seems to meet with the wishes to a great extent of both the mover of the resolution and the mover of the amendment, that those resolutions are not needed, and I suggest that both movers withdraw their resolutions and that we leave the committee open to consider the amendment which will be made by the minister.

Hon. Mr. ILSLEY: I would like to have this matter disposed of. You see, I have stated that in my opinion it is not in the public interest to disclose these reserves, and I have stated that that is not only my opinion but the opinion of the government. If this committee should decide to vote to disclose them I would not know just what to do; I would have to go away and consider what course to take, and I must know about that. I must have this come to a vote as soon as possible.

Mr. CLEAVER: I will detain the committee for only one minute. I want to indicate to the committee the reasons why I moved my amendment. I want to say at once that in the early days of the committee work I felt that the over-all amount of the inner reserves could be disclosed without harm to the public interest and should be disclosed; but the reasons advanced by the Minister of Finance in his statement have caused me, have persuaded me to reverse my decision in that regard, and that is why the first part of my amendment is as it is. As to the second part, it is like this: I do not want it to be left so that anyone in this country can say that in our taxation system we are treating the banks in any different way than we are treating other industries, and that is the reason why I have included in my amendment the motion that the record and full particulars of these inner reserves should be disclosed to the Minister of National Revenue and the Deputy Minister for Taxation; and I would like to know whether the minister has any opposition to that.

Hon. Mr. ILSLEY: No; I am agreeable to that.

Mr. NOSEWORTHY: I do not think I am quite ready to vote on this question. If I were to vote for the amendment it would be entirely out of respect for the minister's judgment and not by reason of the fact that I am satisfied that it is in the best interest of the public. It would simply be that I am submitting my own judgment to that of the minister on the ground that he is in a much better position, has a much wider experience and a much greater knowledge of the subject than I have. I am not quite clear yet on a few points regarding these reserves, and I think that I can get a few questions asked before 6 o'clock. I think it is quite clear to us all that each bank shows in its profit and loss account a regular or disclosed reserve fund, in its balance sheet. In addition to that, I understand that each bank has another reserve fund which is not shown in its balance sheet.

Hon. Mr. ILSLEY: No, do not confuse the two; the balance sheet is the proper term.

Mr. NOSEWORTHY: Yes, that is the term to use. That so-called hidden reserve or reserve against contingencies is created by writing down the value of loans and other securities in the balance sheet?

Hon. Mr. ILSLEY: That is right.

Mr. NOSEWORTHY: When losses are made during the current year's business is it the practice of the banks to draw upon the disclosed or regular reserve or upon the undisclosed reserve?

Hon. Mr. ILSLEY: The undisclosed.

Mr. NOSEWORTHY: It draws upon the undisclosed reserve?

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: It draws first upon operating expenses, surely.

Hon. Mr. ILSLEY: He was talking as between the two reserves. They resort to the inner reserve first.

Mr. McGEER: The first item that comes off operating expenses is the losses fixed in that year for bad debts. That is a charge to operating expenses, not to any of these reserves.

Mr. NOSEWORTHY: Then there are the estimated future losses, and they are charged up against the hidden reserves. What I am trying to find out is which of these accounts does a bank, in practice, draw upon for the payment of losses during a current year, if it has to draw upon any?

Mr. RYAN: That is after the annual statement has been taken off? As I understand it, what you want to know is after the annual statement at the end of each year has been taken off, if there is any loss after that during the current year, from what reserve is the amount deducted. I understand it is deducted from the inner reserve.

Mr. NOSEWORTHY: What I want to find out is what actual purpose each of these reserve funds serves.

Dr. CLARK: May I put it this way, Mr. Noseworthy. Your inner reserve is the first line of defence; and if they are not adequate, you have to draw upon the second line of defence, the published reserve, the rest fund.

Mr. NOSEWORTHY: That is what I am trying to get cleared up. So that when a bank issues an annual statement—

Mr. SLAGHT: I do not want to interrupt, but I should like to ask Dr. Clark a question when Mr. Noseworthy is through. I should not interrupt now.

Mr. NOSEWORTHY: When a bank publishes an annual statement and there have been losses incurred during the year which have been met from that inner reserve, they are not shown in the published statement. That is, the public is given a statement which indicates that there have been no losses during the year when in reality there have been losses but they are met from the inner reserve. Is that the point?

Dr. CLARK: Yes.

Mr. NOSEWORTHY: Is that the fact?

The CHAIRMAN: Mr. Tompkins, please.

Mr. TOMPKINS: The position, briefly, is this, I think. At the end of a given year, if the losses of the bank, the ascertained losses in that year, can be taken care of out of the profits of that year, they are so taken care of.

Mr. SLAGHT: First.

Mr. TOMPKINS: If the profits are not sufficient, then the inner reserves are dipped into to the extent that is necessary to provide for them. If those inner reserves in turn are not adequate, the banks must do as some of them did in 1933, reduce their published reserve in order to take care of the situation.

Mr. SLAGHT: That is correct.

Mr. McGEER: Outside of those years 1931, 1932 and 1933, have there ever been any years when the profits of the bank were not sufficient to take care of bad debts?

Mr. TOMPKINS: There have been, unquestionably.

Mr. McGEER: That is what we want to know.

Mr. TOMPKINS: Unquestionably there have been.

Mr. NOSEWORTHY: There is this other question I was trying to get at. In the event of a bank being called upon to meet losses out of profits, that would appear in the annual statement?

Mr. TOMPKINS: No, because the annual statements of the banks—and they are practically all in the same language, as you know—read in this way: "net profits for the year after deducting dominion government taxes and after appropriations to contingent reserve fund"—which are what are commonly talked about as inner reserves—"out of which fund full provision for bad and doubtful debt has been made". In other words, they may put into the inner reserves sufficient in one year to take care of their bad and doubtful debts or they may have put in a certain amount and taken out more. That is really what it means.

Mr. NOSEWORTHY: If they had to draw upon a regular published or disclosed reserve for payment of debts would that show anywhere?

Mr. TOMPKINS: That would show in the published annual statements. It must show.

Mr. NOSEWORTHY: That is the only instance where bad debts incurred actually show in the annual statement?

Mr. TOMPKINS: To the extent of the transfers that become necessary by reason of losses, as was the case particularly in 1933.

Mr. McGEER: There never was a year when the banks ever passed their dividend.

Mr. TOMPKINS: No, but the dividends of the banks, as the records will show, have been very substantially reduced in a progressive way over the last fifteen years.

Mr. McGEER: The point I was making is if the first line of defence for bad debts is the profits of the company, then the profits of the company, as reflected by dividends, are available for that purpose, and they have never passed their dividends onee?

Mr. TOMPKINS: Wholly passed their dividends?

Mr. McGEER: Yes.

Mr. TOMPKINS: No, they have not, but the dividends have been very materially reduced.

Mr. McGEER: But they were paying 14 and 16 per cent and they reduced them from that.

Mr. TOMPKINS: That is, reduced the burden—the rate of dividends in relation to the paid-up capital of the banks. It is an unrealistic figure; it is a misleading rate in the sense of calculating dividends on the total shareholders' investment or equity.

Mr. SLAGHT: They could not pay a dividend in any given year unless their profits prior to paying the dividend had been sufficient to take care of all their bad debts?

Mr. TOMPKINS: Not necessarily; they might take care of those bad debts partially out of the inner reserve that had been created for that very purpose.

Mr. NOSEWORTHY: And pay dividends at the same time—

Mr. BLACKMORE: It is 6 o'clock.

Mr. CLEAVER: Question.

The CHAIRMAN: Are you ready for the question?

Mr. SLAGHT: No.

Mr. MCGEER: No.

The CHAIRMAN: We will adjourn until Friday morning at 11 o'clock.

The committee adjourned at 6.05 o'clock p.m. to meet again on Friday, June 9, 1944, at 11 o'clock, a.m.

June 9, 1944.

The Standing Committee on Banking and Commerce met this day at 11:00 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Noseworthy, you have the floor. May I ask you to give way for a few minutes while the Minister makes his statement?

Mr. NOSEWORTHY: Yes, Mr. Chairman.

Hon. Mr. ILSLEY: Mr. Chairman, I have given some thought to the motion before the committee and to Mr. Cleaver's amendment, and I think it is desirable that the decision of the committee be on the motion itself rather than on the amendment. I want to say that in the subsection which I propose shall be added to Section 56 of the Act that I am quite content to have the notification by the Minister of Finance to the Minister of National Revenue include not only excess but the whole amount; in which event the relevant part of the motion would read:—

> shall notify the Minister of National Revenue of the amount so set aside or reserved and shall specify the amount by which the amounts so set aside or reserved by the bank are in excess of those deemed by the Minister to be necessary .

I am quite content to have that done and will propose that change in that section when consideration of the amendment on it is reached.

Mr. CLEAVER: In that event, Mr. Chairman, my amendment is entirely unnecessary, and I would like leave of the committee to withdraw it.

The CHAIRMAN: Mr. Noseworthy.

Mr. NOSEWORTHY: I was attempting at the last meeting of the committee, Mr. Chairman, to get a little more definite information or clarification of this entire question of inner reserves, and I think we have established the fact which is clearly stated in the Minister's statement—the statement which the Minister gave to us in mimeographed form some days ago—that these inner reserves were the reserves created by the bank through the medium of writing down securities for the purpose of providing for their losses. There is a little confusion in my mind in the Minister's statement and I would like to clarify that before we go further. On page 4 the Minister states: " It will be apparent from what I have said that the inner reserves of the banks are nothing more or less than the reserves for bad and doubtful debts which the banking business requires."

On page 3, the second full paragraph, the Minister gives an explanation of how these reserves are made up and I would like to read again into the records two or three of those sentences. In the fourth line of the second full paragraph: "At the end of each year, or more frequently, if necessary, the banks go carefully over their loans and investments, writing off those which have been definitely ascertained to be bad and making specific appropriations against loans or other assets where there seems reason to fear a total or a partial loss." Now then, in addition to that: "But, in addition, banks know from experience that they have made loans and investments which will turn out to be bad or which they will not be able to realize in full, although they cannot at the moment put their finger on the particular accounts." Then, near the end of the paragraph: "Therefore, in addition to specific provision for losses, banks necessarily have to set aside a general reserve to meet the losses they are not yet aware of, the inevitable losses that are latent in their loan accounts and the losses likely to be suffered upon realization of other investments or depreciation in the value thereof. These are called general contingency reserves and are indeed what bankers usually mean when they speak of inner reserves." Is there a fine distinction drawn by banking practice between the write-offs that are made on specific loans and specific securities and the general write-off that is made on the aggregate of these loans to provide for these losses which they cannot put their fingers on? Is there in practice a definite distinction between these two classes?

Mr. TOMPKINS: Yes.

Mr. NOSEWORTHY: There is that?

Mr. TOMPKINS: Yes.

Mr. NOSEWORTHY: And it is that second group?

Mr. TOMPKINS: Yes.

Mr. NOSEWORTHY: Two write-offs. A write-off on the aggregate; that is, as the Minister says, known as the inner reserves?

Mr. TOMPKINS: To my mind that is correct.

Mr. NOSEWORTHY: And the specified inner reserves do not include a specified write-off?

Mr. TOMPKINS: The inner reserves, as the term is commonly used, do not include specific reserves which are the equivalent to the write-offs themselves.

Hon. Mr. ILSLEY: May I interject there? I understand there is some little difference in the way in which the term is used as between different persons, but from the reading of Mr. Wilson's statement in 1934 I gather that he was speaking while talking about the inner reserves when he used that term—and I think he did—of the general contingency reserves. That is the reason I said these are called general contingency reserves and are indeed what bankers usually mean when they speak of inner reserves. I used the term in the broad sense in speaking.

Mr. NOSEWORTHY: I would like to know if there is the distinction made and whether in general practice the so-called inner reserves included both the specific write-offs and the aggregates which are not specifically written off in connection with any particular loan or security.

Mr. TOMPKINS: It is just as the Minister has said in his statement: the more common practice is to use the term inner reserves as applied to the unallocated or general reserves that are not disclosed, not to the specific provisions for losses that are made against individual accounts.

Hon. Mr. ILSLEY: I used the term in a broader sense in my statement, Mr. Noseworthy.

Mr. NOSEWORTHY: You used the term in the broader sense to include both?

Hon. Mr. ILSLEY: In the broader sense, yes.

Mr. NOSEWORTHY: To include both?

Hon. Mr. ILSLEY: Yes, it covers undisclosed.

Mr. NOSEWORTHY: They are both undisclosed?

Hon. Mr. ILSLEY: They are both undisclosed, yes.

Mr. NOSEWORTHY: There is no distinction between these two classes of write-offs shown in a bank's balance sheet?

Mr. TOMPKINS: I do not know what you mean by that.

Mr. NOSEWORTHY: You have referred to the two classes of write-offs, that is the write-off which is specific, and the class of write-off that is made on the aggregate without being allocated.

Mr. TOMPKINS: They are both allocated to be assets; the assets are shown at the net figure.

Mr. NOSEWORTHY: Yes, but there is no distinction between the two types shown.

Mr. TOMPKINS: Oh there is, so far as the bank's bookkeeping is concerned; there certainly is.

Mr. NOSEWORTHY: But as in the published balance sheet?

Mr. TOMPKINS: Oh no; the published balance sheet does not indicate any figure.

Mr. NOSEWORTHY: Then there is no way whereby we can distinguish in the balance sheet what proportion of that inner reserve, using the broader term, is allocated to specific loans and what proportion is not?

Mr. TOMPKINS: No, the balance sheet does not indicate that.

Mr. NOSEWORTHY: It does not indicate that at all?

Mr. TOMPKINS: No.

Mr. NOSEWORTHY: There is then no fund set aside in money or securities or in any other form, no definite fund that can be referred to as a reserve fund whereby securities are set aside for the purpose of meeting losses; it is a matter of bookkeeping?

Mr. TOMPKINS: No, these funds themselves are in the nature of a separate account on the books of the bank; is that what you mean?

Mr. NOSEWORTHY: No, what I mean is the bank does not set aside a reserve, an unspecified fund of its assets—money, securities or anything of that kind—to take care of it?

Mr. TOMPKINS: In the sense of investing in some specified kind of securities?

Mr. NOSEWORTHY: Yes.

Mr. TOMPKINS: No.

Mr. NOSEWORTHY: There is no fund. And now, one other question. The Minister indicated that this reserve fund varies from year to year, or that these inner reserves vary from year to year; am I to understand by that that each bank each year goes over all its assets, its loans and securities, and writes off what it considers are bad debts or latent bad debts for that particular year?

Mr. TOMPKINS: That is right.

Mr. NOSEWORTHY: So there would be considerable fluctuation in the amount of the inner reserve?

Mr. TOMPKINS: I think I indicated on Wednesday that these inner reserves would go up or down in a given year depending on the earnings of the bank in that year, as to whether its earnings in fact are sufficient to take care of the losses in the year or not.

Mr. NOSEWORTHY: Would you care to tell the committee whether in the years—I think it was nineteen years you said of which you have a knowledge of banking business—whether in those nineteen years the general tendency has been for these inner reserves to increase year by year and—

Mr. SLAGHT: He has told us that.

Mr. TOMPKINS: I indicated that they had gone up and gone down both, depending on the business cycle.

Mr. NOSEWORTHY: So that you are not prepared to say that there has been a steady increase over the years?

Mr. TOMPKINS: Oh, no.

Mr. NOSEWORTHY: And that each year there has been a particular amount added to these inner reserves?

Mr. TOMPKINS: Oh no, no.

Mr. SLAGHT: But he did tell us that they are higher now than they were nineteen years ago.

Mr. TOMPKINS: I do not remember telling you that.

Mr. SLAGHT: But you did, though.

Mr. NOSEWORTHY: What explanation would you give for their being higher now, if they are?

Mr. TOMPKINS: The Minister has already indicated in his statement, I think it is on page 9, towards the latter part of the second full paragraph where he is speaking of the experience with regard to losses: "Obviously, this means that on the average there was only $1·5 million per year available for additions to rest fund, undivided profits and general contingency reserves. If you make an analysis of the rest fund and undivided profit accounts, you will find that the additions made to them out of earnings amounted to $12·2 million during the period. This leaves the sum of $10·3 million which must have been added to the banks' general contingency reserves during the period. Put another way, the banks added to these contingency reserves during the period, only the very small amount of one-half of one per cent of the increase in their assets."

Mr. NOSEWORTHY: Thank you.

Hon. Mr. ILSLEY: May I interrupt? Is it not true, Mr. Tompkins, that a very important factor in bringing about an increase is the increase in the aggregate amount of the debts due to the banks, and of course liabilities?

Mr. TOMPKINS: Vitally important. I thought that was almost obvious to the committee, without emphasizing it.

Mr. SLAGHT: He has told us that.

Hon. Mr. ILSLEY: Yes.

Mr. NOSEWORTHY: There has been a further question brought into the picture, the question of the taxation of these write-offs.

Mr. TOMPKINS: Do you mean taxation of write-offs?

Mr. NOSEWORTHY: Yes. I am thinking of these inner reserves.

Mr. TOMPKINS: In the general sense?

Mr. NOSEWORTHY: Yes; and the question of just how they fit into our taxation system or what their relation is to our taxation system. I take it for granted that none of these write-offs are taxed or are subject to taxation.

Mr. TOMPKINS: I would not put it quite that way.

Mr. NOSEWORTHY: Put it this way. None of them are subject to taxation in the year in which they are written off or written down.

Mr. TOMPKINS: I think the minister covered that sufficiently well in his statement. I do not really believe that I can usefully add anything to it. I think the taxation question was covered adequately in the statement. It really dealt with whether the reserves were adequate and reasonable or inadequate and unreasonable. That is the whole point that revolves around the taxation problem.

Mr. NOSEWORTHY: The whole point now is that, whatever amount is put into them or written off for the sake of building up these inner reserves, that amount is not taxed unless the minister finds, as he has found, that too much has been written off and reports to the Minister of National Revenue.

Mr. TOMPKINS: I think that would be fair.

Mr. NOSEWORTHY: Indicating that it should be taxed.

Mr. TOMPKINS: I think that would be fair.

Hon. Mr. ILSLEY: It may be taxed later.

Mr. NOSEWORTHY: Let us follow that up.

Hon. Mr. ILSLEY: It may be taxed later when it is brought back into the profit and loss account.

Mr. NOSEWORTHY: Yes. Suppose in the year following this particular write-off, or two, three or four years following that, some of these specific securities turn out to be better securities than the bank estimated they were, and the bank realizes more than they expected to realize on them. That difference between the write-off and the recovery goes back into the revenue?

Mr. TOMPKINS: Well, it depends upon the general picture. It depends again upon whether the reserves, the unallocated reserves, are adequate or not at that particular time.

Mr. JACKMAN: Other things being equal, what would happen in that case?

Mr. TOMPKINS: Other things being equal, they would go back into the published profits of the bank.

Mr. JACKMAN: If they were written off in that period of 1936 to 1939, during which time the taxation was 18 per cent, the banks would have saved themselves 82 per cent of the write-off. If the recovery is greater than expected and it came back since 1941, what percentage of those recoveries would accrue to the bank and what would accrue to the Department of National Revenue?

Mr. TOMPKINS: If the inner reserves are adequate—

Mr. JACKMAN: And other things being equal.

Mr. TOMPKINS: —and other things being equal, and the profits come into the published profits of the bank, they are automatically taxed at the rates existing at the time.

Hon. Mr. ILSLEY: At the time they come back.

Mr. TOMPKINS: At the time they come back.

Mr. JACKMAN: When the write-off was made during the 1936 period the banks saved themselves, if you like, 18 per cent in taxation. But if the recoveries were greater than anticipated or expected, and came back during the period 1940 to 1944, how much of those recoveries would go to the government and how much to the bank. If they had been over-conservative in their write-offs during the 1936 to 1939 period, only 18 per cent would have gone to the government, but having come back during the 1941 to 1944 period, what percentage of this would have gone to the government? I suggest 80 per cent, or the total 100 per cent, not counting the 20 per cent refundable to the bank.

Mr. TOMPKINS: Subject to the considerations I have described, they would be subject to taxation at the time they were brought back into profits.

Mr. NOSEWORTHY: If you are following that argument, it is also true that on any write-offs placed in the reserve when taxes are 100 per cent, and which come back five, six or seven years hence, when taxes are, as a great many concerns expect they will be, much lower, the government would lose.

Mr. TOMPKINS: Conceivably.

Mr. NOSEWORTHY: Just as they gain in the other case.

Mr. TOMPKINS: Conceivably.

Mr. NOSEWORTHY: It is the same thing. It works both ways.

Mr. TOMPKINS: No one knows what post-war problems we shall have to face.

The CHAIRMAN: Beware of over-optimism, Mr. Noseworthy.

Mr. NOSEWORTHY: Probably. There have been several questions raised as to the difference between the practice followed by the banks and the practice followed by ordinary commercial or industrial concerns, and I am not quite clear on that. I understand that ordinary industrial concerns have the privilege of writing down their accounts receivable or their assets, to take care of eventual losses just as the banks have.

Mr. TOMPKINS: Writing down or setting up reserves for them, one or the other.

Mr. NOSEWORTHY: Yes; which, as a bookkeeping entry, is very much the same thing.

Mr. TOMPKINS: Well, to some extent; yes.

Mr. NOSEWORTHY: And in the situation where an industrial concern writes these down, they are subject to taxation.

Mr. TOMPKINS: I believe that is the case.

Mr. NOSEWORTHY: What is the comparative situation regarding investigation or audit by the government, having regard to a bank and an industrial concern?

Mr. TOMPKINS: Of course, as Mr. Ilsley has already mentioned, the department of taxation has access to the records of the banks in any event; but they have so far been content to accept the result of the inquiry of the Minister of Finance into the position of the banks for that purpose.

Mr. NOSEWORTHY: Is there the same type of inspection pursued by the government in the matter of industrial accounts?

Mr. TOMPKINS: By the taxation department?

Mr. NOSEWORTHY: Yes.

Mr. TOMPKINS: You would have to ask them about that. I really could not say.

Mr. NOSEWORTHY: Having regard to the bank you have, first, two outside auditors selected from a list provided by the government.

Mr. TOMPKINS: From an approved list, yes.

Mr. NOSEWORTHY: Provided by you yourself as Inspector General. I am beginning to wonder if possibly there should not be some committee to check into the inner reserves of some of our large industrial concerns as well as into the inner reserves of our banks.

Mr. TOMPKINS: That is a pretty broad question, Mr. Noseworthy. I would not care to answer that.

Mr. NOSEWORTHY: It is not a question for this committee to concern itself with. It may be a question for some future time. The minister has indicated in a general way his objection to publication of the inner reserves. Is there anything in banking experience, from your knowledge, that would indicate that the publication of this would undermine public confidence, as the minister indicated?

Mr. TOMPKINS: Well, I know of no provision in any other country requiring publication of such reserves. It has never been done in Britain. It has never been done in the United States except to the extent of some occasional voluntary mention of such reserves by individual banks. Beyond that, I cannot think of any other country that has followed that practice. I think they have all taken the same attitude.

Mr. NOSEWORTHY: I should like to be shown a little more clearly just what basis there is for the minister's statement that the publication of these inner reserves would undermine public confidence in the banking system.

Mr. TOMPKINS: Well, I cannot add anything to what the minister set out in that respect. His statement, as I recall it, was that wide swings in good and bad years would tend to mislead the public and tend to give them a misunderstanding rather than a proper understanding of what had occurred, and they would attribute substantial reductions to possibly bad banking and substantial increases or a more or less stable figure to perhaps unduly conservative banking, with the result that they might think the banks had not fulfilled their duties to the public adequately.

Mr. NOSEWORTHY: I can see where the publication of the reserves of individual banks might have an effect. For instance, if the Bank of Montreal showed what its inner reserve was and the amount to which that was depleted in a given year, and if that was unfavourable as compared with the Bank of Commerce, people might begin to lose faith in the Bank of Montreal and put their deposits in the Bank of Commerce. But I still cannot see where there is likely to be a loss of public confidence if, as Mr. Slaght suggests, the aggregate of these reserves for all the chartered banks should be published.

Mr. TOMPKINS: It seems to me that the argument is equally effective there, that it would be apt to arouse some lack of confidence on the part of the public in the banking system in general. That is my own view very definitely.

Mr. NOSEWORTHY: You think it might create a run on all the banks?

Mr. TOMPKINS: I think it would be apt to create nervousness and a grave sense of doubt on the part of the public as to the way in which the banking business was conducted.

Mr. FRASER (*Northumberland, Ont*): There might be greater apprehension than understanding.

Hon. Mr. ILSLEY: I should like to add something there.

The CHAIRMAN: Just a minute. The minister wishes to make a statement.

Hon. Mr. ILSLEY: I want to add this. Undoubtedly rumors would start about an individual bank, in an event of that kind, which you could not stop.

Mr. NOSEWORTHY: Yes. I can understand where it would be probably unwise to publish the reserve of individual banks.

Hon. Mr. ILSLEY: I am not talking about that. I am talking about the publication of the aggregate, and if there were a big fluctuation downwards.

Mr. NOSEWORTHY: You think it might start rumors about individual banks?

Hon. Mr. ILSLEY: It certainly would.

Mr. NOSEWORTHY: Instead of all the banks?

Hon. Mr. ILSLEY: It certainly would. When I say certainly, I think it is inevitable that it would.

Mr. NOSEWORTHY: Well, I have only to take the minister's word for that. As for myself, I could not profess to be an authority on the subject. But I am still not satisfied that publication of the aggregate would create that, necessarily.

Hon. Mr. ILSLEY: Mr. Noseworthy, I do not want to put up an argument but certainly if there was a big fluctuation there, people would begin to ask, "Who is losing all the money? What bank is losing all the money?" They would always find somebody to tell them, and that starts it.

Mr. MCNEVIN: The ultimate effect would be much the same as in the case of an individual bank.

Hon. Mr. ILSLEY: What is the question?

Mr. MCNEVIN: I say the ultimate effect would be much the same as with the individual bank?

Hon. Mr. ILSLEY: I would think so.

Mr. SLAGHT: Once in ten years.

Hon. Mr. ILSLEY: Oh, you cannot say that.

Mr. NOSEWORTHY: I notice the minister has admitted in his statement that, since this discussion of inner reserves began in this committee, he has had an opportunity of inspecting the amounts set aside by the different banks for inner reserves, and has reached the conclusion that two or possibly three have set aside larger amounts than necessary. Are we to understand that special circumstances referred to by the minister prevented him from or caused him to delay that inspection this year longer than or later than that inspection was made in other years?

Hon. Mr. ILSLEY: Well, I did not get around to it as soon as I should have this year. There is no doubt about that.

Mr. NOSEWORTHY: In any event, you would have got around to it?

Hon. Mr. ILSLEY: Yes.

Mr. NOSEWORTHY: Would it be fair to ask you just what effect this discussion in committee had upon your decision to get around to it early and to find this?

Hon. Mr. ILSLEY: I should not like to answer that.

Mr. NOSEWORTHY: You would not discuss that.

I think that is all.

Mr. McGEER: Mr. Chairman, there are one or two facts I should like to put on the record apropos of this discussion. I am quoting from the Annual Financial Review of July, 1934. I take it that is an authentic record. If there is anything wrong with these figures they can be checked, but I think it is an accepted authority on bank statements.

Mr. TOMPKINS: It has not been published in recent years. I think you are taking an old number.

Mr. McGEER: I am taking old numbers. I am quoting from page 203 of the 1934 edition. It purports to be a review of the statement of the Bank of Montreal, and it gives the following profits:—

1926	$4,978,134
1927	5,299,888
1928	5,847,327
1929	7,070,892
1930	6,519,031
1931	5,388,380
1932	4,663,101
1933	4,005,153

Then it gives the rest at the end of that column of figures as:—

1926	$29,916,700
1927	30,916,700
1928	30,916,700
1929	37,948,540

Mr. TOMPKINS: In that year, if you will allow me, I think they made a stock issue from which substantial premiums were received.

Mr. McGEER: That was the year 1929.

Mr. TOMPKINS: That is my recollection.

Mr. McGEER: Their profits were $7,070,892 that year.

Mr. TOMPKINS: Out of that, of course, they paid their increased dividends.

Mr. McGEER: Oh, I quite agree.

1930	$38,000,000
1931	38,000,000
1932	38,000,000
1933	38,000,000

Mr. SLAGHT: What is the capital of that bank?

Mr. McGEER: The subscribed capital of that bank was $36,000,000. The rest and undivided profits, as at that date, were $39,585,451.28.

The rates of dividend paid from 1924 to 1933 were 12 plus 2, 12 plus 2, 12 plus 2, 12 plus 2, 12 plus 2, 12 plus 2, 12 plus 2, 12, 11 and 8½.

Mr. McNEVIN: The first figures that you gave would be gross profits?

Mr. McGEER: I take it that is the profits before taxes and dividends. I can put the dividends on the record if the committee would like to have them. The dividends paid by the Bank of Montreal were:—

1926	$4,188,338
1927	4,188,338
1928	4,188,338
1929	4,713,234
1930	5,047,587
1931	4,320,000
1932	3,960,000
1933	3,060,000

To contrast that statement with the Royal Bank of Canada I might say that the Royal Bank of Canada subscribed stock was $35,000,000. Its reserve was $20,000,000; its undivided profits were $1,383,604.18.

Mr. TOMPKINS: As of what date.

Mr. McGEER: That is as of the date of November 30, 1933. I am quoting from page 976 of the Annual Financial Review of July, 1934. The profits from 1922 to 1933 inclusive were as follows:—

1922	$3,958,469
1923	3,909,317
1924	3,878,976
1925	4,081,628
1926	4,516,239

Mr. TOMPKINS: I think there was an increase in capital there also.

Mr. McGEER:

1927	$5,370,145
1928	5,881,254
1929	7,145,137

Mr. CLEAVER: What year is that?

Mr. McGEER: 1929.

1930	$6,572,627
1931	5,448,327
1932	4,861,849
1933	3,901,649

Let me now give the dividends paid for the same years:—

1922	$2,856,000
1923	2,856,000
1924	2,856,000
1925	3,056,000
1926	3,416,000
1927	3,984,988
1928	4,200,000
1929	4,722,072
1930	4,900,000
1931	4,200,000
1932	3,850,000
1933	2,975,000

The rate of dividends paid from 1924 to 1933 inclusive—

Mr. TOMPKINS: That is all in exhibit No. 10 now.

Mr. McGEER: I just wanted to get the reference in this portion of the record.

1924	12 plus 2
1925	12 plus 2
1926	12 plus 2
1927	12 plus 2
1928	12 plus 2
1929	12 plus 2
1930	12 plus 2
1931	12
1932	11
1933	8½

The reserve fund of the Royal Bank of Canada during those years, 1922 to 1933, was:—

1922	$20,400,000
1923	20,400,000
1924	20,400,000
1925	24,400,000
1926	24,400,000
1927	30,000,000
1928	30,000,000
1929	35,000,000

Mr. TOMPKINS: That included premiums on new stock.

Mr. McGEER:

1930	$35,000,000
1931	35,000,000
1932	35,000,000
1933	20,000,000

So in that year the Royal Bank of Canada published a statement of a depreciation of $15,000,000 in its rest account, and the Bank of Montreal showed their rest account as having no depreciation at all.

Mr. CLEAVER: What was the last year in which it was $20,000,000? Was that 1931?

Mr. McGEER: That was 1933. It was 1933 that all the banks wrote off $29,000,000.

Mr. SLAGHT: Not all.

Mr. McGEER: That is all the banks referred to in the statement, five banks. You will find that in the statement at page 113 of the reports. The banks writing off in that year were the Provincial, $500,000; Bank of Commerce, $10,000,000; Royal Bank, $15,000,000; Dominion Bank, $2,000,000; and the Banque Canadienne Nationale, $2,000,000, making a total of $29,500,000.

Mr. FRASER (*Northumberland, Ont.*): What page is that at?

Mr. McGEER: Page 113. Mind you, that left reserve accounts reduced from $166,250,000 to $136,750,000.

The observation that I want to bring to the attention of the committee in connection with those figures is that they do reflect that condition of boom and depression which we are all very anxious to avoid in the future. I doubt whether the disclosure of $15,000,000 of a reduction in the rest account by the Royal Bank of Canada had anything like the disastrous effects that the minister suggests would come if these losses were published from year to year.

There is not any doubt but what the banks reaped the fruits of the boom period as reflected in the statement of profits they showed. Whether it was by sale of bank stock, the reflected high value of stocks at that time, or out of profits, it was one and the same thing; it was a reflection of the boom conditions and they were able to increase their disclosed reserves by a sufficient amount to take care of all the losses which accumulated up to the end of their fiscal year of 1933. I put this to the committee. Let us assume from year to year the true position of the banks had been disclosed. It could not have been as bad as it was in 1934 where accumulated losses over a period of years were disclosed in one year.

Mr. Fraser (*Northumberland, Ont.*): I wonder if you would mind putting on the record from the Financial Survey the fluctuation in the market value of the stocks over the same years?

Mr. McGeer: Yes, I think they are here.

Mr. Tompkins: I have a table in regard to that which might be helpful.

Mr. McGeer: I can put them on here.

Mr. Fraser (*Northumberland, Ont.*): It is to place it on the record from the same source; that is all. Take the Bank of Montreal or the Royal.

Mr. Cleaver: Take the Royal first.

Mr. McGeer: I will take them in the same order. I will take the Bank of Montreal and the Royal, the highest and lowest prices of stocks.

Mr. Cleaver: Would you care to start in 1926 where you started with your others?

Mr. McGeer: I started in 1924 and in some instances 1922, but anybody who is interested in this thing can get the whole record in other books.

BANK OF MONTREAL

Year	Sales	High	Low
1924	776	250	230½
1925	1,188	270½	240
1926	1,766	275	252
1927	3,399	355½	272
1928	3,065	407	334
1929	3,837	425	290
1930	1,789	323	280
1931	1,131	302	235
1932	938	225	150
1933	4,525	220	151

Now, with respect to the Royal Bank of Canada, at page 978:—

ROYAL BANK OF CANADA

Year	Sales	High	Low
1924	3,934	240	211½
1925	6,327	255½	227¼
1926	5,580	270	248½
1927	27,246	343	257
1928	29,322	435	332
1929	24,831	400	293
1930	21,944	315	272
1931	15,993	291	231
1932	6,896	211	124
1933	10,389	183	123

Now, a mere reflection on the movement of the stockmarket on these years which are recorded shows what a tremendous advantage a group of directors would have in trading in open market with access to the condition of the reserve accounts that are not open to others who are trading the same stocks on the open market. I mean the question of the hidden reserves is not merely a matter of internal bank economy, it is a determining factor in the value of that stock, in the stock in every bank of the Dominion which is traded in the open market. These stocks are sold and bought openly, and yet the public who deal in these stocks are blinded to facts which others dealing in the same stocks have full knowledge of. Now, I do not think there is any bank director who would take advantage of anything of that kind but there certainly has been very substantial trading in the stocks and they certainly have varied as to their value in the open market each year.

Mr. FRASER (*Northumberland, Ont.*): Mr. McGeer, would not the same argument apply to any company whose stocks were listed?

Mr. McGEER: I doubt that very much because I think there is much more complete disclosure with the vast majority of companies as to their operations than there is here. I do not think we could call upon the banks to make any more disclosures than ordinary companies have to, but certainly there is no practice, and I know of no company where for the purpose of security of the company a hidden reserve is maintained which is not disclosed to the shareholders. I mean, of course, if this information were given to the shareholders it would be given to the public, because whatever the shareholders have access to the public have access to. Now, there is just that difference between the situation here and the situation with respect to open trading in other stocks. I do not know of any other company that does not disclose to its shareholders its entire operations, and if there is an item which comes up, such as is suggested in some reports we have seen, concerning accounts receivable listing reserves for bad and doubtful debts any shareholder can get that, but in the banks the shareholders, as we have been told, are not entitled to it and do not get it.

Mr. FRASER (*Northumberland, Ont.*): Follow through on that.

The CHAIRMAN: A little louder, Mr. Fraser, please.

Mr. FRASER (*Northumberland, Ont.*): To follow through on that, Mr. McGeer, I quite agree with you in connection with the bad debt reserve account that is set up; but on the other hand, as we find in the auditor's statement of most companies, there is an item covering merchandise, stock in trade, and also a contingent item which is not broken down; so the shareholders would not have any more information than the shareholders of a bank would have. That is the only point I wish to make there because, as I said Wednesday, it seems to me we have to consider the position of these companies in fairness. Another point, Mr. Chairman, while I am on my feet is that I believe—

The CHAIRMAN: With Mr. McGeer's permission.

Mr. McGEER: All right, sir.

Mr. FRASER (*Northumberland, Ont.*): The other point to which I wish to refer is this: I believe it is correct that it is left to the discretion of the Minister of National Revenue ostensibly, the collector of taxation, that he can in his judgment allocate the entire carry-over back to the year in which it was written off for the purposes of taxation.

Mr. SLAGHT: But the banks do not disclose what it is.

Mr. FRASER (*Northumberland, Ont.*): I am just dealing with this one point, Mr. Slaght, that it is left to the discretion of Mr. Fraser Elliott, the Deputy Minister of National Revenue, ostensibly; I believe the ruling to the Minister was that the Department of National Revenue can allocate and bring back to the year of deduction for the purposes of taxation any carry-over, the entire amount from that year.

The CHAIRMAN: Mr. McGeer.

Mr. McGeer: I quite agree with that, but the Minister of National Revenue is given specific powers to fix this reserve, and any government could comply with them and there is power under the Act to do it. Nobody is questioning that. And I would agree with everybody that probably some greater measure of consideration should be given to all of our industrial companies with regard to the bad debt situation with the taxation level as it is. I think that if a company with a limited amount of capital were to get into trouble today in one bad year it might be very difficult for it to recover over a long period of time. I mean the principle of reserves is thoroughly sound not only in banking but in every form of business.

Mr. Slaght: Would you permit a question before you leave Mr. Fraser's point? Assuming for a moment that Mr. Fraser's suggestion is correct that certain industrial companies through their directors create inner reserves which they conceal both from the shareholders and the public, would that in your view justify this committee in placing the directors of the banks in a preferred trading position by giving them that authority?

Mr. Fraser (*Northumberland, Ont.*): I think, Mr. Chairman, the answer to that question perhaps is this, that in connection with an industrial company if I as a shareholder ask the directors at an annual meeting for the breakdown of any item on the balance sheet I would be entitled to get it. And now, rightly or wrongly, prudently, judiciously or otherwise, it is considered in view of the fact that the banks are public institutions operating a different type of business that that information would not be given to the shareholder at a shareholders' meeting for the reasons that have been set out by the Minister; and as we have gathered, the ramification of the risks that concern the public, the depositors as well as the borrowers. I think this committee must take cognizance of the fact in dealing with the banking system that there is a much greater difference as to the effect on the public than there would be in dealing with an industrial company. It seems to me that this argument all revolves around the fact of the type of business the banks do and the people who are affected and the way in which they are affected; and under our Bank Act prudence has been demonstrated in the past by the double liability clause, that the shareholders must set up a barricade to the extent of 100 per cent of their subscriptions in connection with their liability to the public should the bank get into trouble. That is a proviso which does not prevail in connection with any industrial company. That in itself I submit, Mr. Chairman, is indicative of the widespread importance of the fact that the banks must be protected to a greater extent than industrial companies, because they are dealing not only with their shareholders under the double liability clause but they are dealing with five million depositors in Canada. This thing, Mr. Chairman, it seems to me focuses on one fact and one fact only; and that is that the Minister of Finance and his advisers have decided, in the submission of the Minister of Finance, that it is not in the public interest to disclose the inner reserves controlled by our banking system in Canada, except as provided. We have to decide, as members of this committee, whether we agree with the minister and his advisers or whether we do not. The facts and reasons have been abundantly placed on the record as given by the Minister of Finance. That is the question we must decide, whether we individually and collectively, as we may vote, feel that it is a judicious and necessary provision in the public interest. I may, Mr. Chairman, with your permission, just give you one instance. I happened to go into a certain branch office of a certain bank last Saturday morning, and the manager called me into his office. He said to me, "I am not so sure that banking and commerce committee of yours down there in Ottawa is having a good effect." I said, "Why?" He said, "Well, one of our customers came in the other day and drew out several thousand dollars." He did not tell me how many thousand. but it was several thousand.

He said, "I called him into my office and tried to find out why he was taking the money out. I argued with him that it was safe to leave his money in the bank." This chap had read a press report of something that had occurred in this committee, and he had lost his confidence in the bank, one of our three largest banks, and he drew out several thousand dollars. That is a fact and an instance that occurred one day last week. I think it is not only a serious but a sacred responsibility that we have to make sure that nothing happens in this committee which would have an effect like that in the aggregate or be multiplied across the Dominion of Canada. Not only as a member of this committee but as a member of parliament and as a Canadian citizen I am very much concerned—and I view the possibility with considerable apprehension—that we do not get a multiplication of cases of that kind.

Mr. Blackmore: Will Mr. Fraser permit a question?

Mr. Fraser (*Northumberland, Ont.*): Yes.

Mr. Blackmore: I am just wondering if it is not so that the Bank of Canada at the present time has an arrangement under which it would be virtually impossible to create a run on any Canadian chartered bank which would have any serious effect, no matter how much confidence was lost.

Mr. Fraser (*Northumberland, Ont.*): Mr. Chairman, just in conclusion let me say this. As we have the present set-up under the proposed amendment brought in by the minister, this bank manager I have referred to would be in a position to say, first, that the banks of Canada are under inspection of the Inspector General of banks and they must submit their reports and report their inner reserves to the Minister of Finance, that the Minister of Finance has brought in an amendment to bill No. 91 whereby there will be no opportunity for evading taxation on unused portions of reserves set up for bad debts or contingencies under the hidden reserve clause; that the banks are actually subjected—answering the question or the point which was brought out, I think, by Mr. McGeer or one of the gentlemen on this side—and will be subjected not only to the inspection and investigation that private corporations are subject to, but they will have three inspections, three supervisions and be subject to three investigations that private corporations are not subject to, as pointed out or mentioned by Mr. Noseworthy a few minutes ago. Mr. Chairman, I do not wish to labour the point; but it seems to me that we do revolve around that one thing and we must decide whether it is in the public interest, against the advice of those who know at least better than I—the Minister of Finance and his advisers—to divulge these inner reserves or whether it is not.

Mr. McGeer: Mr. Chairman, I do not want to get into an argument on that, but I was simply drawing what I thought was pertinent from the figures that I put on the record. Now that Mr. Fraser has mentioned the situation that he has, I would point out to the members of the committee that every industrial company is subject to all the dangers of bad debts that a bank is subject to, and I think much more so. I think it is also much more subject to fluctuation in the value of its inventories.

Mr. McNevin: Pardon me, but there is one point that has occurred to me; Mr. McGeer. Where industry is very seriously affected by bad debts, that industry generally carries a substantial obligation to the bank; so that I think the difficulty of industry with bad debts would be reflected in the business of the bank.

Mr. McGeer: That is quite true. That is just exactly what I wanted to come to. This practice of hidden reserves originated in the banking system when it was adopted, I understand. Some of the banks have maintained a reserve in addition to their rest account and some of them have not. Whether or not the reserve practice would have been sufficient to avoid any of the bankruptcies of the past is very doubtful, because the bankruptcies of the past far exceeded, in losses to depositors, any amount that the hidden reserves would have taken care of.

Mr. FRASER (*Northumberland, Ont.*): It wiped out reserves, shareholders and everything.

Mr. McGEER: Everything. I mean, the hidden reserve was a rather flimsy thing to stand on in the light of the record of losses that we are given of the bankruptcies of the past. I do not know to what extent all of the banks have maintained hidden reserves. But apparently there is a very definite variance in the practice of the banks. Some of them are over-reserved in the estimation of the officials and others are not. To what extent any of them are under-reserved we do not know. If we are going to have hidden reserves as a security to the shareholders, the shareholders and the depositors should know two things: that the hidden reserves are adequate to meet any emergency and that they are not in excess of what the responsible officials think they should be. To me, if hidden reserves are held out as security to depositors and shareholders alike, it is just as important that those hidden reserves be adequate in amount as it is that they be not over-valued.

Mr. FRASER (*Northumberland, Ont.*): Would you not add there, "hidden and stated reserves?"

Mr. McGEER: Well, the stated reserves are in the open.

Mr. FRASER (*Northumberland, Ont.*): All the reserves.

Mr. McGEER: What I want to point out is this. If there is any doubt in the mind of any depositor about the security of our present banking system to protect him, then I think we should go as far as they have gone in the United States by insuring deposits. I believe that every depositor in Canada depositing his money with a national institution such as our chartered banks should be guaranteed by the government of the nation against any loss of deposit. Look at the shareholders. Over the period of time that I have mentioned, the total amount of the value of the capital stock at par has been returned to the shareholders. How many times it has been returned on the dividends that have been paid is a matter of easy estimate. One bank paid, practically throughout those years, a 16 per cent dividend, and piled up a substantial disclosed rest account.

There is another thing that I would suggest and it is this. I do not think we have given enough publicity to the tremendous security that the Bank of Canada is, operated as it is and maintained as it is, to our whole banking system in the dominion.

Mr. BLACKMORE: Hear, hear!

Mr. FRASER (*Northumberland, Ont.*): I follow you there.

Mr. McGEER: I am firmly convinced that those of us who advocated public ownership of the Bank of Canada as a national institution upon which our merchant banking system could revolve, and through which the financing of the federal, provincial and, I hope, municipal authority could be facilitated, was a great innovation in the monetary system of our nation. Every one of our banks is in a splendid, liquid position. The investments that they hold offer a tremendous security for the shareholders against any danger of a run. All they have to do is to exchange their national securities for whatever cash the depositor wants; and everybody knows that the minute the depositor is assured that he is going to be able to convert his deposit into cash whenever he desires it, there is no danger of a run.

Mr. FRASER (*Northumberland, Ont.*): Does that not provide the insurance which you mentioned a moment ago?

Mr. McGEER: Well, I say that far more important to the security of the depositors and to the maintenance of the confidence of the public as depositors in our banking system is the security which has been set up and which has operated successfully since 1934, and since 1938.

Mr. BLACKMORE: And renders hidden reserves unnecessary.

Mr. McGEER: If there is any feeling that, in my activities before this committee, I have any desire to weaken the confidence of depositors, let me say frankly that I do not believe there is any depositor any place in the world that is more secure than the depositor in our chartered banks to-day.

Mr. FRASER (*Northumberland, Ont.*): Right.

Mr. McGEER: That is not because of hidden reserves, though.

Mr. BLACKMORE: Hear, hear!

Mr. McGEER: But because of the establishment and public ownership of the Bank of Canada which stands as a bulwark of security for our depositors.

Mr. FRASER (*Northumberland, Ont.*): Correct.

Mr. McGEER: I hope I have made that clear and I hope the press will take note of it.

Mr. KINLEY: Who is the Bank of Canada?

Mr. McGEER: The Bank of Canada is the people of the Dominion of Canada?

Mr. KINLEY: And if the hidden reserve is not there, the people of Canada will pay the shot.

Mr. BLACKMORE: Through created money.

Mr. McGEER: I doubt very much if we are going to get into another period of inflation and deflation after this war such as we experienced in the last, and I believe that is the only instance of where our main banking organization had difficulty. Even then I believe only five of them at that time were really called upon to meet very substantial losses out of their hidden reserves.

Mr. McNEVIN: Just a minute, if you will pardon me. Is it not also true that, in spite of the great improvement and the great advantage of having this Bank of Canada publicly owned and now in operation, during that very difficult period up until 1934—because it is quite true this Bank of Canada did not get into operation until 1935—and even without this institution our banks carried through that very difficult depression period without loss to a single depositor?

Mr. McGEER: Well, as a matter of fact the situation with reference to that was not altogether told by the fact that we did not have any bankruptcies. Our banking system had been reduced to a pretty compact organization of nine banks; and mind you, while the Bank of Canada was not there at that time, the government of Canada was there with power to issue money. Do not forget that in 1914, when the Canadian Northern Railway system collapsed, the government did come to the rescue of that organization and issued national currency to meet the situation. Otherwise there would have been a disaster. I remember too that in 1932, I think it was, the Dominion of Canada—we have never been told all the facts about it and they are still in some obscurity—or the government of Canada did issue $35,000,000 of dominion notes, which was just the same thing as our Bank of Caanda cash. So that it was not a matter of a hidden reserve. It was because the government of Canada was behind it. That was the reason we went a step further in 1934 and established the Bank of Canada, why we went a step further in 1936 and took over 51 per cent of its stock and in 1938 established it as our great monetary public utility.

Hon. Mr. ILSLEY: Would you not agree that the coming to the rescue of the banks by the Bank of Canada repeatedly would be very undesirable?

Mr. BLACKMORE: Why?

Hon. Mr. ILSLEY: I am just exploring the situation myself, but it seems to me it would.

Mr. BLACKMORE: Why? There is no answer.

Hon. Mr. ILSLEY: That is your position, Mr. Blackmore.

Mr. BLACKMORE: I challenge the minister to show any different.

Hon. Mr. ILSLEY: It would be perfectly all right for the banks to get into trouble as commercial institutions—

Mr. BLACKMORE: I did not say that.

Hon. Mr. ILSLEY: —by running to the Bank of Canada for rescue repeatedly? I think that would be very undesirable.

Mr. BLACKMORE: I did not say that. Does the minister not recall at the outbreak of the first world war that the treasury board of Great Britain had to come to the rescue of the whole bank system of Great Britain with the treasury note, and that in time of war?

Hon. Mr. ILSLEY: That might be.

Mr. BLACKMORE: There was not anything unsound about that. Great Britain fought the last war on that basis and did a magnificent job.

Hon. Mr. ILSLEY: I do not think they were coming to the rescue of the bank system.

Mr. BLACKMORE: You will find that if you will read Currency, Credit, and The Exchanges.

Hon. Mr. ILSLEY: There might be great emergencies once in a lifetime when that might be done, but to lay it down that we must not worry about the prudence or imprudence of the management of our banks, or the following of the customs and practices of the banks because they can always run to the Bank of Canada for rescue, to lay that down as a feature of our banking system from now on would, in my opinion, be most unwise.

Mr. BLACKMORE: Mr. Chairman, I am not maintaining that should be done, but I should like to point this out that if the minister will read Dr. William A. Shaw's book called Currency, Credit and The Exchanges, published in 1927, which deals with that very matter of the saving of the British banks, he will be quite surprised with the success of that measure.

Mr. KINLEY: Mr. Chairman, there are all kinds of monopolies. Some have monopolized all the time.

Mr. BLACKMORE: You have got a share of it; go to work.

Mr. KINLEY: Over a decade Mr. McGeer has shown what bank stocks were worth on the market, and I think they went as high as $400. I am more interested in present-day values. I find in this morning's paper Commerce was quoted at $132; Montreal at $148.50; Nova Scotia at $232. There might be some significance in the case of Nova Scotia, because they are generally considered to have rather stable opinions in that part of the country with regard to finance, and perhaps that virtue is reflected in the Bank of Nova Scotia. The Royal is $139.

Mr. BLACKMORE: Is that because of hidden reserves?

Mr. KINLEY: That is in the face of a buoyant market because this morning Canadian National Railway bonds, 5 per cent, 49, are quoted at 128 and a half.

Mr. BLACKMORE: May I ask the hon. member if he considers that is because of hidden reserves or the lack of them?

Mr. FRASER (*Northumberland, Ont.*): I will tell you the answer to that. It is the result of continued and increasing restrictions and controls on bank profits and operations.

Mr. BLACKMORE: Not on hidden reserves.

Mr. KINLEY: Mr. McGeer said the whole picture of banking was changed on account of the formation of the Bank of Canada. That is true but not all advantageously to the banks to the degree to which it made banking harder in Canada for the private banks.

Mr. BLACKMORE: But safer for the people.

Mr. KINLEY: That is what we are trying to do, make them all safer.

Mr. BLACKMORE: The Bank of Canada did it.

Mr. KINLEY: I have here the profit and loss account of the Bank of Canada. I find that for the year ending the 31st of December, 1943, they make provision for contingencies and reserves, the same thing as you have in the private banks, after which they show a profit of $15,911,478.79. Now, Mr. Chairman, the Bank of Canada has contingencies, and makes provision for them in their statement, and in the same way that the other banks do. I take it that the minister does not inform one bank what another bank has by way of an inner reserve because if he did we would naturally have competition so that each one would have as much as the highest. That is natural, and for that reason it is not well for one bank to know what another bank has in its contingent reserve. With regard to the Bank of Canada, the Bank of Canada has taken away from the private banks in this country—I am not saying it should not do so; everyone agrees it should be done—some of the safest business of the banks in this country. Therefore the picture of the banks as reflected in all this is not altogether advantageous, but to a degree has made banking harder in this country, I think. It seems to me when you see the public offering the prices they are for these stocks on the market as it is to-day that the matter of banking is a matter of concern and that we should be very careful to see to it that the shareholders and the depositors and the public are protected, that the stability of the business of the country is protected as much as possible. In so far as inner reserves are concerned private businesses do not disclose their reserves to the public. Most of them do not disclose them to their shareholders, because all you have to do at an annual meeting is present your assets and liabilities and profit and loss account and your trading account, and very few companies present a trading account unless a man has a majority at the annual meeting and demands it. I do not see how they could, and the same is true with banks. I think that if the shareholders of a bank went to the annual meeting and demanded by a majority to have the amount of this reserve made known to them they would have it given to them, but it is evidently not to their advantage to have it. Somebody might owe the bank some money, and if this thing goes to the last analysis and names come out then the man who is advertised as owing the bank say $50,000 has his credit destroyed, and furthermore if he finds that the bank has written it off he will say, "Let them go hang; they have written it off, and I am not going to pay it anyway." So you can see how the stability of the whole thing can be disturbed by spreading broadcast something that should be of a confidential nature and should be carefully protected in order that stability may be maintained. This information is given to the Minister of Finance; it is given to the authorities who have control of the banks. They are there for our protection; they represent the people of this country; they are the people who control banking in Canada, and I cannot see any public interest in disclosing the inner reserves of the private banks of this country.

The CHAIRMAN: Mr. Tompkins has a statement to make.

Mr. TOMPKINS: Mr. Chairman, far be it from me to delay the committee, but two or three of the observations of Mr. McGeer I think require some very brief comment. I am not attempting to refute any of his figures in any way, but I think it would be regrettable if wrong impressions were taken from those statements. In quoting the profits of the banks for certain years he took the cases of the Bank of Montreal and the Royal Bank. That is the only reason why I refer to them specifically. I wish to draw attention to exhibit No. 7 in which the Bank of Montreal is shown to have had new stock issues of very substantial amounts in 1925 and 1929.

Mr. McGEER: What exhibit is that?

Mr. TOMPKINS: Exhibit No. 7. Those issues were in 1925 and 1929. The first issue was in connection with the absorption of Molsons Bank and the second was an issue to shareholders of the bank at $200 per share of which, of course, $100 per share went to capital account and $100 to reserve fund. In the same way the Royal Bank in 1925, 1926 and 1928 made substantial additional stock issues. The first of them was in connection with the acquisition of the Union Bank of Canada and the other two were issued at a premium of $100 per share or at a price of $200 per share of which, of course, $100 went to reserve fund and the other $100 to capital account. Those issues account in considerable degree for the increases in the reserve fund and in the profits of those banks for the years to which I have referred.

Mr. McGEER: And would have been much more if they had sold the stock on the open market.

Mr. TOMPKINS: They cannot do that. Under the Bank Act they must offer it to their own shareholders, and it must be at a price that is not in excess of the proportion that their reserve fund bears to the paid-up capital of the bank, under section 33. With respect to market prices I have a table here, and if the committee wishes I will place it on the record. It gives the high and low prices of Canadian chartered bank stocks in the calendar years 1929, 1933, 1939 and 1943. Those were selected as rather significant years by reason of the fact that 1929 was a boom year; 1933 more or less represented the depth of the depression; the year 1939 a sort of part war and part pre-war year, and 1943 being relatively recent.

The CHAIRMAN: Is it your pleasure that the statement be put on the record?

Some Hon. MEMBERS: Yes.

(Carried.)

Mr. FRASER (*Northumberland, Ont.*): Could not each member have a copy of that?

The CHAIRMAN: It will be printed in the record.

Mr. McGEER: Of course, they do not come out for several days afterwards.

The CHAIRMAN: We are hurrying them up as fast as we can.

Mr. TOMPKINS: I can prepare copies if necessary but I should imagine that the printed record would be available by next Tuesday or Wednesday.

Mr. BLACKMORE: Would it not be advisable to have it read? How long would it take to read it?

The CHAIRMAN: It would take some time.

Mr. TOMPKINS: There is a possible wrong impression I should like to correct. I am quite sure that the banks would do it themselves, and while I am certainly not speaking for them I want to make it clear that in the period of approximately 19 years during which I have had knowledge of the different banks' affairs I have certainly seen no evidence of trading in bank stocks by directors; none whatsoever. In the years 1928, 1929, and the following years of a different character, the activity in the market as to the sales of bank shares, as well as other shares, reflected more or less the change in conditions, and furthermore in the years immediately succeeding the boom years a number of shares of our bank stocks which had found their way to United States investors came back to Canada. They went there by reason of the extent to which stocks had been bid up generally. I think I am within the mark in saying that none of our banks desired to see their shares go outside of Canada in any large degree. I placed on the record as exhibit No. 9 the percentage of both shares and shareholders in Canada, elsewhere in the British Empire, United States and possessions, and so forth, in the early days of these hearings. That showed, if I remember correctly, that the number of shares held by holders in the United States was only moderately over 10 per cent of the total. At the high point in 1928 or 1929 that was very much closer to 20 per cent. Now, Mr. Blackmore has referred to the Minister's response to the suggestion that the Bank of Canada could come to the assistance of any banks which found themselves in difficulties, and that there was really no reason for hidden reserves or no need for practically any precautionary measure of any kind.

Mr. BLACKMORE: That is not fair, I did not imply that.

Mr. TOMPKINS: In that case, I take that back. I think your suggestion was that there was no necessity for hidden reserves.

Mr. BLACKMORE: That is right.

Mr. TOMPKINS: They have previously been referred to by me on several occasions as precautionary reserves—

Mr. SLAGHT: As undisclosed reserves.

Mr. TOMPKINS: Mr. Towers, in his evidence, if my memory is correct, stated that he would not want to do this thing—assistance by Bank of Canada—as a steady diet for the simple reason that if circumstances arose which made it necessary for any one bank to come to the Bank of Canada frequently for assistance of that kind it would certainly be an indication that something was not quite right. Furthermore, the extent to which banks were obliged to apply to the Bank of Canada to enable them to meet deposit demands would mean that their earning power would be impaired; and that I think is the complete answer to the question. If I have missed anything—

Mr. CLEAVER: There is just one other point, Mr. Tompkins, I wish information on and that is the point which Mr. McGeer raised in regard to the fact that the directors are in a preferred position with respect to market transactions in the shares of their own bank because of the fact that they have full knowledge of the condition of the inner reserve account. Please indicate to the committee what legal powers you have and what you would do if you found any directors—I am not suggesting for a moment that they would take advantage of their position—but if you found directors taking advantage of such private information which they have and which nobody else has to carry on profitable market transactions in stocks.

Mr. TOMPKINS: I would just raise Cain.

Mr. CLEAVER: Have you any legal power to restrain them from doing it, or is it simply persuasive power?

Mr. TOMPKINS: Not in a technical sense, but I think between the Minister of Finance, his other officials and myself we would find a way of dealing with such a situation should it arise.

Mr. CLEAVER: Did you have reason to believe at any time during the time you have been in office that any bank director has taken unfair advantage of the situation?

Mr. TOMPKINS: I have known of none.

Mr. McNEVIN: I just wish to make this further comment with regard to the suggestion of Mr. McGeer that in 1914 and on later occasions the government had to come to the assistance of certain banks. My opinion would be that if it were not for these inner reserves we are now discussing the government would have had to come to the assistance of the banks to a greater extent, at least by that amount. Now, there is only one more point I have an interest in, and that is with regard to the rates of interest referred to in the statement made by Mr. McGeer. Mr. Tompkins stated that the rate of interest would be figured on the original investment; would it?

Mr. TOMPKINS: Yes.

Mr. McGEER: You refer to the dividends on stock?

Mr. McNEVIN: Dividends.

Mr. TOMPKINS: Yes.

Mr. McNEVIN: Then it would be true that for a number of years the returns were at 12 per cent. It would be true that 70 or 75 years ago for an original $100 investment in the stock of the two banks referred to, and if that share of stock or if those shares of stock remained in a family, they would have been drawing 12 per cent. But we noted in the list of sales made that in some years the stocks of both banks referred to ran as high as $400, at periods $200, and again at $300; then would it not be true that where a new investor had invested or bought at $400 he would be getting only 3 per cent return?

Mr. TOMPKINS: That is correct.

Mr. McNEVIN: And if he invested at $200 he would be getting 6 per cent?

Mr. TOMPKINS: That is correct.

Mr. McNEVIN: And if he bought at $300 he would only be getting 4 per cent?

Mr. TOMPKINS: Yes.

Mr. McNEVIN: And at the same time up until I believe some time in recent years when the double liability was discontinued—

Mr. TOMPKINS: Not discontinued, reduced.

Mr. McNEVIN: Reduced, yes. So that the rate returned, to my mind, to the investor in bank stock in the last decade is not out of line; and in fact, in my opinion, it is below the dividend or the return from very many stocks such as mining corporations, industrial concerns and so on.

Mr. TOMPKIN: Quite right, sir.

Mr. JACKMAN: Might I just draw the attention of the committee to a section of the Bank Act which I think answers to some degree Mr. McGeer's suggestion—although he did not make the charge that directors have taken advantage of their opportunity to obtain information which was not available to others in order to obtain a profit for themselves that that possibility was there. I would call attention to Section 43 of the Bank Act which reads as follows:—

> (1) A list of all transfers of shares registered each day in the books of the bank at the respective places where transfers are authorized, showing in each case the parties to such transfers and the number of shares transferred, shall be made up at the end of each day.
>
> (2) Such lists shall be kept at the said respective places for the inspection of the shareholders.

And then there is the further precaution in case the bank is really not sound; there is section 130, a provision which applies to directors and shareholders as follows:—

(*a*) Persons who, having been shareholders of the bank, have only transferred their shares, or any of them, to others, as hereinbefore provided, within sixty days before the commencement of the suspension of payment by the bank; and

(*b*) Persons whose subscriptions to the stock of the bank have been forfeited, in manner hereinbefore provided, within the said period of sixty days before the commencement of the suspension of payment by the bank.

So it would seem to me that if the bank is suffering at all and a director wishes to profit or to get out from under, all the sales which they make are recorded and the record is kept in the transfer office of the various banks, and should the bank be facing insolvency then there is provision there that the shareholders including the directors cannot divest themselves of their double liability and pass it on to someone else.

I should like also to draw attention to the suggestion the banks may be in a preferred position as to the so-called inner or assurance reserves to ordinary industrial companies. During depression times the first thing which a company suffers from is loss of capital, and if that loss is very substantial it might very easily be that the banks who are advancing monies to these various industrial companies will suffer prior to the loss. That is the case, as history shows. But we must remember that in regard to the banks' working capital, it is their sole asset whereas with an industrial company it is only part of their asset, most of their capital being invested in fixed plant, machinery, real estate and so on; so that when they lose their working capital they have only lost part of the whole of their assets, of their whole machinery for making profits and providing surpluses; but when any of these losses focus into the banks they must be in a position to have reserves far in excess of the percentage which would apply to ordinary industrial cases because in any case where they suffer a complete loss of their working capital their total assets are gone, because the real estate, buildings, form only a very small part of their total assets.

The CHAIRMAN: Mr. Blackmore has the floor.

Mr. BLACKMORE: I think I had better refer again to what Mr. Tompkins said. I am not in any way arguing or endeavouring to imply that all the banks should not reserve enough to cover contingencies. The thing that is before the committee is whether or not these reserves should be hidden. And now, I understand there is no evidence thus far to prove that they need to be hidden. I refer to the Minister's statement, which I have given a measure of consideration. I find that his whole argument as far as I can gather is based upon the general idea that if the extent of these reserves was made known then the security of the banks would be impaired. Now, I think there is no evidence produced to substantiate the Minister's contention. These reserves might just as well be published so that everybody would know how large they are and how great a drain there has been on them in any given year; and then, if as a result of the publication of the losses which a bank has sustained in a given year, there should develop a measure of lack of confidence in a particular bank then the Bank of Canada could come in and support that bank. I made no contention whatsoever that the banks should begin to depend upon the Bank of Canada and run to it all the time, and that we should not worry about it and all that. I am merely arguing that there is not sufficient grounds given for justifying the stand that we need hidden reserves.

Mr. TOMPKINS: I think the difference between you and me perhaps is that my contention, in effect, means that the banks should stand on their own feet.

Mr. BLACKMORE: I agree. But they can do that just as well with their reserves all disclosed; just as well.

Mr. TOMPKINS: That is a matter of opinion.

Mr. BLACKMORE: That is right.

The CHAIRMAN: Mr. Slaght has the floor.

Mr. SLAGHT: Mr. Chairman, apropos of the statement made by my friend Mr. McGeer a few moments ago that there need be no apprehension in the minds of the public about the security of our ten chartered banks, I want to endorse that to the fullest degree.

Mr. BLACKMORE: Hear, hear!

Mr. SLAGHT: Every time I have addressed parliament on the banking system, and at the opening of anything I had to say to this committee, I paid the highest tribute to the gentlemen who are operating our chartered banks to-day; and I want to reiterate that, both as to their integrity and their ability, without any reservation. If, as Mr. McGeer suggested, the press are paying any attention to the question of security this morning, let me add this. Mr. Graham Towers told us, some days back when he was here, that if a chartered bank should, by reason of requiring cash, have what is popularly called a run, the Bank of Canada would stand by and would stand behind it, and the public ought to know that; because with that fact, and with the enormous reserves they have piled up and have disclosed, and with the hidden reserves which I believe are enormous also—

Mr. BLACKMORE: And could be disclosed.

Mr. SLAGHT: And with the double liability clause, and with the backing of the Bank of Canada which, as somebody said, is the people of Canada and the credit of Canada, our Canadian banks in my view are stronger, less subject to any disaster, than any banking system in the world to-day. The whole point that we have spent so many days on, as I see it, is not that the banks should discontinue laying up further reserves for a rainy day than there are in the reserves disclosed. I believe that they should continue to lay up a reserve against losses in future years, but that there are just two points involved: they should not hide them—they should bring them into the clear and fortify their reserve statement that goes to the public—and they should pay taxes on anything that they set aside in a given year for the purpose of losses that have been established and which they take out of earnings for that year. Then when they reach an item that they are setting aside for a future year if a loss does occur, they should be taxed on that in the given fiscal year in which they set it aside for the future.

Just one point with Mr. Tompkins. It was suggested this morning that these inner reserves could be, by the banker, transferred to the disclosed reserves and thereby brought under taxation. I have forgotten what gentleman asked it, but Mr. Tompkins said yes, that could be done. But may I point out that Mr. Tompkins made it clear to Mr. Cleaver, who is inquiring about this at page 258:—

> Mr. Cleaver: Are the excess or inner reserves ever transferred to general reserves and if so, are they taxed when transferred?
>
> Mr. Tompkins: Not in my own experience, sir. I have been in this particular post now for almost twenty years and there has never been an adjustment of that kind in that period.

So that while theoretically it is true that inner reserves could be transferred to the disclosed reserves, and at the time of the transfer have taxes imposed upon them, we find that for nineteen years no bank has ever transferred either any excess or hidden reserve to its general disclosed reserve and paid taxes on it.

Mr. JACKMAN: It has done the reverse.

Mr. TOMPKINS: On the other hand, it has done the reverse.

Mr. SLAGHT: Quite so. It has done the reverse. But we are looking at the two problems, as I see it: should they hide these additional reserves, and should they escape taxation on them in the year in which that amount of money is actually earned? That is all there is in this vexed problem of hidden reserves, in my view.

The CHAIRMAN: Are you ready for the question?

Mr. BLACKMORE: Mr. Chairman—

Mr. SLAGHT: The question of my resolution, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. SLAGHT: I have not had a chance to even introduce it for the last few days.

The CHAIRMAN: Will you introduce it, then?

Mr. SLAGHT: Yes.

Mr. NOSEWORTHY: Mr. Chairman, before Mr. Slaght introduces that, may I say that he is not going to have time to deal adequately with it before 1 o'clock, and I should like to suggest that Mr. Slaght explain to us in some detail what is involved in parts 1, 2 and 3 of his resolution. I have already indicated that I have not seen as yet any good reason why the total aggregate of these reserves should not be published. But he asks for the source, the method of furnishing the same, details and amounts thereof. I think the committee should have an explanation.

Mr. SLAGHT: I shall be glad to do that, and I shall endeavour to do it in the five minutes which remain before 1 o'clock. My resolution reads:—

> That the chartered banks, each of which has applied to parliament for a ten-year renewal of their respective charters, should be directed and are hereby directed and required to disclose to parliament through this committee forthwith, the total aggregate amount of the hidden inner reserves of the ten banks and (1) the source of the money;

Now my friend wants to know what I mean by that. I think they should be required to disclose the aggregate amount, and Mr. Tompkins can give it to us if they permit him to do so; and the fact that those reserves have been piled up each year out of earnings of the bank in a particular year. That again may be a gross figure. I am not seeking to have any bank, as a bank, disclose to this committee the amount of its particular hidden reserve.

Then "(2) the method of furnishing same to the inner hidden reserves;" that could be simply answered by saying, "They furnish it to the inner reserve by taking it out of earnings and putting it in the inner reserve." Then "(3) the details and amounts thereof for the past fifteen years down to the present time." We could be given, through Mr. Tompkins, how much they had added each year to their hidden reserve and the total amount that it has climbed up to now; because he did tell us the other day that it is greater now than it was fifteen years ago. It ought to be, and is properly greater, because as was pointed out by Mr. Fraser, I think, the business of the bank is increasing. Therefore the hazard of losses in the volume of money is increasing and therefore they are quite justified in increasing the reserves they set aside against a bad year for five years ahead.

Then, if that be so, I am not asking that they publish every year these inner reserves. I am asking that they tell this committee now, and once each ten years, the lump sum; if it is $50,000,000 or $100,000,000 this committee ought to know, because that amount of money lying there has escaped taxation for the period that it has laid there and been taken out of current earnings for each year.

This committee cannot go on with the business of dealing with the controversial sections, numbers 5 and 59, in my judgment until the bankers take us into their confidence and authorize Mr. Tompkins to make a statement not about each bank, but for the purpose of enabling us to do our duty tell us what the amount of this hidden reserve is as of the 31st of December, 1943.. It is all bugaboo that it would disturb confidence, that people would be upset by knowing that. Instead of $136,000,000 as a reserve against a possible bad year, if these hidden reserves are another $100,000,000, the public would learn through this committee and through that disclosure that the banks have $236,000,000 as a hidden reserve for the future. Will any sane man tell this committee that learning that fact—and that is all I am asking for—that the banks have a reserve against bad debts of the future of $236,000,000 instead of $136,000,000 will disturb confidence in the banking system? Oh, the question answers itself.

The CHAIRMAN: Are you ready for the question?

Mr. BLACKMORE: One o'clock.

Mr. McGEER: One o'clock, Mr. Chairman.

Mr. KINLEY: Let us see how many sane men rise to vote.

Mr. SLAGHT: Mr. Chairman, I cannot be here on Tuesday when this vote is taken and I ask you to poll this committee. I represent 26,000 people in Parry Sound who want to know what this hidden reserve is and why it is not taxed. When that vote is taken I ask you now in advance to let the gentlemen who want to continue to hide it stand up in this committee and have their names recorded as having voted to permit the continuation of the hiding of these reserves, and the continuation of that type of reserve escaping taxation when the little fellows pay their taxes 100 per cent.

The CHAIRMAN: We will ask them to stand up. We will adjourn until Tuesday at 11 o'clock.

The committee adjourned at 1.05 o'clock p.m. to meet again on Tuesday, June 13, 1944, at 11 o'clock a.m.

June 13, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, I have a communication from the Alberta Farmers' Union, which reads as follows:—

Dear Sir:—

The enclosed resolution was passed unanimously at a meeting of the Board of Directors of the Alberta Farmers' Union held at their head office in Edmonton 8th June, 1944, and they directed that it should be forwarded to you immediately for your consideration.

We regard this matter as one of the utmost urgency to Canadian people and most earnestly solicit your active support.

Yours truly,

(Signed) H. E. NICHOL,
Secretary, for Board of Directors,
Alberta Farmers' Union.

Is it your pleasure that the resolution shall be placed on the record of the committee?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Gentlemen, as I recall it, at the close of the last session we were discussing the resolution moved by Mr. Slaght. Is it your pleasure that we vote on that motion?

Hon. Mr. HANSON: Would the secretary read the motion so that we will know what we are doing.

The clerk read the motion.

Mr. MAYBANK: There has been no change in that from the way it appears here in No. 15 of the proceedings?

The CLERK: No.

The CHAIRMAN: Are you ready for the vote?

Hon. Mr. HANSON: Mr. Chairman, I had to go away, and I would like to make one observation. Since we met here on Tuesday last, I have given a good deal of consideration to this question, and I have been examining a number of the annual reports of some of the larger corporations, some of which I know about personally. While all disclose that there is such a fact as a reserve for bad and doubtful debts, I have yet failed to find one that gives any amount that is so set up by way of reserves and certainly not with the detail asked for by Mr. Slaght's motion.

Just consider the case of a commercial company, in a highly competitive business. To demand of such a company that the annual statement shall contain all the detail and data asked for by Mr. Slaght's motion with respect to banks would reveal to competitors the position of the company issuing such a statement and would be most unfair in a competitive position such as I have tried to indicate. If parliament in its wisdom has not required that of joint stock companies—and I know of no jurisdiction either in the federal or the nine provincial fields where that is required—why should parliament today, with the assurance from the minister that there is no danger of escape from taxation, compel these banking institutions, which are also highly competitive one with the other, to reveal their exact positions, with respect to this important topic? I do not think it is good, sound business policy to require the banks to do that which we do not ask any other commercial corporation to do. For the reasons which I have indicated—and I could indicate many other sound reasons —I am going to vote against this motion.

Mr. BLACKMORE: Mr. Chairman, I wonder if we—

The CHAIRMAN: Mr. Slaght has the floor.

Mr. SLAGHT: I am afraid the absence of my honourable friend and his failure to apprehend my motion has led him to make the observations which he has made. He has referred to commercial companies and put it that if Mr. Slaght's motion is carried, the banks will be compelled to reveal to their competitors the amount of their hidden reserves. That, of course, is not so. The motion is merely to have disclosed to this committee of parliament—and I suggest through Mr. Tompkins who has the information all in his portfolio there now, as he has told us—not the specific hidden reserves of one competitive bank against the other, but merely, if my friend will read it, the total aggregate amount of the hidden inner reserves of the ten banks. So that to suggest that he is going to vote against the motion because it would unfairly compel one bank to disclose these hidden reserves to another, shows—and I say this with all respect—an entire misconception of what I am asking. I am not asking in this resolution that the banks should even disclose throughout the years, the ten years intervening, their own specific hidden reserves even to their shareholders if they want to go on hiding them; but that once in ten years when a committee is set up, not by the government but by parliament—.

Mr. MAYBANK: May I ask a quesion there, Mr. Slaght?

Mr. SLAGHT: Yes.

Mr. MAYBANK: The motion as printed does not actually indicate ten years, but I gather that you did say at a certain stage you would be satisfied with that. That is not actually in your motion, is it?

Mr. SLAGHT: Well, perhaps the words in the motion are not "ten years," but I shall be glad to add them. I thought it was pretty clear. May I read it: ". . . . should be directed and are hereby directed and required to disclose to parliament through this committee forthwith the total aggregate amount of the hidden reserves of the ten banks." I could add, "and similarly every ten years when their Act comes up for revision."

Mr. MAYBANK: Then you do not want the ten years really. You want 1943 and 1953, for example. That is what you mean?

Mr. SLAGHT: No.

Mr. MAYBANK: When 1953 comes around?

Mr. SLAGHT: All I want here is the total amount, $82,000,000 and $53,000,000—

Mr. MAYBANK: As of when? As of what date?

Mr. SLAGHT: As of the 31st of December, 1943.

Mr. MAYBANK: And the next time?

Mr. SLAGHT: Ten years from then.

Mr. MAYBANK: 1953.

Mr. SLAGHT: When the banks come back to parliament seeking a renewal of their charters, when they come to parliament for the renewal of a special privilege; and by the way, my honourable friend will observe that the commercial firms that he speaks of go into business without any special privileges from parliament at all. They enter into competition, one with the other, under charters granted by the Secretary of State and do not come to parliament as the banks do, nor do they come for ten-year renewals. But I want this clear: my resolution is to say to the bankers who have told us very plainly and very politely that it is none of our business how much money they carry to the hidden reserves over this ten-year period and on which they escape taxation and which is made up out of profits each year, who tell us that we are not to know that, and yet desire us to sign on the dotted line a renewal of their charters, that they must tell us. My resolution is based upon the very simple proposal that it is desirable that parliament, through this committee, ought to know what profits the bankers have made during the past ten years.

Mr. MACDONALD (*Brantford City*): That is on their statement that is already filed.

Mr. SLAGHT: My honourable friend is under a misapprehension. It is not disclosed, because the profits which they put away to hidden reserves and deduct their losses against, as we have been told, are not included in their statement.

Hon. Mr. ILSLEY: Oh, yes, they are.

Mr. MACDONALD (*Brantford City*): Oh, yes. I think this is clearly shown there.

Hon. Mr. ILSLEY: They certainly are, yes.

Mr. SLAGHT: Let us clear up what Mr. Tompkins says about it, and it is all in a nutshell here. I thought some one might challenge the fact that their profits, so far as those they allocate to hidden reserves are concerned, are not disclosed and are not taxed. Now, Mr. Tompkins, at page 253 of our present inquiry, about half-way down on the page, says:—

> Mr. Slaght: I am going to let you give the reasons in a minute. Now may I ask you this. Those hidden reserves arose out of profits from the taxpayers and customers of the bank?
>
> Mr. Tompkins: To a large extent.

Then at page 257, about two-thirds down the page, I find this—he is answering a question asked by Mr. Hanson:—

> Mr. Tompkins: I would like to conclude my remarks by saying that I consider the inner reserves of the banks are reasonable, having regard to present and prospective risks in the banking business. I think that is a fair statement. I was also going to add, but perhaps it is superfluous, that these reserves are the moneys of the shareholders.
>
> Hon. Mr. Hanson: Are what?
>
> Mr. Tompkins: Are the moneys of the shareholders and could be paid out to the shareholders in the form of additional dividends.

Now, again he says at page 258—

Mr. MACDONALD (*Brantford City*): They would no longer be inner reserves.

Mr. SLAGHT: Of course they would not be. The point there is this: they come out of banking profits; Mr. Tompkins has said so.

Mr. MACDONALD (*Brantford City*): I do not agree with that; they are not profits as yet.

Mr. SLAGHT: Let me put it this way; I am taking Mr. Tompkins' statement. When the bank ends its fiscal year they start out by ascertaining through their accountants what moneys they have actually lost in the fiscal year, let us say that amounts to $2,000,000. They deduct, or rather they add that loss in operation to their other operating expenses—taxes, wages, rentals and all that—and they find out what the operating expenses are and they deduct those operating expenses, including their actual money losses, from their gross earnings for that year, and there they find the profit. They take out—and I am quite in accord with the system as I have announced, because the actual losses set up and incurred in a given year are just as much an operating expense as taxes or wages—but they do not stop there; the directors then foregather and examine the current loans and they say: We are going to set up an inner reserve which will take care of possible losses which in some future year might actually be incurred; is that clear? Now, that is the fund that is the inner reserve, and that fund Mr. Tompkins tells us—and I think the minister agrees—so far as the present bank law is concerned is fixed purely in the whim of the directors themselves without any control by parliament or Mr. Tompkins or the minister.

Hon. Mr. ILSLEY: That is an unfair statement; it is not a correct statement.

Mr. SLAGHT: All right, we will read what Mr. Tompkins says. That is the setting up. The third thing they set up is the—

Mr. MACDONALD (*Brantford City*): Is not this all done before the profits are ascertained and not as you suggest after they have been ascertained?

Mr. SLAGHT: It is not all done then. The first process of ascertaining actual losses that have been occurred—that is the first thing they do, and they put that into an operating expense column as we have heard, and properly so. Then, when those operating expenses are ascertained along with others, that gives us a sum which deducted from gross earnings in the year, ascertains for them their profits, and then they take a further sum—

Mr. MACDONALD (*Brantford City*): I think that is done before the last statement.

Mr. SLAGHT: Well, Mr. Tompkins has told us no. You may think so. Does it make any difference which they do first?

Mr. MACDONALD (*Brantford City*): I think it does.

Mr. SLAGHT: Let us explore that and put it the other way around. Will you tell us when they find their gross earnings and find that amount, they begin to make deductions from it, and the source of the inner reserves for that year comes out of the gross earnings? Let us say they do that first. But they hide it and put it aside, and then if you like they fix a second amount which is the actual loss they have incurred in the business in that year and they put that in the open into operating expenses—losses incurred during the year. Then they select after that—they pay dividends, they have never passed one—and after that there is still a balance left in some years—there have not been in some—and the balance that is left is the fourth item, and they carry that into what they call the disclosed reserve and set it up as a rest reserve which presently amounts to $136,000,000, as we have heard.

That is the process the bankers go through at the close of a fiscal year, with the result that the amount of inner reserve which is not disclosed in their annual statement, which is not disclosed in the statement they file with Mr. Fraser Elliott—that that amount escapes taxation.

Mr. MACDONALD (*Brantford City*): But that is disclosed in Mr. Ilsley's statement on page 2620 of *Hansard*.

Mr. SLAGHT: If that is true, what are we bothering about; it is not there at all. It is not there. You heard Mr. Tompkins tell us that he prepared this statement because he is a believer in parliament and the people not knowing about them. He prepared that statement so that the statement should not disclose it. I defy you to find it. If it had been there we would have known about it long ago and we would not have wasted this time in asking the bankers to tell us the amount of their aggregate inner reserves.

Mr. MACDONALD (*Brantford City*): May I read from Mr. Ilsley's statement which was given to this committee last Tuesday at page 442: "There is one point which I wish to make abundantly clear. Certain members of this committee have shown by their questions that they do not understand it. The figures in items 13 and 14, first column, namely $12·8 million and $2·5 million, totalling $15·3 million, are arrived at before provision for losses or appropriation to inner reserves, not after."

Mr. SLAGHT: Having ascertained from this statement what the inner reserves of the banks are, will you tell the committee what they are? I suggest you do not know.

Mr. MACDONALD (*Brantford City*): I am not suggesting for one moment that the inner reserves should be published; I think that the inner reserves are there to protect the depositors, more particularly the small depositors, the 91 per cent of the depositors who have less than $1,000 in the bank. I think we should be more concerned with their money than we are with whether or not this money goes to the shareholders.

Mr. SLAGHT: Well, it is pointed out that Mr. Macdonald is not under cross-examination, but may I propound this to him: how will it harm the protection of the shareholders for whom you are probably concerned—

Mr. MACDONALD *(Brantford City)*: No, I am not interested in the shareholders; I am interested in the depositors.

Mr. SLAGHT: How will it do harm to the depositors if Mr. Wedd will stand up and say the aggregate of hidden reserves of the ten chartered banks is $82,000,000? Will you show with any degree of reason behind it that the addition of this amount would do it, and then cast it to the public every ten years? It shows the public that instead of a mere $136,000,000—the amount was $82,000,000 and they would have $136,000,000 plus $82,000,000 which is $218,000,000 in reserve against future losses. But are you telling this committee that the disclosure of that inclusive item to this committee would be detrimental to the customers of the bank?

Mr. MACDONALD *(Brantford City)*: I am not under cross-examination and I do not intend to go into a long detailed answer. I would, however say that in my opinion the disclosing of that amount to-day might in future years affect very adversely the small depositors, because if that amount is shown to-day as a certain amount and in a number of years from now, say, ten years, it has been all used up and has disappeared, confidence in the banks would disappear, and there would be an immediate run on the banks. I am not so sure that the small depositor would get his money, but if he got it the only place he could get it would be from the Bank of Canada, and then there would be a great deal of delay and a great deal of trouble for him to obtain it. I do not think it is in the interest of the small depositors that this amount should be disclosed even from time to time.

The CHAIRMAN: Suppose we allow Mr. Slaght to continue his argument. We have heard most of it before. I have no desire to interfere with the procedure of the committee, but we do seem to be going around in circles.

Mr. MACDONALD *(Brantford City)*: Mr. Chairman, I did not intend to speak at this time but Mr. Slaght asked a direct question of me, and I thought I was within my right in answering him.

The CHAIRMAN: I will ask Mr. Slaght not to ask any more questions.

Mr. SLAGHT: I must say that I have no objection to being queried.

The CHAIRMAN: The only point is this: we have engaged in an argument of this kind for several days, and it does seem to me to be a bad business procedure.

Mr. SLAGHT: We only discovered this morning that Mr. Macdonald is able to read from the statement what the inner reserves are. That is a new discovery.

The CHAIRMAN: No, not quite.

Mr. MACDONALD *(Brantford City)*: My statement was that Mr. Ilsley in his statement in the house did set forth very clearly that provision had been made for the inner reserves before items 13 and 14 were set forth.

Hon. Mr. ILSLEY: Not before.

Mr. MACDONALD *(Brantford City)*: I should have said after. I must correct myself. What I pointed out was that in Mr. Ilsley's statement to this committee, on page 442, he showed quite clearly that items 13 and 14 in this statement appearing at page 2620 of *Hansard* had been arrived at before provision for losses or appropriation to inner reserves, and not after.

Hon. Mr. ILSLEY: That is right.

Mr. SLAGHT: Mr. Tompkins says at page 259:—

> Mr. Slaght: However, I have your view on record; you do not think anybody should be allowed to stop them and that in any given year they should be allowed to pass over it to the inner reserve paying no taxes on it and not disclosing it to their shareholders nor giving an accounting to parliament even; and that is the situation you think we should perpetuate and still renew their charters; is that it?

Mr. Tompkins: That is it.
Mr. Slaght: That is it. All right.
Mr. Tompkins: Yes.

Now, there is a reference at page 262 which I think is helpful in getting Mr. Tompkins' evidence straightened out before us. This occurs about midway down the page where Mr. Fraser of Northumberland, Ont., was questioning Mr. Tompkins, and he says this:—

Mr. Fraser (*Northumberland, Ont.*): —that year after year you charge out of profits. . .

I would like the minister to note that if he will—

. . . that year after year you charge out of profits—

Mr. JACKMAN: Gross earnings.

Mr. SLAGHT: Here is another case of another word; my friend says "gross earnings". Mr. Tompkins is wrong.

Mr. JACKMAN: I submit that the use of the word "profits" in this particular case means gross earnings.

Mr. SLAGHT: It means money earned from the public in that fiscal year. Let us not quarrel about the terminology.

—that year after year you charge out of profits prior to taxation what the directors consider is a necessary reserve to take care of contingent liabilities? That is correct?

Mr Tompkins: Quite true.

Then, at page 264—and I think this will be the last quotation I shall trouble the committee with this morning—I find this:—

Mr. McGeer: Where is the section which empowers the bank to have a hidden reserve?

Mr. Tompkins: There is no specific section in the Act. That is a matter of banking practice.

Mr. McGeer: They have no legal power to do that?

Mr. Tompkins: No.

Mr. McILRAITH: Before you leave page 264, may I say—

Mr. SLAGHT: Permit me to finish this and I will go back to that:—

Mr. McGeer: They have no legal power to do that?

Mr. Tompkins: No, that is a matter of good, sound, prudent banking practice.

Hon. Mr. Ilsley: Now, Mr. Slaght, I want the truth in this thing. Every hon. member knows he was talking about statutorily expressed powers.

Mr. SLAGHT: That is what I am talking about.

Hon. Mr. ILSLEY: But you are giving the impression that the banks were doing an unlawful and illegal thing.

Mr. SLAGHT: I am giving no impression; I am reading his answers. He is asked, "Where is the section which empowers the bank to have a hidden reserve?" And the answer is: "Mr. Tompkins: There is no specific section in the Act. That is a matter of banking practice."

That is Mr. McGeer's language, not mine. He puts a straight question: "They have no legal power to do that."

Mr. TOMPKINS: If you read pages 418 and 419 of the evidence I gave on the statement generally that will clear that whole point up.

Mr. SLAGHT: I will gladly read it if it clears it up, because if they have no legal power to do it that raises another power; and do not misunderstand me: if they had the legal power to do it, take it out of the profits or gross earnings and put it into a hidden reserve after deducting all their actual losses for the year and escape taxation on it, then we ought to put a legal prohibition on their doing it.

Mr. MAYBANK: If it is going to be done at all should it not be done every year? If we are going to take any such action at all, why do you turn away and cut it to a ten-year basis instead of a one-year basis? Surely every argument you make is ten times as strong for an annual disclosure.

Mr. SLAGHT: I will be frank with you. Some members of the committee genuinely felt that if they were to disclose them every year they would have to do it according to your idea, through short annual statements to their shareholders, and that would raise something such as Mr. Hanson finds, and other members of the committee quite genuinely, I am sure, felt that to make them disclose them to the public each year would disturb public confidence.

Mr. MACDONALD (*Brantford City*): You rather think that yourself?

Mr. SLAGHT: I do not. If I thought that this committee would carry it I would amend this motion to make them disclose it in their shareholders' statement and disclose it every year; but you have to travel slowly when you are told that for fifty years nobody has ever done this before, and that is put up as a bugaboo why we should not do the right thing.

Mr. MACDONALD (*Brantford City*): That has never been suggested to this committee; I cannot recall it.

Mr. SLAGHT: You have not been here.

Mr. MACDONALD (*Brantford City*): If I have not been here, I have read the report; and I think it would do other members good if they would read the report also.

Mr. SLAGHT: May I comply with Mr. Tompkins' request before I get to Mr. McIlraith, Mr. Chairman, where he wants me to read what he said at a later page.

Mr. TOMPKINS: I was referring to pages 418 and 419 of the evidence.

The CHAIRMAN: Mr. Tompkins, will you read what you wish to say?

Mr. TOMPKINS: If the committee wishes me to, Mr. Chairman.

Mr. SLAGHT: Yes. I shall be glad to have Mr. Tompkins read it.

Mr. TOMPKINS: It is at page 418, after Mr. Slaght had dwelt for some time upon this question I made this statement:—

> Mr. Tompkins: Mr. Chairman, Mr. Slaght has picked out—and I do not say this at all offensively—in a rather clever way certain questions of his and answers of mine and has taken them out of my whole evidence, so to speak, on this particular subject. Now, I will try to emphasize very briefly what the minister has said with regard to the preparation of the statement, and again I would ask the members to look at the two particular items, Nos. 13 and 14. Item 13 represents what the banks had left out of current operating earnings for the year after paying the dividends mentioned by item 12—what they had left over. In addition there is shown by item 14 a capital profit of $2,500,000. Adding 13 and 14 together we arrive at a total of $15,000,000 as an average for the fifteen years from 1929 to 1943 inclusive. Out of that $15,300,000, the actual experience of the banks—the average experience, the yearly experience, over those fifteen years was $13,800,000, leaving, therefore, a net amount of $1,500,000 per year for each of those particular years. In other words, a total if you add them together of $22,500,000 for that particular period. That was the amount that was left over after providing for loan losses, and that amount included what was put aside in inner reserves as a general provision for the unexpected losses that banks might meet with in subsequent years at any particuar time. When Mr. Slaght said that I had stated that there was no mention of hidden reserves in this statement, I obviously assumed that he referred to hidden reserves being mentioned as an item.
>
> Mr. Slaght: Certainly.
>
> Mr. Tompkins: As a specific item. It was not mentioned in that

sense. But the effect is there. The statement is a thoughtfully prepared statement and is absolutely correct and I stand by it in every detail.

With respect to one other point, if the committee will bear with me for a moment, the question was asked at one stage, and was read this morning, indicating that I had stated there was no authority for inner reserves. There again I naturally assumed that I was expected to direct the attention of the committee to some particular section or sections of the Act that related to that in those very words as inner reserves or hidden reserves or any other term anyone wanted to use. In that sense I answered the question. There are several sections in the Act—sections relating to the preparation of both annual and monthly returns which require banks to show securities not in excess of market values, which obviously, by inference, if in no other way, indicates that they are intended to show them at a conservative valuation and not at a mere book valuation. The same thing applies as a matter of good common sense, I think, and certainly as a matter of good sound banking practice to show your loans at what you consider to be a conservative valuation and after provision, reasonable provision for losses, which cannot be determined down to the last dollar or last cent in any given year.

I think that is the essential part.

Hon. Mr. HANSON: At that point, if Mr. Slaght will permit me, may I say he has made the assertion and, I think, led the Inspector General to make the admission that there was no express statutory authority. I suggest if there is not any express statutory authority there is authority by implication, unqualified implication, in section 112 dealing with the monthly return by schedule H which forms part of that section, and section 113. If you will refer to the present Bank Act, schedule H, on the asset side, you will see that they are required to make a return under item 10, now 14 of the bill, of the value of their "dominion and provincial government direct and guaranteed securities (maturing within two years) not exceeding market value," and under item 11, "other dominion and provincial guaranteed direct securities, not exceeding market value," and under item 17 with respect to "other current loans and discounts in Canada, estimated loss provided for." May I also point out that there is a section in the Act which provides extreme penalties if they violate that section. Therefore to all intents and purposes there is express authority in this statute for following the practice which has heretofore been the practice, and I suggest it is quite sufficient. Here in this statement of the Bank of Canada, on the asset side, we find "Investments—at values not exceeding market" which is almost the same expression. So that there is express authority. Just take the Bank of Canada. I ask the Inspector General, is there not an implication, at all events, that the Bank of Canada shall write down its investments to a sum not exceeding market value, to take care of anticipated losses? The only difference is that the amount, the quantum, is not disclosed. That must be done in the judgment of those who are most competent to make the judgment.

Mr. McGEER: There is no such thing as hidden reserves in the Bank of Canada system.

Hon. Mr. HANSON: I suggest there is right there.

Mr. McGEER: No. There is no such thing.

Hon. Mr. HANSON: It is exactly the same thing.

Mr. SLAGHT: Mr. Chairman, I wish to speak on the point raised by Mr. Hanson. It was made clear to the committee before that when you disclose your loans and securities at a price not exceeding market value, and have done a writing-down operation to get the amount which you say is the proper amount to return, you can do it in two ways. You can right out in the open put in there at the outset that we have securities worth $5,000,000 or which cost $5,000,000, but we are going to take a certain amount of cash out of the current earnings of the year and we are going to deduct that cash from those first values and then we will get a sum which we will say is $4,000,000, and we will disclose that in return No. H under the item "Rest and Reserve" which is the only item, and we will put in the net amount. But that is where the nigger is in the woodpile. That is where they hide the cash taken in in the current year. They merely write off the higher market values, where they could just as well make a three-item entry, $5,000,000 gross earnings, $1,000,000 written off in order to bring it down to market value, net item as directed by statute, $4,000,000. Then they have complied with the schedule of the Act. That is what I am seeking to have them show.

Hon. Mr. ILSLEY: I think the Bank of Canada does have inner reserves

Hon. Mr. HANSON: Yes, they do. I have it right here, in answer to Mr. McGeer. If you look at page 17 of the profit and loss account of the Bank of Canada, you will observe these words, "Profits for the year ending 31st December, 1943—and note this—after making provision for contingencies and reserves, $15,000,000." And if you will refer to exhibit No. 1 of the Banking and Commerce committee of this year, page 106, you will observe that the Bank of Canada under the caption, "Distribution of earnings" in the year 1939 transferred to reserve against investments, $450,000; in 1942 $250,000 and regularly thereafter up to and ending 1943.

Mr. BLACKMORE: Are they hidden?

Mr. MCGEER: They are disclosed.

Hon. Mr. HANSON: The amounts are hidden. Of course they are.

Mr. BLACKMORE: They are disclosed.

Mr. MCGEER: They do not disclose the exact amount, but just what they write off.

Mr. BLACKMORE: They are disclosed. There is nothing hidden.

Hon. Mr. HANSON: They are not in the Bank of Canada report.

Hon. Mr. ILSLEY: I suggest that you ask the Governor of the Bank of Canada when he comes back, but I am advised that there are undisclosed inner reserves in the Bank of Canada arrived at in exactly the same way as in the case of the chartered banks; that is, a valuation is placed upon assets which they consider the assets will be pretty sure to realize at the time when it is necessary to realize on them.

Mr. MACDONALD (*Brantford City*): I do not think Mr. Slaght would ask that they be disclosed. I think he was referring to the chartered banks.

Mr. SLAGHT: Yes.

Mr. BLACKMORE: We will have another motion after a while.

Mr. SLAGHT: Mr. Towers has not been asked, but he has not refused to disclose to a committee of parliament what they are, and I would be surprised if he did, when it is the people's bank, and it would not bring any harm to disclose the inner reserves of the Bank of Canada, if there be such things. May I say, Mr. Chairman, that I have never asserted that there are. I leave that to my friends who differ. But assuming the Bank of Canada has inner reserves, we know where they picked up the bad habit, because they came into being only about ten years ago, and the chartered banks have been hiding inner reserves all along; so if they have any, they have followed their course. But that is a different story. What I am saying is this—

Mr. MACDONALD (*Brantford City*): Mr. Chairman, I think we are not in order at the present time in discussing the Bank of Canada inner reserves. Mr. Slaght's motion is dealing with the chartered banks. Now we are jumping from the chartered banks to the Bank of Canada. I think we should stick to the chartered banks. I am not suggesting that Mr. Slaght is the one who did the jumping. I think Mr. Hanson raised this question and I still think he was out of order.

Hon. Mr. HANSON: Mr. McGeer raised the question.

The CHAIRMAN: Order, please.

Mr. MACDONALD (*Brantford City*): I will exonerate Mr. Slaght, in any event.

The CHAIRMAN: Suppose we come back to order and allow Mr. Slaght to continue.

Some Hon. MEMBERS: Go ahead.

Mr. SLAGHT: Now that we have discovered the villain who diverted us —and apparently it was Mr. McGeer—let me conclude to this committee in this way. Is it very much to ask the ten chartered banks, when information is in Mr. Tompkins' portfolio, in the Minister of Finance's portfolio and in Dr. Clark's portfolio, to tell a committee of parliament the correct amount of that extra money that they have set aside to take care, in the ten future years, of any losses that might happen? Gentlemen, surely a committee of parliament, as I see it, is set up by parliament, not by a government. We are here as members and not representing any party in this committee. The virtue of it is, I think, that we ought to be free from party whip, party inclination or party advances or party desires. Let us, representing our constituencies and then Canada as a whole in the broader view of a national bank act, insist on the bankers telling this committee that those reserves to-day, or on the 31st of December, were $82,000,000. Then as far as this motion goes, the committee may have a different view. There is Mr. Maybank, who indicates it might be that we ought to go the whole way and make them show them every year. I am not going that far.

Mr. MAYBANK: You will not mind my interjecting this, Mr. Slaght?

Mr. SLAGHT: No.

Mr. MAYBANK: I do not want you to understand from the words that I used a short time ago that I was advocating annual disclosure. All I said was that everything you can say favourable to the one must surely be applicable to the other. But do not let me be misunderstood. I am not favourable to your proposition.

Mr. BLACKMORE: That is too bad.

Mr. SLAGHT: That is all right. Your vote will be recorded against requiring them to disclose.

Mr. MAYBANK: Will you permit me this one further interruption?

Mr. SLAGHT: Yes.

Mr. MAYBANK: The sooner you allow my vote to be recorded, the greater pleasure I will have.

Mr. BLACKMORE: Wait until tomorrow.

The CHAIRMAN: Order, please.

Mr. SLAGHT: There are strange trends in this world.

Mr. MAYBANK: Mr. Slaght, I sometimes think when I hear him, is a little sadistic.

Mr. SLAGHT: Well, when your constituents—

The CHAIRMAN: Order, order.

Mr. MAYBANK: You will, of course, understand that was purely a joke.

The CHAIRMAN: Let us have no joking. Let us get on with the business.

Mr. SLAGHT: I did not even catch the expression. I am sure it was complimentary, though.

Mr. MACDONALD (*Brantford City*): I do not think it should be recorded. I did not catch it.

Mr. SLAGHT: Now, Mr. Chairman, I think I have perhaps made my position clear, and I want to thank the members of the committee for granting me the indulgence they have because I am the mover of this motion. It gets down to the point, I was going to say, that I think I am representing old-time Liberal principles that I learned long ago, but that would not be fair, because we are a non-partisan committee. It gets down to the principles of democracy.

Mr. MACDONALD (*Brantford City*): We think that also.

Mr. SLAGHT: All right. Then I want to point out to you how you can truly follow the principles of democracy. The first thing is to trust the people, and the second is to make parliament supreme; and those who vote against my motion are going back on both of those principles.

Some Hon. MEMBERS: Oh, oh!

The CHAIRMAN: Order, order. Please, Mr. Slaght—

An Hon. MEMBER: I object to that.

Some Hon. MEMBERS: Question.

Mr. SLAGHT: I will just give you one closing illustration of a man who got into a lot of trouble. That was Charles I. He collected taxes and parliament demanded that he should disclose the money he was getting from the people. He said to parliament, "It is none of your business," and they cut his head off. When it rolled into the basket, the people of Britain breathed easier, and they got the information afterwards showing the enormous sums of money in taxation he had collected from the people by his own processes and which he had not disclosed.

The CHAIRMAN: Order.

Hon. Mr. ILSLEY: I was just going to say a few words.

The CHAIRMAN: If you will pardon me, I think Mr. McGeer had the floor first:

Hon. Mr. ILSLEY: May I say a few words first?

Mr. BLACKMORE: Let the minister speak.

Mr. MACDONALD (*Brantford City*): Yes, let the minister speak.

Hon. Mr. HANSON: We ought to hear him.

The CHAIRMAN: If it is the pleasure of the committee, all right.

Hon. Mr. ILSLEY: I am not so sure that Mr. Slaght's history is good about Charles I.

Hon. Mr. HANSON: I would question that myself.

Hon. Mr. ILSLEY: However, I do not think it was non-disclosure that resulted in the execution of Charles I. I think it was the fact that he levied taxes illegally.

Hon. Mr. HANSON: Without authority.

Hon. Mr. ILSLEY: Yes, without authority.

Mr. McCANN: It was near enough.

Mr. SLAGHT: Dangerously close.

Hon. Mr. ILSLEY: It served the purpose.

The CHAIRMAN: At any rate, he lost his head.

Mr. McCANN: That is the thing.

Hon. Mr. ILSLEY: Yes. There are a few points that have arisen in the discussion to which I should like to refer. Mr. Hanson pointed out that in the case of commercial companies, the inner reserves in a great many cases or most cases are undisclosed. I want to point out that in the case of the banks, in their profit and loss accounts, they make very clear reference to contingent reserves. For instance, I have here before me the profit and loss account of the Bank of Toronto for the year 1937 which reads as follows:—

Profit and loss account.

> Profits for the year ending 30th November, 1937, after providing for staff pension fund, taxes, and all other expenses and making appropriations to contingent accounts out of which accounts full provision for bad and doubtful debts has been made, $1,156,372.04.

That appears, I assume, in the profit and loss accounts of all the banks. In addition, from time to time, during the years specific reference to inside reserves has been made in the balance sheets of the banks.

Mr. McGEER: Since 1934.

Hon. Mr. ILSLEY: There was a period when it was not.

Mr. McGEER: Not before 1933.

Hon. Mr. ILSLEY: No.

Hon. Mr. HANSON: That is correct. It is mentioned in 1934.

Mr. McGEER: That is the first time it was ever disclosed.

Hon. Mr. ILSLEY: Inner reserves are from time to time referred to in the addresses of presidents to the annual meetings of the shareholders. I do not think I need to go over that story again. I have already mentioned time and again the fact that there are inner reserves which have never been hidden from the public, from parliament, from banking and commerce committees or from anybody else. It certainly was not undisclosed by myself when I made the speech I did on May 2 to the House of Commons. But we are not talking about that. We are talking about whether the amount of the inner reserves should be disclosed. Mr. Slaght had drafted his motion in such a way as to require the individual banks to produce their reserves. When he began his examination of Mr. Wedd, he asked him to disclose the inner reserves of the Canadian Bank of Commerce, questioning him in his capacity as general manager of the Canadian Bank of Commerce. In the early stages there was no suggestion that the inner reserves should not be disclosed as and when the government obtained the information, which would be yearly; but that position has been changed. Now there is no demand that the inner reserves of the individual banks be disclosed and there is no demand that the inner reserves be disclosed yearly, but Mr. Slaght finally takes his stand in this position. He says, "All right. We will not ask the individual banks to disclose their reserves. We will not prevent them from having undisclosed reserves. We will not ask that the reserves be disclosed to the public every year. But I do say that the reserves of the whole banking system should be disclosed in the year 1944—that is, now—as of December 31, 1943, and that then there should be a clamp of silence placed on the mouth of the government for ten years, even though they are getting the information every year."

Mr. SLAGHT: Oh, no.

Hon. Mr. ILSLEY: Well, that is the motion. That is the effect of the motion. Mr. Slaght said he would be very glad to add that to it.

Mr. SLAGHT: To keep the government silent? Never. Never to keep the minister silent, never to keep it away from Mr. Fraser Elliott, never to keep the Minister of Finance from disclosing it or doing what he pleases about it. It is only parliament that I am seeking to have know it every ten years.

Hon. Mr. ILSLEY: Well, parliament, which is the public of Canada. The honourable gentleman says he is seeking to have parliament know it every ten years. I have objections to this motion, even as persuasively refined, changed and altered by Mr. Slaght. I have objections to it on several grounds. In the first place, I do not base my objection to the publication of the inner reserves of the banks entirely upon the fluctuations which will appear through the years. I place it in the first place on the certain misinterpretation—

not the probable misinterpretation but the certain misinterpretation which will be placed upon the publication of any figure of the reserves of the banks. The inner reserves of the banks are not shareholder's equity in any sense, but they would be interpreted as being shareholder's equity. If the inner reserves are no more than adequate, they simply represent a proper valuation of the assets, so that the depositors of the bank will be protected in the event of liquidation of those assets. That is all they are. But let us take the figures that Mr. Slaght gave the other day. He said, "I do not know whether those inner reserves are $50,000,000 or $100,000,000. Let us say they are $100,000,000 and that the total reserves of the banks are $136,000,000 published reserves and $100,000,000 unpublished reserves, making $236,000,000 in all." He said, "Would it not be a fine thing to tell the public of Canada, to tell the depositors of Canada, that you have there $236,000,000 as a reserve for their protection? Would that not be all to the good?" That very statement shows the misinterpretation that he is placing upon the situation. The published reserves are the shareholders' equity. They are in the same position as capital. They are money in the business. But to add to this these bad debt reserves which, if they are correct in amount, represent nothing more or less than a proper valuation of the assets of the bank, is to add things which cannot properly be added together and to give the impression that there is money there that, in the real sense, is not there at all. To give that information to the public of Canada would be sure to lead to all kinds of misinterpretation. Of course, opinions may differ on that point, but that is what I believe. I know that Mr. Slaght will say, "Trust the people". "Trust the people to understand all about it. Trust the people to be able to see whether those reserves are adequate or inadequate." But nobody can know whether they are adequate or inadequate without an expert examination of the assets of the banks.

Mr. SLAGHT: On that point, may I ask you to read what Mr. Tompkins said on page 257, about hidden reserves. He says that they "are the moneys of the shareholders and could be paid out to the shareholders in the form of additional dividends."

Hon. Mr. ILSLEY: They can only be paid out to the shareholders if it turned out that they were wrong in setting aside as large an amount as that, and they come back into the profit and loss account.

Mr. SLAGHT: Certainly.

Hon. Mr. ILSLEY: And pay taxes when they come back, and pay taxes again when they are paid out to the shareholders. That is the only way they can get back. But now the interpretation you are putting on that, Mr. Slaght, is that that money is all available for the shareholders. The probability is that none of it is available for the shareholders. Some of it may be available for the shareholders if the reserve, by reason of favourable developments in the situation, proves to be more than adequate. But it is entirely wrong to use this statement that you have used time and time again, that these escape taxation. They do not escape taxation. They are not taxed when they come in but they are taxed when they come out if they prove to be more than adequate.

An Hon. MEMBER: Hear, hear!

Hon. Mr. ILSLEY: Do not keep saying that these are put aside there and escape taxation. That phrase used by itself—and it has been used by you several time to-day without any qualification whatever—is most misleading and most unfair. If these are on a proper basis, they do not escape taxation at all. They are brought out to meet losses, and if they are more than adequate to meet losses they are taxed when they come out, and that has happened.

Mr. SLAGHT: Since you say it is unfair, may I point out that it is the language of Mr. Tompkins, not mine. I have not charged you with being unfair. I have given you credit for believing in what you said you believed.

Hon. Mr. ILSLEY: Yes. Now let me go on.

Mr. BLACKMORE: Would the minister permit a question?

Hon. Mr. ILSLEY: All right.

Mr. BLACKMORE: Would he tell us whether or not the amount that is not used in the hidden reserves is brought out each year?

Mr. SLAGHT: No.

Hon. Mr. ILSLEY: No.

An Hon. MEMBER: It may be.

The CHAIRMAN: Let the minister continue.

Hon. Mr. ILSLEY: There is a different decision each year as to whether the reserves are adequate or not.

Mr. BLACKMORE: By whom? Who makes the decision?

Hon. Mr. ILSLEY: By the Inspector General and the Minister of Finance.

Mr. BLACKMORE: And the directors of the bank.

Hon. Mr. ILSLEY: The directors of the bank depend on the shareholders' auditors who are quasi public officials and have a duty to the shareholders, and who I am told may be sued if they allow too much to go to inner reserves, because they are taking it away from the shareholders when they do. There are the shareholders' auditors and then it goes to the Inspector General and to the Minister of Finance.

Mr. SLAGHT: Mr. Tompkins says they are bigger now than they were fifteen years ago.

Mr. TOMPKINS: I do not remember making that statement.

Hon. Mr. ILSLEY: Now let me go ahead. On this question of ten years, this persuasive last position approached by degrees by Mr. Slaght, that we do it now and that we do it in ten years. He used a very significant phrase when he said, "You have got to travel slowly." That is exactly what is meant by this. We have got to decide whether they are to be disclosed or not to be disclosed. It is one thing or the other. It is not disclose them to one parliament and not to another. It is not a question of disclosing them in 1944 to that generation and not in 1954 to another group. You never could hold that position, in my opinion, for more than a year. The government, if they are to disclose these things, should disclose them when they are disclosed to the government.

An Hon. MEMBER: Hear, hear!

Hon. Mr. ILSLEY: That is the point, and that is the only position that could ever be sustained, I think. Mr. Slaght says that is what he wants the committee to do. He looks around this committee and he does not think he can get it through. He says, "You have got to travel slowly," so he enters this little door with the idea of pushing on later to go through bigger doors. That is the very objection, or one of the main objections that I have to Mr. Slaght's motion. I think that nearly all members of this committee are persuaded that if you were to have a continuing disclosure of inner reserves through the years, showing perhaps at times tremendously sharp trends downward, it would not be in the interest of public confidence in the banks and therefore would not be in the interests of the depositors of the banks.

There is one other consideration. Why 1954? He says it is because the Bank Act revision would be up at that time. If there is ever a reason not to disclose the inner reserves—and that principle has to be settled to begin with—there might be stronger reasons for not disclosing them in 1954 than in 1952 or 1951 or any other year. I think on the grounds of logic this refinement of the position originally taken is not defensible. I think, perhaps, that is all I have to say on the matter.

Mr. McGEER: Mr. Chairman, there is one phase of the discussion with reference to hidden reserves or inner reserves that has developed that I think every member of this committee should have in mind, and that is this: we are prone to get lost in detail, and to lose sight of the broad principles that this committee should keep always in mind. I have the statement made by the Governor of the Bank of Canada that the situation in the past was bad, and that we as a committee have the responsibility of protecting the future against a repetition of some of these things which the Governor of the Bank of Canada described as bad.

Mr. MACDONALD (*Brantford City*): Does he refer to inner reserves?

Mr. McGEER: No, it was with respect to the situation which I say the inner reserve situation disclosed. Now, inner reserves have always been in effect. I think they were inaugurated in the very inception of our banking system, according to evidence given in 1934 by Mr. Wilson.

Hon. Mr. HANSON: Will you give us the reference where Mr. Towers said anything of the sort? He was dealing, I thought, with the general economic situation.

Mr. McGEER: That is the principle which I say is to find a cure for the condition which is bad, to protect ourselves against a repetition of it; and I think that the confidence that we want is not merely a confidence of the depositors but the confidence which flows from the whole community in the fundamental security of our banking system.

Mr. MACDONALD (*Brantford City*): Could I get one point cleared up? Do I understand that the Governor of the Bank of Canada said that the situation with respect to inner reserves was bad? If the Governor of the Bank of Canada said that I would like to know when he said it and where it is recorded in the minutes.

Mr. McGEER: He said it was bad, and what I am pointing out to you is that notwithstanding the existence of the inner reserves, the situation was bad.

Mr. MACDONALD (*Brantford City*): Did he say that the situation with respect to the inner reserves was bad?

Mr. McGEER: He said the situation was bad, and I am pointing out to you that inner reserves were in existence then, and that in addition to that, conditions were bad notwithstanding that.

Mr. MACDONALD (*Brantford City*): I take it he did not say that the situation with regard to inner reserves was bad, but he made some reference to the general economic situation.

Mr. McGEER: With which we all agree; but what I am pointing out to you is that the existence of inner reserves was no guarantee against that bad condition.

Now the question I raised the other day was this: that there is not only the question which has been developed since this committee started to sit of some banks having more inner reserves than they should be allowed to have, but there is the graver question of whether or not the inner reserve is sufficient in other banks and whether or not this is a policy upon which we can safely rely for security in the future.

With regard to inner reserves the Minister of Finance has laid this proposition before the committee, and I quote from page 1 of his typewritten report:—

> The business of banking is based almost entirely on confidence. It deals in credit, exchanging its own evidences of debt for the evidences of debt of other people. That is to say, it issues its own promises or undertakings to pay cash on demand or on short notice, which promises or undertakings serve as the popular medium of exchange and as the form in

which the liquid savings of the public are held. Going to the other side of the balance sheet, the assets of the banking system, which are the security behind these promises or undertakings given by the banks, are largely only the promises or undertakings of other individuals or business firms or governments to pay cash, usually over a longer period of time. Assuming no intervention of higher authority, the promises or undertakings of the banks to pay cash on demand or on short notice are only good as long as banks are conducted in such a way as to retain the confidence of the public in the banks' ability and willingness to pay, and that confidence can only be retained by prudent selection and conservative management of those promises or undertakings of debtors which constitute their assets.

Mr. MAYBANK: I know you are reading those last passages with your own approval, and then I asked you—

Mr. McGEER: I did not say anything—

Mr. MAYBANK: I thought you had the idea of confidence.

Mr. McGEER: No, I was merely reading. I will disclose what I think about them when I come to discuss them.

Mr. MAYBANK: I thought you were in agreement with that one position, that the business does not depend entirely on confidence. If you were not willing to say that my question would not be apt.

Mr. McGEER: Well, what I am perfectly willing to agree on with my friend is this, that that is a correct interpretation of the present debt claim system. It is a system that caused all the disasters of the past, and if it is persisted in will find a repetition in the future.

Mr. MAYBANK: I was going to ask you a question, but I think we are not close enough together.

Mr. McGEER: Now, I want to come to another phase of the part that inner reserves play—for I take it from the discussion here that we can safely assume that the inner reserves are less than the disclosed reserves—that I think has been made clear, has it not?—well, my friend says, "do not be too sure about that"; but the hon. Minister of Finance has referred to $100,000,000, and Mr. Slaght has referred to—

Hon. Mr. ILSLEY: Now, I never referred to any figure about inner reserves. I took Mr. Slaght's example. I said, "let us take Mr. Slaght's example".

Mr. SLAGHT: That is quite true.

Hon. Mr. ILSLEY: Let us take an amount.

Mr. MACDONALD *(Brantford City)*: Mr. Slaght suggested $80,000,000 to-day.

Mr. McGEER: All right. My own inference from the evidence which has been submitted to by Mr. Wedd and others—whether I am right or wrong—is that they are less than the disclosed reserves. However, let us take the relation of the disclosed reserves as of 1943 as shown by the banks' annual reports that have been filed with the committee. I do not suppose that many of them have been read; but here are some pertinent facts with reference to the relationship of the so-called inner reserves and liabilities as a foundation of confidence:—

1943—In 000,000

	Liabilities	Capital paid up	Disclosed reserves	% of reserves to liabilities
Bank of Montreal..........	1,313	36	39	3%
Royal Bank of Canada......	1,509	35	20	$1\frac{1}{3}$%
Can. Bank of Commerce....	951	30	20	2%

Now, take the Bank of Nova Scotia, that little giant of them all; where the reserves of the Bank of Commerce are $10,000,000 less than their paid-up capital and the reserves of the Royal Bank are $15,000,000 less than their paid-up capital the reserves disclosed by the Bank of Nova Scotia are double their paid-up capital and 5 per cent of their total liabilities:—

1943

	Liabilities	Capital paid up	Disclosed reserves	% of reserves to liabilities
Bank of Nova Scotia........	493	12	24	5%
Bank of Toronto...........	260	6	12	4%
Imperial Bank.............	267	7	8	3%
Dominion Bank............	223	7	7	3%
Banque Canadian Nationale.	252	7	5	2%
Provincial Bank............	92	4	1	1%
	5,360	144	136	2·5%

Now, what I wish to direct to the attention of the members of the committee is that there is no fixed relationship of reserves to liabilities adopted by any of the banks. The total liabilities of all the banks are $5,360,000,000; their paid up capital is $144,000,000 and their disclosed reserves are $136,000,000, and the relationship is 2·5 per cent.

Mr. McNevin: What are the assets?

Mr. McGeer: I am coming to that in a minute. What I am directing to the attention of the minister and members of the committee is that in this question of reserves, whether they be disclosed or undisclosed, that they are a flimsy foundation upon which to raise the confidence of the people in our banking system.

Hon. Mr. Hanson: You are neglecting entirely their other assets.

Mr. McGeer: I am coming to that.

Mr. Tompkins: Your relationship was 2·5 per cent, did I understand you to say?

Mr. McGeer: That is the way I am figuring it.

Mr. Tompkins: I think you are dividing the wrong figure into the wrong figure. If you take it on the basis of the April statement which is not far different from the preceding one from which you are quoting, total liabilities to the public are, in round figures, $5,444,000,000, and the total of the capital and reserve fund—and I add in undivided profits of only around $9,000,000, which is neither here nor there—is about $291,000,000, making the percentage work out at 5·3 per cent.

Mr. McGeer: On the capital?

Mr. Tompkins: On the capital and reserve fund; which is—although I have not got the figures with me—higher than the similar percentage in Great Britain at the present time.

Mr. McGeer: Your figures and mine do not disagree. I take the percentage of the disclosed reserves and liabilities and get 2·5, you take the capital and disclosed reserves; I have disclosed—

Mr. Tompkins: I think that is the only fair way.

Mr. McGeer: Assuming it is, you will agree with me on this, Mr. Tompkins, that the protection of the depositors is not the only thing involved. I mean the avoidance of the boom and depression periods which followed a fairly good pattern over the last one hundred years and involved inflation to a degree and deflation to a degree; and it is always in the period of deflation that the community at large and the people generally take their most disastrous losses.

Now, we want to find some way by which we can avoid, in the peace period that is coming, that movement of adjustment which will rise to inflationery conditions and then collapse in another period of deflation. What I say is that it may not involve confidence in our banking system, but I for one believe that it does, and I for one believe that here we have found one of the fundamental weaknesses in our whole economic structure. The situation, I think you will agree with me, is not altogether dependent upon the confidence of the people in their knowledge of bank loan successes; there is something very much more important than that: but what I want the members of this committee to understand—I do not care how many of them agree with me or disagree with me—I want this committee to consider the views that I am trying to express and to judge upon these facts.

If we are going to go forward into the coming period of ten years, continuing the practices of the past, then I can see no reason why we should not expect in that period of years a repetition of the bad conditions which we have experienced in the past. This is not and should not be treated as a quarrel between members of this committee and the Department of Finance and the banks. I believe the banks and the Department of Finance are anxious to strengthen our monetary structure for the future and to avoid a repetition of booms and depressions, and I believe that every man on the committee feels the same as I do. Therefore, I think we can afford to spend a little time in giving the best of our analysis to the evidence that is available and the best of our judgment to aid the government and our national institution of banking; because I am going to show you that our banking system, chartered by the government, is more of a national institution to-day than a great many people think.

Hon. Mr. HANSON: This is all out of order.

Mr. CLEAVER: Do you consider that the last depression was caused by the banking system?

Mr. MCGEER: I think that the banking system was primarily responsible; but I say it was not so much the fault of the banks as it was the fault of the system operating under the laws which we had enacted and under which the banks were compelled to operate. What I do say is this: the previous Conservative government that worked from 1930 to 1935 tackled that problem and they gave us—don't forget the Bank of Canada was not developed by a Liberal government but by a Conservative government.

Mr. MACDONALD (*Brantford City*): Public ownership in it was developed by a Liberal government.

Mr. MCGEER: I quite agree; we went one step further; but it was all done to do one thing, to strengthen our monetary structure so that for the control of currency and credit and co-operation between the government and the banking system, the credit cycles of the future could be avoided or at least substantially mitigated. Let us not lose sight of the responsibility of this committee and of the government of the day and of the bankers to avoid the conditions which we have good reason to fear might come again.

I want to deal again with the question of reserves to deposits. Look how insignificant the deposits disclosed are, and even if you doubled them how insignificant they would be, as a foundation for confidence by the depositor. In 1943 the Bank of Montreal had deposits of $1,065,000,000 and their reserves were $39,000,000. What confidence can depositors who have claims in the Bank of Montreal have in a reserve of $39,000,000 to guarantee security of payment of $1,065,000,000?

Hon. Mr. HANSON: You say that the inner reserves are not adequate, and you ignore altogether the asset side.

Mr. MCGEER: I am dealing with the question with which this committee is dealing. I am not neglecting anything if you disclose the hidden reserves.

What added security would that be to that enormous volume of liability which the bankers owe to their depositors? Disclose the whole thing. What I am pointing out to the committee is that if this is based upon a foundation as flimsy as that to secure the confidence of the people, then the people have a strange conception of security.

Hon. Mr. ILSLEY: I think I ought to interject here and say that there is nothing flimsy whatever about the Canadian banking system.

Mr. McGEER: I have never said that there is. I say if you rely upon those reserves.

I want to come to where the real security of the Canadian banking system lies. It is not in this mumbo jumbo of reserves, hidden or otherwise; it is in the securities and in the cash that the government of Canada have placed at the disposal of the chartered banks.

Hon. Mr. ILSLEY: I say this—

Mr. McGEER: Let me finish and you can disagree with me.

Hon. Mr. ILSLEY: I do not think the banks could have weathered the depression if they had not had inner reserves.

Mr. McGEER: Weathered the depression?

Mr. BLACKMORE: Hidden reserves?

Hon. Mr. ILSLEY: Certainly.

Mr. BLACKMORE: How about published reserves?

Mr. McGEER: They had far more disclosed reserves than were necessary to take care of any situation, the hidden reserves had nothing whatever to do with the bankers carrying through. Five banks did not require any additional aid at all.

Hon. Mr. ILSLEY: Would it, perhaps, occur to you that that was because they had adequate inner reserves?

Mr. McGEER: That had nothing to do with that phase at all. There never was any question about the government standing behind our banks. The government came in, passed an order in council, issued $35,000,000 and allowed them to write off their assets.

Mr. JACKMAN: How about the American government?

Mr. McGEER: The American government found the necessity, after the last depression, of completely revising and revamping their whole monetary system. Herbert Hoover, in his presidential election of 1932, called upon Congress and the Senate to revise the whole banking system of the United States. We have tried to do that, along with others.

Mr. McNEVIN: Did he win?

Mr. McGEER: Of course Roosevelt went in with a far bigger program of revision, and one of the sweeping revisions that Roosevelt has put into effect, and that has brought that nation through, is government aid and government control and regulation of the whole monetary structure of the United States.

Some Hon. MEMBERS: Oh, oh.

Mr. McGEER: You may disagree. You may say we have done everything we can do, that we should not bother any more; that we should just take these minor amendments and go into another depression or another period of boom and depression and suffer the consequences. I fear that that would be disastrous for the Dominion of Canada. It certainly would be disastrous to our way of living.

Hon. Mr. ILSLEY: I want to point out that in the annual report of the United States Federal Deposit Insurance Corporation for 1942, inner reserves for that country are recommended. I will quote from this. This is the corporation which guarantees the deposits. Just consider how relevant this is. As I understand Mr. McGeer's suggestion, it is that there be some government standing behind the depositors and that the inner reserve system be abandoned.

Mr. BLACKMORE: Disclosed, not abandoned.

Hon. Mr. ILSLEY: I do not know. He says it is a flimsy thing, that you should not have this undisclosed reserve system at all. This is what this report says:—

> This uneven rate of loss contribute to banking difficulties. In prosperous periods profits appear to be large, encouraging payment of generous dividends, whereas in depression years, the heavy charge-offs more than absorb undivided profits and sometimes even result in capital impairment.
>
> It is desirable, therefore, that during prosperous periods each bank should make provision on a systematic basis for losses which can be expected to differ in periods of readjustment on assets acquired during the prosperous periods. Where banks do not already follow such a practice, reserves for losses should be set aside annually in the form of valuation allowances or on allocated charge-offs or in some other manner against these groups of assets from which losses ordinarily arise. Such reserves should, of course, not be regarded as part of the capital accounts.

Mr. BLACKMORE: It does not say they should be hidden?

Mr. JACKMAN: Undervaluation of assets.

Mr. BLACKMORE: It does not say they should be hidden.

Hon. Mr. ILSLEY: That is implied, I suggest.

Mr. BLACKMORE: I cannot see the implication.

Hon. Mr. ILSLEY: They are not to be regarded in the same category as capital accounts, disclosed reserves or shareholders' equity at all. They are to be regarded as provision against losses—which probably will take care of any future losses.

Hon. Mr. HANSON: An insurance fund.

Mr. BLACKMORE: It would be just as good if they were published.

Hon. Mr. ILSLEY: This is recommended in addition to the guarantee of deposits.

Mr. MCGEER: Let me come to this question of security for the depositors. How much reserve would be required? The total of deposit liabilities of all the chartered banks as of 1943 was $4,175,000,000. The reserves were $136,000,000. To suggest that they offer any security is absurd. Where is the security in our banking system?

Mr. TOMPKINS: Mr. McGeer, you must include your capital as a margin of security.

Mr. MCGEER: All right, add your capital. On your total deposits of $4,175,000,000, you have less than $400,000,000 of reserve security. Let me show you where the real security is, and the extent to which our chartered bank system is now nationalized. The Bank of Montreal holds dominion and provincial securities to the extent of $711,000,000; the Royal Bank to the extent of $640,000,000; the Canadian Bank of Commerce to the extent $467,000,000; the Bank of Nova Scotia to the extent of $188,000,000; the Bank of Toronto to the extent of $132,000,000; the Imperial Bank to the extent of $136,000,000; the Dominion Bank to the extent of $100,000,000; Banque Nationale to the extent of $136,000,000 and Provincial Banque to the extent of $66,000,000, or a total of dominion and provincial securities, mortgages upon the assets of the entire nation, of $2,576,000,000.

Mr. JACKMAN: That is pretty good security.

Mr. McGEER: Every dollar of those provincial and dominion securities has passed as an interest-bearing debt of the dominion through the wickets of the chartered banks for a non-interest bearing promise of the banks to pay depositors.

Hon. Mr. HANSON: No, no.

Mr. BLACKMORE: Yes, surely.

Mr. McGEER: All right.

Hon. Mr. HANSON: Not a non-interest bearing promise.

Mr. McGEER: When it goes into the savings accounts, the banks can gratuitously, if they will, pay an interest rate. We used to think that was an obligation on the part of the banks, to pay 3 per cent. But they cut that in half, and they can wipe it out at any time the necessity arises. Never forget this: during that whole appalling period of depression, when business after business went under in the Dominion of Canada, when men, women and children went on the dole basis throughout the dominion, the banks never stopped paying dividends.

Mr. TOMPKINS: But they substantially reduced them.

Hon. Mr. HANSON: Yes.

Mr. McGEER : The banks never stopped accumulating assets. Let me give you another part of the national part of this banking system of ours. In addition to the $2,576,000,000 of dominion and provincial interest-bearing securities, they have these further assets. The Bank of Montreal has $119,000,000 of Bank of Canada cash; the Royal Bank has $120,000,000 of Bank of Canada cash; the Canadian Bank of Commerce has $97,000,000 of Bank of Canada cash; the Bank of Nova Scotia has $40,000,000; the Bank of Toronto has $34,000,000; the Imperial Bank has $26,000,000; the Dominion Bank has $23,000,000; Banque Nationale has $27,000,000 and Provincial Banque has $6,000,000; or if you add the dominion securities and the provincial securities in with the Bank of Canada cash which has been handed out since 1934—and when I say "handed out," it has been handed out in this way. The Governor of the Bank of Canada has told us that we have maintained, from the beginning of the operation of the Bank of Canada, an open market policy: In other words, to put into circulation money the Bank of Canada has bought securities and issued its cash into circulation which has come to the chartered banks without the obligation of borrowing from the Bank of Canada. Here then we have a total of the real security behind our depositors. Do not ever make the mistake that the security is in the capital of the banks, in their disclosed reserves or in their hidden reserves. If there is any security at all, it is in the fact that already they possess behind the $4,175,000,000 deposits, dominion and provincial securities which are convertible into cash at the Bank of Canada, if necessary, of $2,576,000,000 and to that add their cash which they have from the national bank and from the national government, and you get $3,058,000,000 of cash and public interest-bearing securities. With that knowledge in the minds of the public of Canada and the depositors, plus the further knowledge that while we have not gone as far as they have gone in the United States—and if you had read the report a little further I think you would have found that one of the reforms the Roosevelt administration put in was to guarantee, with a national guarantee, all deposits up to $5,000, in banks associated with the Federal Reserve System, which was an attempt to drive all the banks of the United States into the Federal Reserve System—keep in mind this: there is still a great fundamental difference between the banking system of the United States and Canada. Here all our banks are associated with the Bank of Canada. In the United States there are still a large number of banks operating independently of the Federal Reserve System, and it is in regard to their position that this special security may be required.

Hon. Mr. ILSLEY: No, no.

Mr. McGEER: My friend says, "No, no." I quite agree. But what I am saying is this. If we are going to have a reserve, hidden or otherwise, they should be a matter of check and security. I do not think that we ever need to fear the kind of inflation that swept over Russia, Germany or over China. I do not think conditions will ever be comparable here, unless we come to the time when we do foolishly move our national debt up to the point of danger.

Mr. MAYBANK: Mr. McGeer, may I ask what you mean by "check and security"?

Mr. McGEER: I think it should be checked not merely for over-reserve and taxation purposes, but should also be checked for under-reserve.

Hon. Mr. ILSLEY: It certainly is.

Mr. MAYBANK: Is that not done now by either the shareholders' auditors or the government officer?

Mr. TOMPKINS: By both.

Hon. Mr. ILSLEY: Certainly.

Mr. McGEER: All I know is this. I have read the reports of 1913, 1923 and 1934, and I do not find any serious discussion of the reserves in any of those reports. Mr. Morris W. Wilson, I think, told the committee of 1934 the reason why they had not been disclosed was that it had never been done.

Mr. MAYBANK: Yes.

Mr. McGEER: And that he did not think it was an advisable practice. But he did say that the reserves, hidden, were the same in purpose as the reserves disclosed, namely to protect against the eventuality of losses.

Mr. MAYBANK: Dealing with your check that you mentioned a moment ago, Mr. McGeer, is there not the check that I pointed out to you? What additional check, short of public disclosure—because you seem to regard that as a check—could there be? Is there some additional check as to whether these reserves are adequate or not adequate that you have in mind?

Mr. McGEER: What I am saying is this. For instance, here is the percentage of reserves to total liabilities. The Bank of Montreal runs at 3 per cent. The Royal Bank runs at 1½ per cent. The Canadian Bank of Commerce runs at 2 per cent; the Bank of Nova Scotia, 5 per cent; the Bank of Toronto, 4 per cent.

Mr. MAYBANK: Those are published?

Mr. McGEER: These are published. I assume that to be the variation in directors' estimates of required reserves, because there are none of these banks which could not have taken out of their dividends, by reducing their dividends, if you will, a sufficient amount to make those reserves uniform and to make them substantial. For instance, I do not think that the Royal Bank of Canada would have had any difficulty in raising their disclosed reserves from 1½ to 3 per cent as the Bank of Montreal carries; but when I see a variation of that kind in the disclosed reserves I assume that the same variation would be found in the hidden reserves if they were disclosed.

Mr. MACDONALD (*Brantford City*): There are other assets which must be taken into consideration.

Mr. McGEER: I am not arguing that; but what I am saying to Mr. Macdonald is this, that we are putting too much stress upon the value of disclosed and hidden reserves as a security against a repetition of what took place in the past.

Mr. CLEAVER: Do you think they are too small?

Mr. McGEER: I do not know whether they are too small or too large, but I argue from the variations of disclosed reserves that the time has come when we should know exactly what all the reserves are.

Mr. CLEAVER: Do you fear they may be too low?

Mr. McGeer: That is a possibility which this committee has to discover, and an investigation showed that some of them were over-reserved; there is no question about it.

Mr. Macdonald (*Brantford City*): That is only a matter of opinion.

Mr. McGeer: The best opinion we can get is the financial authorities that are advising the government on this matter, and it is their opinion which we accept.

Mr. Macdonald (*Brantford City*): I do not know whether these authorities know more about banking than the people actually carrying on the banking business; and when we are told that they are too large I would like to know whether the banks themselves think they are too large. Banking is a very involved business, and for someone to tell a banking concern which has been successful in the past that their reserves are too large is a very serious statement, and if in the future it should turn out that the reserves were not too large then the government certainly would have to back up their opinion.

Mr. McGeer: I agree that is the responsibility. However, that responsibility has been assumed by the Minister of Finance acting on the advice of the Inspector of Banks, Mr. Tompkins, with whom he is associated, Dr. Clark, the Deputy Minister of Finance, and the Governor of the Bank of Canada, and we have been told that in their opinion, following the investigation that they made, after the hidden reserves came under discussion, that at least two of the banks are over-reserved, in their opinion, one on the borderline, and seven not over-reserved.

Mr. Macdonald (*Brantford City*): I did not understand that a definite conclusion had been arrived at. It seems to me to be a very drastic statement to make after a perusal of probably a day or two of the banks' statements. To determine what reserves are adequate or inadequate requires a great deal of study, and the whole position of a bank would have to be inquired into; and I do not think it has been possible to do that within the two days that have been at the disposal of the government.

The Chairman: Let Mr. McGeer continue.

Mr. McGeer: Let me summarize on the subject of security reserves. Deposit liabilities of the people including savings and current accounts, are \$4,175,000,000—in round figures, \$4,000,000,000; the disclosed reserves are \$136,000,000. The real security, if there is any, is in the holdings of \$2,576,000,000 of interest bearing public securities and in the sufficient amount of cash of the Bank of Canada to increase that cash and those securities to \$3,058,000,000.

Hon. Mr. Hanson: I consider that too high. I think the banks would rather lend me money than buy government bonds.

Mr. Macdonald (*Brantford City*): You cannot speak for every member of the committee.

Hon. Mr. Hanson: I can speak for myself.

Mr. McGeer: I do not say there are not other securities, but I say that the cash and liquid position of our chartered banks which comes directly from the government gives to them a liquid position infinitely more secure than it was in 1933. I want to go into the question of what the position was in 1933; because instead of complaining, we who have been for years advocating the strengthening of our monetary system, may be able to assist the Department of Finance and the government in advancing the improvements that have already been made at our request. Do not think that we have not got a record that we can be proud of in the field of monetary reform in Canada. Much of what we advocated for years and years, that was looked upon as preposterous and the visions of crackpots, has now come into realization, and more is yet to come. Because I want to say this, that if we do not move to strengthen our position we are putting our footsteps to-day in the very paths that brought us into the post-war boom and depression of the twenties and the thirties.

Hon. Mr. HANSON: Is not that a matter for argument in the House of Commons?

Mr. McGEER: That is a matter for consideration by this committee, and a matter of recommendation from this committee. What are we to do? Are we here to say Yes to every amendment that is proposed and then go home? I do not believe that is the business of this committee. I do not think any of the Liberal members think it is. There may be disagreement as to what evidence should be relied on and the method that should be employed, but if we ever come to the point that we refuse to consider the evidence and refuse possible recommendations for improvements, that would make this committee something that it was never intended to be.

Let me resume. I am dealing with the question of inner reserve securities in 1933 and 1943, and the point I want this committee to understand is that to-day the liabilities of the banks to depositors have increased enormously and the reserve position of the banks has not changed.

Mr. CLEAVER: What about the assets?

Mr. McGEER: I am talking about the reserve position. I have already given you the assets. I am not arguing by not disclosing anything; I have given you the best assets I have. I agree with Mr. Hanson that in addition to the cash of the Bank of Canada and in addition to the securities that they hold which are liquid and are interchangeable for cash under any circumstances with our present set-up, that there are other assets; all of the loans are not bad by any means; but it is not on the question of reserves that we rely.

Mr. BLACKMORE: Hidden reserves, anyway.

Mr. McGEER: Hidden or disclosed. Let me give the position of the Bank of Montreal in 1943 and 1933. The capital was $36,000,000 in 1943; disclosed reserves, $39,000,000; savings, $462,000,000; current deposits, $603,000,000; total $1,065,000,000; an increase of $338,000,000 in the savings deposits of $94,000,000 in the current, making a total of $432,000,000 of increased deposits, and not one cent of increase in capital or increase in disclosed reserves. And I think it is a fair estimate to make from the statement Mr. Tompkins gave us here to-day that there has been no increase in the hidden reserves.

Mr. TOMPKINS: I did not say that.

Mr. McGEER: Now, if this reserve is what it is held up to be, what is the answer to an increase of $432,000,000 of deposits and no relative change, no change at all—

Hon. Mr. HANSON: There is a corresponding increase in the assets, and Mr. Towers has said those balance.

Mr. McGEER: I am talking about the security that is to be found—

Hon. Mr. HANSON: Those assets are part of the securtiy for the deposits.

Mr. McGEER: Every man is entitled to his own opinion.

Hon. Mr. HANSON: What was the increase in the liquid ratio in respect of the increased liability to the depositors? Put that in your pipe and smoke it.

Mr. McGEER: The value of any security is the power of those responsible for its payment to meet the obligation when it falls due. And don't mistake this, under this debt claim system now so clearly defined by the Minister of Finance, this war is going to find us at its close not with $4,000,000,000 of national liabilities which we found extraordinarily difficult to carry in 1938 and

1939 but with $11,000,000,000, now increasing at the rate at least of $2,000,000,000 a year. And I for one can tell you that the financial position of the municipalities and the provincial governments is upon a dangerous foundation of security; that throughout this nation in your city councils and in your provincial governments they are faced with demands on the part of the people that they have no financial means and no taxation powers to resist. Now, when you say to me: "What about these reserves"—

Mr. JACKMAN: What about the surplus in Ontario?

Mr. McGEER: What about the surplus in Ontario, yes—out of deferred maintenance and out of the flush war expenditures.

Mr. BLACKMORE: Where would it go in a depression?

Mr. McGEER: It would not last a minute. And your present Minister of Finance, if you will read his budget speech, was careful to warn the people that a large part of their surplus, which is already rapidly disappearing I understand, was out of deferred maintenance.

Mr. BLACKMORE: And out of war activities.

Mr. McGEER: However, don't think you can go on indefinitely piling up a pyramid of interest bearing debts, and that by pouring those debts into your insurance companies and into your banks you are maintaining assets and ensuring permanent security. I may be entirely foolish about my fear of national debt, about my fear of the plight we are moving into. As a matter of fact, I very often feel when talking to my friends and colleagues, who are just as intelligent and just as able to analyse these things as I am, that maybe I have not the right understanding of these things, but I know this, that I have always found from history I have read disaster coming to a government just in ratio to the accumulation of interest bearing debt that it has piled up. Where Europe went—

Mr. MAYBANK: It would seem apparent that we cannot vote this morning.

Hon. Mr. HANSON: Let us try.

Mr. BLACKMORE: No, let us go on.

Mr. MAYBANK: I am quite prepared to sit if there is any hope of coming to a vote, but I do not think there will be a vote.

Mr. BLACKMORE: Call it 1 o'clock.

Mr. MAYBANK: Will it be understood that we shall vote when Mr. McGeer finishes?

Mr. McGEER: You cannot move closure in this committee; it was done quite improperly on the action of Mr. Hanson, but it cannot be repeated.

Mr. MAYBANK: That should not be said; I was not suggesting closure. It is 1 o'clock, and I do not think we can vote to-day.

The CHAIRMAN: It is 1 o'clock. I would just like to remind members that we are concluding our nineteenth sitting.

The committee adjourned to meet Wednesday, June 14, at 11 o'clock.

June 14, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

THE CHAIRMAN: May I just remind you, gentlemen, that this is our twentieth session.

Mr. KINLEY: That is very significant.

Mr. McGeer: Much has been accomplished, Mr. Chairman, in those twenty sessions.

Mr. Blackmore: Hear, hear!

Mr. McGeer: There certainly will be no occasion for any future banking and commerce committe to stand and say that there was nobody not opposed to the continuation of the policy of inner reserves; and if it has accomplished nothing more than that,. the time has been well spent.

Mr. McNevin: I think you might add to that, Mr. McGeer, that there are also a good many who are in favour of it.

Mr. Blackmore: Yes, that is obvious.

Mr. McGeer: That is obvious. But it is also well to remember that the power of the majority is in their voting strength, and that the power of minority is in the right to argue. Let us hope that, in this decennial review of our Canadian banking and monetary system, the right of the minority to argue will not be denied.

The Chairman: I think, Mr. McGeer, it has not been denied.

Some Hon. Members: Hear, hear!

The Chairman: And that every opportunity has been given to the small minorities to express their views.

Hon. Mr. Hanson: Hear, hear!

The Chairman: And it will be continued so long as I am chairman.

Hon. Mr. Hanson: But it has degenerated into licence.

Mr. Blackmore: Except when Mr. Hanson moved closure.

Mr. McGeer: We already have that on the record.

Mr. Blackmore: That was a brilliant feat.

The Chairman: In regard to that I might say that we took a vote as to the will of the committee, and it was overwhelmingly expressed that we should get on with our job. After all, a majority has some rights.

Some Hon. Members: Hear, hear!

Mr. Blackmore: It was closure, nevertheless.

Mr. McGeer: Let me read the rule.

The Chairman: I know the rule. You may read it if you care to take up the time.

Mr. McGeer: At page 143 of our parliamentary rules and forms, in rule 472, we have it clearly stated:—

> A motion for the previous question is not admitted in a committee of the Whole or any Select Committee of the House.

The Chairman: You should have read the rule at the time.

Mr. McGeer: Do you mean to say to me that a former chairman of this committee and a gentleman of your long experience in presiding over this committee now for some seven years, did not know that rule when you allowed it to pass?

Hon. Mr. Hanson: Order.

The Chairman: I was told, Mr. McGeer, that that matter had not been brought up within the memory of the clerks of the committees, and I presumed that was because there had never been an occasion in which it was desired to bring it up.

Mr. McGeer: Mr. Chairman, at the close of yesterday's two-hour session —and that is all these twenty sessions have been, two hours a day; they have not been long sessions—I was dealing with what I thought was rather an important phase of the justification for inner reserves. As I interpreted the argument which I heard, inner reserves were necessary to maintain the confidence of the depositors and to prevent a demand on the part of depositors for their money, which would result in a run on one or more of the banks and the disruption of the banking system. I want to make myself clear. I think that is a remnant of the past. There may have been days in haphazard, private, individual banking when there was no such thing as a Bank of Canada and when there was no such thing as the cooperation and aid of government to the banking system, when such an argument would have applied. But I say that to-day the system of inner reserves is just as absurd and just as much out of date, and as thoroughly unsound as was the gold standard restriction upon our monetary system which we have now completely abandoned. Let me say this, and let me appeal to the minister with this. We were told for years that the monetary system could not enjoy the confidence of the people unless our paper currency was backed by gold. We were told that by leaders in our political life and in the administration of our financial affairs. To use the expression of one very distinguished prime minister who for two years during the depression was Minister of Finance, gold was the sheet anchor to our credit. We have abandoned gold and we have abandoned gold forever, not because of any reformers, but because it could not either supply confidence or a monetary system that would serve the modern needs of Britain or the British Empire and the rest of the world. These inner reserves are part and parcel of the same type of what I call mumble-jumbo nonsense, by which people have been fooled, and by which the confidence of the people is placed at the very foundation of our monetary system. I say that if we are going to continue that kind of thing, if we are going to have our monetary structure based upon confidence of the public who at one and the same time are told that their confidence must depend on something that is not disclosed to them, then we cannot blame the people if in times of economic disturbance they lose confidence in the whole economic structure; and when they do, what do you find? You find it is not a matter of running to the banks to-day to get their deposits out. It is more a matter of getting their deposits out of going-concern activities, going and putting them in the banks and freezing the circulation of the country. The last depression did not come from runs on the banks. It was evidenced by runs to the banks. People took their money out of stocks and out of business. Everything that they could sell and dispose of, they converted into cash and put it into the banks.

Mr. Kinley: That is, the people did.

Mr. McGeer: The people did. There is no question about that. And as you know better than anyone else, because there is no keener business man than yourself, there was a freezing of circulation.

Mr. Macdonald (*Brantford City*): Have you a statement of the increase in deposits?

Mr. McGeer: It is very substantial, but it is on the record. If you will read the 1932 reports of the banks, you will find that every bank in Canada boasted of the fact that their increases in deposits were in savings bank accounts.

Mr. McNevin: In that connection, Mr. McGeer, are you indicating that inner reserves were responsible for the drawing out of stocks and putting the money into the bank?

Mr. McGeer: I say that inner reserves were there then and in the depression of 1907 and in the depression of 1897 and they have existed in every trade cycle we have experienced, and that they had no more effect upon the confidence of the people—the people did not know they were there—than did the so-called security of an inner reserve behind our paper cash.

Hon. Mr. HANSON: What is your authority for saying that the savings deposits increased? My recollection is that both the assets and the liabilities of the banks decreased very substantially, and I am going to check you up on that.

Mr. MACDONALD (*Brantford City*): That is why I asked the question.

Mr. McGEER: The bank loans were called and they came in, and as everyone knows, when the bank loans got the call the total volume of money in circulation declined.

Hon. Mr. HANSON: They decreased.

Mr. McGEER: In the current accounts, but in the savings accounts—-

Mr. MAYBANK: When you speak of deposits having increased you mean only savings deposits, do you?

Mr. McGEER: Yes.

Mr. MAYBANK: You said deposits generally. I thought you meant savings deposits. I am quite willing to agree with that.

Mr. McGEER: That is quite right. I have not gone into all the details, but I am going to put a set of figures on the record this morning.

Now, yesterday in dealing with the unimportance of inner reserves I could not deal with the inner reserves because I do not know what they are, but I did deal with the disclosed reserves, and yesterday I showed that in 1943 our bank liabilities were $5,000,000,000, our capital paid up in the bank was $144,000,000, and our disclosed reserves were $136,000,000, and the reserves relationship to liabilities was 2·5 per cent.

Mr. MACDONALD (*Brantford City*): May I revert to the question regarding the increase of deposits during the depression? Are you now suggesting that if there had not been any reserves there would not have been an increase in deposits during the depression?

Mr. McGEER: I say that it did not have any effect one way or the other, and the reason is that nobody knew it was there, and nobody had any knowledge about it.

Mr. FRASER (*Peterborough West*): You say that the people did not know anything about it, but supposing they had known something about it and they saw that those inner reserves had shrunk down to nothing, would it not have had an effect on the depositors?

Mr. McGEER: What I suggest to you is this: let us suppose that the banking system were to suffer total losses of the total value of their disclosed reserves—$138,00,000; Now, their liabiilties are $5,360,000,000. Let us assume for the moment as practical business men that a business operation of $5,360,000,000 suffers a loss in a period of depression conditions to wipe out the $138,000,000, which is their entire disclosed reserve; what possible effect could that have upon the mind of the people as to the stability of the organization?

Mr. McNEVIN: It depends upon the assets to set against them.

Mr. McGEER: Of course, the assets of the bank are now the securities of the nation and the cash of the nation and the power of the Bank of Canada to come behind them; and that is why I say that for Liberals to stand the continuing mumbo-jumbo nonsense of the pre Bank of Canada days is to stand in the light of reform and to turn your backs on progress. I do not blame others in this committee for taking that stand; that was the stand they took in 1934; but this matter of monetary reform is now a matter of national policy, and if there is one thing that supporters of this government have a right to be proud of it is the record of monetary reform that has been achieved since 1935.

Hon. Mr. HANSON: What is this record? For goodness sake tell us what it is. I have heard you talk about it about fifteen times. You called in the private shares of the bank and issued them to the government.

The CHAIRMAN: Just a moment, Mr. Hanson; if you have heard this fifteen times why should it be repeated?

Mr. MCGEER: He says he wants to hear it now. Surely the chairman would not want it repeated.

The CHAIRMAN: I would rather not have it repeated.

Mr. MCGEER: I can quite understand that.

Mr. KINLEY: Are you in favour of the principle of this bill?

Mr. MCGEER: What principle?

Mr. KINLEY: The principle of the bill to extend the charters of the banks?

Mr. MCGEER: With reforms that will bring it up to date.

Hon. Mr. HANSON: You were not there to vote for it.

Mr. MCGEER: Vote for what?

Hon. Mr. HANSON: For the principle of the bill.

Mr. MCGEER: No, I was not. A member has a right to vote for a thing or vote against it or to abstain from voting. I was not committed to the principle of this bill by going in there and voting for it.

Mr. KINLEY: The discussion is on inner reserves, and we are getting into a discussion of monetary reform that is apart altogether from the principle of the bill.

Mr. MCGEER: That may be a matter of opinion, but let me say this to you in answer to your question. You speak about the principle of the bill; the principle that we are advocating is a principle of a sound monetary system where the confidence of the people in their banking system will be on the same plane as confidence in the nation itself. I say that it is preposterous to ask the people to place their confidence in something that is not disclosed to them, and I say what the people should have is a monetary system based upon the administration of national currency and a change back from this debt claim system described by the Minister of Finance to a national currency system; and that instead of financing our nation, our provincial governments and our municipal governments and the development of our vast national resources under a system that imposes an ever increasing pyramiding mountain of unpayable public debt we should maintain a balanced budget and a balanced economy, not with public debt, but with the management of national currency.

Mr. KINLEY: You are against the principle of the bill?

Mr. MCGEER: I am opposed to the principle of this bill on the ground that there are now opportunities to amend it and change from mumbo jumbo theories to a sound administration of national currency.

Now, you come to the question of debt free currency. What are you doing here to-day? You are voting, or you are asking people to vote for a proposition, namely, that the inner reserves shall not be disclosed. One principle involved in that is the cost of our existing monetary system, utilizing the facilities of the chartered banks as against the use of the facilities of our own national Bank of Canada; and we are told, on the one hand, that the cost will be greater and yet we are not told all the profits of the chartered banks and we cannot know what the costs operation are because as yet, outside of a general statement, I have seen no statement of operating costs of any of the individual chartered banks who are applying here for a charter.

Mr. KINLEY: But you do know.

Mr. MCGEER: Oh, no, I do not know; if I do, I cannot find it.

Mr. KINLEY: Our responsible authorities know.

Mr. MCGEER: I do not know that they do; but I want to tell you as a business man that you are called upon to renew these charters and are apparently willing to do so without having placed before you a single item which would indicate what the operating expense of each of our chartered banks is.

Mr. KINLEY: I do not agree with what you say; but if I am I will be in abundant company.

Mr. MCGEER: I want to know what the operating costs of the banks are, and I would like to go through them, because I am not so sure that the operating costs of our chartered banks system is anything like as economical as it could be made to be.

Mr. MAYBANK: Is it not fair to say that so far there has been no opportunity to go into that specific point. One is not being asked to do something in the way of passing sections of this bill yet, and before getting such information as you mention, because you know we have not had any opportunity as yet to ask for that information.

Mr. MCGEER: We had the President of the Canadian Bankers Association on the stand and he was taken out. We had the Governor of the Bank of Canada on the stand and he was taken out.

Mr. MAYBANK: You do not mean that they were sort of batted out of the box, do you? Is that your suggestion?

Mr. MCGEER: They were here and they disappeared.

An Hon. MEMBER: They are still here.

Mr. MCGEER: Then we come to the question, should they be compelled to disclose this item—

Mr. MAYBANK: Surely Mr. McGeer will permit this to be said, that the reason for changes in witnesses and procedure were very often due to his own suggestions.

Mr. MCGEER: To mine?

Mr. MAYBANK: Due to suggestions.

Mr. MCGEER: Due to mine?

Mr. MAYBANK: Wait a minute. If you are not actually on the record as suggesting a change, from time to time suggestions have been made and have nearly always been acceded to by you or for you. There is a great deal of information that the committee could yet get and certainly would desire to have, but we have not had a chance, Mr. McGeer. I agree with what you have said this morning, and I think you have a perfect right to make speeches, and as I said to you at the last session I was seeking closure, but the truth of the matter is that the committee cannot be seeking information at the same time as it is listening to oratory, and we have had a good deal of it—good oratory.

Mr. MCGEER: If you will read the record you will find a good deal of information in it too. Maybe you won't have time to read it, but the information is there.

Hon. Mr. HANSON: A good deal of misinformation.

Mr. MAYBANK: Don't start blaming other people when the blame may rest closer at home.

Mr. MCGEER: I do not think I can misinform this committee with any of the suggestions I can use from the bankers' records.

Mr. MAYBANK: I have not suggested that.

Mr. MCGEER: They will correct any mistakes I make.

Mr. MACDONALD *(Brantford City)*: If they do, we will ask for the information.

Mr. MAYBANK: I did not say you were misinformed.

The CHAIRMAN: May I suggest that we allow Mr. McGeer to continue uninterrupted?

Mr. MAYBANK: You are asking a great deal there.

The CHAIRMAN: I am drawing on your patience.

Mr. KINLEY: Yes, once in a while.

The CHAIRMAN: Please allow Mr. McGeer to continue. Other members of the committee may want to speak.

Mr. MAYBANK: Mr. Chairman, we have to have relief now and then.

Mr. MCILRAITH: Speaking to the point under discussion, there is this condition arising in the committee that we have had some twenty sessions of this committee, and I think we have shown the greatest courtesy in permitting members to continue to develop fully their arguments and we have listened patiently and expected to do so. As far as I am concerned, and surely it has some point, there comes a place for all the members of the committee to have regard to the subject matter which is before the committee, and the point now before this committee as I follow it is whether or not these inner reserves will be disclosed. Mr. Slaght's motion is now securely before the committee. We have heard debate on this point and arguments which have been repetitious. We have heard a lot of debate on this point, some of which has been very good debate. There have been splendid arguments on monetary reform which have been most interesting and have been good arguments, but nevertheless some have been repetitious and remote to a point where I think some of the members of the committee have the right to expect the discussion to be checked on the ground of remoteness. Now, while I am quite in accord with your suggestion, Mr. Chairman, that Mr. McGeer should continue his argument, I think it is also quite within our rights and expectation that you, Mr. Chairman, will be prepared to check the argument if it becomes repetitious or becomes too remote to be directly connected with the narrow point before the committee at this time.

The CHAIRMAN: Thank you.

Mr. MCGEER: May I say that I do not think this point is narrow.

Mr. MCILRAITH: Shall I say "specific".

Mr. MCGEER: I do not think it is specific; I think the point is fundamental to our whole monetary structure. The point I am answering is a statement which I commend to every member of this committee to read and study, that the business of banking is based entirely on confidence. Obviously such a business must be attended with very considerable risk. Now, we are dealing not with the question merely of the specific disclosure of inner reserves, we are dealing with the broad question of whether or not these inner reserves are a safeguard to sustain the confidence of the public. My argument is that instead of them being a contribution to the confidence of the public they are a menace to confidence, in that the hiding of anything or the concealment of anything in the administration of our banking system is something that is detrimental to public confidencé, and not in support of it.

If we agree on that—and it seems to me we could agree on that—we understand the situation thoroughly—

Mr. MACDONALD *(Brantford City)*: I do not agree that the inner reserves are a menace to confidence.

Mr. MCGEER: Yes?

Mr. MACDONALD *(Brantford City)*: I cannot agree with that.

Mr. MCNEVIN: In the light of widespread failure of banks in the United States and the following reorganization in 1938 this principle of inner reserves was embodied in a new set-up of the banking system, and I think we should not lose sight of that.

Mr. McGEER: I agree with that thoroughly, but what I am directing attention to is this: we have been told by Mr. Tompkins; and the Minister of Finance has read to us from a report dealing with the American banking system; and we have been told that inner reserves have been part and parcel of the American banking system and that the inner reserves did not prevent the holocaust and bankruptcy.

Hon. Mr. HANSON: They were not big enough.

Mr. KINLEY: I saw in the *New York Times* an article which said that the American banks were in a hazardous position because they had not provided sufficiently for the future in regard to reserves.

Mr. BLACKMORE: Inner reserves or disclosed?

Mr. KINLEY: Well, reserves.

Mr. McGEER: I agree that there should be whatever reserves are required, and I am heartily in areement with the proposition of reserves, but I think the reserves must be much stronger than they are. For instance, I heartily agree with protecting the small depositor. Will you agree then that we will do what has been done by the Roosevelt administration, that we shall put in an amendment guaranteeing all the deposits up to $5,000? You proponents who want to protect the little man, instead of making him dependent upon some undisclosed thing, will you give the little depositor a guarantee of the nation that no matter what happens in any bank administration, his deposit will be guaranteed by the nation? That has been done in the United States, and that is recognized as a foundation to secure the confidence of the small depositor in the banking system. I propose to offer such an amendment when we come to the appropriate clause, for that particular purpose, and I hope it will be accepted by this government.

Mr. KINLEY: The small depositor hopes to become the big depositor.

Mr. McGEER: If you will guarantee the small depositor, you will do something for the little man.

Mr. MACDONALD (*Brantford City*): I understood the Governor of the Bank of Canada, when he was giving evidence, to say that they would come to the rescue of depositors; so in effect they are guaranteed even at the present time.

Mr. McGEER: Well, let us make it definitely secure.

Mr. KINLEY: There is a fund for that purpose right now.

Mr. McGEER: That is my argument. As one who advocated public ownership of the Bank of Canada, that was one purpose I had in mind, that it should become not part and parcel of the private banking system but that we should recognize the monetary system as the greatest public utility service in the nation, and that the Bank of Canada owned by the people of Canada, supported by the reserves of the nation, should be the foundation of the confidence of the people in our banking system.

Mr. MACDONALD (*Brantford City*): Of course, I do not think it would be a very desirable condition if it became necessary for the Bank of Canada to have to refund to depositors all moneys they put in the bank. I think that if our banking system reached that deplorable state, there would have to be an entirely new set-up effected. I think it is a thing we should avoid by all means, and I do not think we should ever make conditions such or ever allow conditions to come about where the banks would fail and the Bank of Canada would have to step in.

Mr. McGEER: Let me draw your attention to this sentence in the Minister's statement: "Obviously such a business must be attended with very considerable risk." Is it not the business of the lawmakers of the nation to eliminate from the business of banking every possible risk that it lies within the power of the government to eliminate?

Hon. Mr. HANSON: Is the element of risk not part of the profit-making motive?

Mr. McGeer: Not the kind of risk that creates booms and depressions, not the kind of risk that shatters confidence in our whole monetary structure. After all, I know that there are adherents and advocates of public enterprise who believe in the rise and fall of values attending the business cycle. There are always some who can follow the people up the hill to the break of the boom and who can get down into the valley ahead of the people. The public are always the victims of every boom and depression.

Mr. Macdonald (*Brantford City*): That is one reason why we should avoid inflation.

Mr. McGeer: I quite agree. And no one is stronger against inflation than myself.

Mr. Jaques: Or deflation.

Mr. McGeer: What we are going through is a period of inflation to-day. We have inflated our bank deposits. We have inflated our holdings of public securities and we have disastrously inflated our interest-bearing public debt. Do not make any mistake about them, when you talk about inflation. When we come to deal with these questions, if you will go to your Macmillan committee report you will find the very thing we are doing is the thing that caused the inflationary conditions in the thirties. If we do not provide against them in this committee there is a danger, and a serious danger, of that situation being repeated. But I am dealing with this question of the value of these inner reserves as an element of confidence. I say that instead of being an element of confidence, it is a menace to confidence and a danger to the whole structure. You have seen, as I pointed out a minute ago, the relation of disclosed reserves to total liabilities. Let me just repeat. To-day we have $4,175,000,000 of deposits. We have $136,000,000 of disclosed reserves.

Mr. McNevin: Yes, Mr. McGeer. But I have pointed out to you two or three times that when you give the figures of the liabilities you should, to be fair in presenting the situation, give the assets set against the liabilities, bolstered and supported by those reserves.

Mr. McGeer: If you will just wait I am coming to that. I put down as against that disclosed reserve the thing that we should bring to the attention of the people, and that is the value of the dominion and provincial government securities of $2,576,000,000 and some $400,000,000 odd of Bank of Canada cash, making deposits of $4,175,000,000 not dependent upon $136,000,000 of reserves but supported by $3,058,000,000 of public interest-bearing securities and Bank of Canada cash.

Mr. Tompkins: And other assets too.

Hon. Mr. Hanson: Mr. McGeer, would you allow me to give you the figures on the question of the bank deposits that you said rose so sharply. I have the Canada Year Book here for 1936. At page 906 you will find the statistics showing the yearly averages computed from the twelve monthly returns.

If you look at the year 1930, notice deposits in Canada, you will find they are $1,427,000,000. I will leave out the odd hundred thousands. In 1931 they were $1,437,000,000; in 1932 they fell sharply to $1,376,000,000. In 1933 they were $1,378,000,000. In 1934 there was a shrinkage again to $1,372,000,000. In the next column is the total of the demand and notice deposits. They were as follows in round figures:—

1930	$2,516,000,000
1931	2,422,000,000
1932	2,256,000,000
1933	2,236,000,000
1934	2,274,000,000
1935	2,426,000,000

So that the assertion that you made is not borne out by these statistics.

Mr. McGeer: What you are doing is quoting current and savings account. What I said was that there was a movement towards savings accounts and that it steadily increased.

Hon. Mr. Hanson: Oh, no. Did they sharply increase in notice deposits?

Mr. McGeer: What I say is this. If you will balance that with the total decline in current accounts and the withdrawals from circulation, you will find that the savings steadily increase.

Hon. Mr. Hanson: That is not quite correct either. That is not what you said either.

Mr. Jaques: Certainly that is what he said.

Mr. Hanson: The figures do not bear out your premise at all.

Mr. Blackmore: Mr. Chairman, has the honourable member for York-Sunbury the figures of savings deposits during those years?

Hon. Mr. Hanson: I gave them.

Mr. Blackmore: No. You gave the total deposits.

Hon. Mr. Hanson: No. I gave the demand deposits.

Mr. Blackmore: What is the difference?

Hon. Mr. Hanson: Or rather, the notice deposits. I have here the demand deposits. I have the total deposits and the total public liabilities, and they show a decrease on the average all through the period that I have referred to, and they absolutely controvert the statement made by Mr. McGeer.

Mr. McGeer: Very well.

Mr. Jaques: The demand deposits decreased. That is what he said.

Mr. McGeer: Let me put the record clear. I have taken from the annual reports of each of the banks the following statement, and I should like to put this statement on the record. In 1933 the total deposits were $2,297,000,000. The reserves were $133,000,000, and the dominion and provincial government securities were $642,000,000. The dominion government securities and Bank of Canada cash combined were $837,000,000.

Mr. Tompkins: That was in 1933.

Mr. McGeer: In 1933.

Mr. Tompkins: There was no Bank of Canada cash then.

Mr. McGeer: There were Dominion of Canada notes, and I expected that to be mentioned. There was this difference. At that time the banks were borrowers of Dominion of Canada notes and paid interest on them. To-day Bank of Canada cash is issued without the payment of interest; but the medium of exchange that the banks used for cash reserves in 1933 were Dominion of Canada notes issued through our Department of Finance, and that issue was taken over by the Bank of Canada when it was incorporated and went into operation in 1934.

Mr. Tompkins: That is correct.

Mr. McGeer: Yes, that is correct. But mark you the difference. In 1933 there was no handing out of dominion notes unless the banks paid interest for them to the dominion government, outside of the banks' notes of small denominations up to $5. But these are the figures that I want to draw this committee's attention to. We have had an increase in bank deposits from $2,297,000,000, from 1933 to 1943, to $4,175,000,000, and we have had not one dollar of increase in the capital stock of the banks and not one dollar of increase in any of the banks' disclosed reserves with the exception of the Bank of Toronto which increased its reserve from $9,000,000 to $12,000,000.

Now, I may be straining a point but I ask you gentlemen if these reserves that are now the issue before the committee are of any importance to the people, how can the same reserves that supported $2,297,000,000 of deposits in 1933 support an increase to $4,175,000,000 in 1943? I say to you that this talk of the reserves as a confidence foundation to the people is the same kind of fallacious argument that sustained for so long the iniquitous gold standard system, which was a strain upon the people, which created a control of money and trade that was attended by the business cycle; and we want something better than that, I submit. My friend Mr. Hanson suggested that my figures are all wrong. Let me deal with not just a few years, but with the long-term proposition from 1933 to 1943. Let us take the Bank of Montreal. In 1943 the capital paid up was $36,000,000.

Mr. MACDONALD (*Brantford City*): In 1943?

Mr. McGEER: In 1943. The disclosed reserves were $39,000,000; savings, $462,000,000; current, $603,000,000. I said there was a run towards the savings accounts. In 1933—

Mr. MACDONALD (*Brantford City*): Was that 1933?

Mr. McGEER: That was 1943. Now I will give you the figures for 1933. In 1933 the capital paid up was $36,000,000; disclosed reserves $39,000,000; savings $124,000,000. So that between 1933 and 1943 we had an increase of $338,000,000 in savings bank accounts in the Bank of Montreal. That is 250 per cent.

Mr. MACDONALD (*Brantford City*): Yes, but you jump from the depression to a period of prosperity.

Mr. McGEER: It went right along. Now in our current accounts we had $603,000,000 in 1943 and $509,000,000 in 1933 or an increase of only $94,000,000. What I am pointing out to you is this. Your increase in your savings accounts as compared with the increase in your current accounts is out of all proportion. Your total bank deposits in 1943 were $1,065,000,000. In 1933 they were $633,000,000. Does anybody think for a moment that the confidence of the people of Canada in the Bank of Montreal is dependent upon their faith that a reserve of $39,000,000 is capable of sustaining the ability to pay depositors to the extent of $1,065,000,000?

Mr. MACDONALD (*Brantford City*): I do not think any one has ever suggested that.

Hon. Mr. HANSON: No.

Hon. Mr. ILSLEY: No. Mr. McGeer is over-simplifying the argument. The confidence is established perhaps partly by the knowledge of the public that there are reserves, but it is established mainly by the fact that the bank always meets its obligations; and it is the existence of inner reserves which enables and has, at certain crises in the past, enabled the banks to meet their obligations, without either raiding their published reserves or taking any other steps.

Mr. SLAGHT: They raided them to the extent of $29,000,000 in 1933.

Hon. Mr. ILSLEY: Some of the banks did.

Mr. McGEER: Five of them.

Hon. Mr. ILSLEY: Yes. But many of the banks did not. But Mr. McGeer is speaking as if my contention is that the knowledge of the public that there are inner reserves is necessary to establish confidence in the banking system. My argument based upon confidence is mainly this, that the existence of inner reserves is probably necessary—and I think it is necessary—to enable the banks to meet their obligations in certain very difficult times, and it is a fact that they do meet their obligations. It is a fact that they can pay their depositors no matter how many their deposits. It is a fact that they are obviously in a position there to discharge their liabilities. That is the thing which creates confidence, and that is the necessity and reason for the maintenance of the inner reserve system.

Mr. TOMPKINS: If you will permit me to do so, Mr. Ilsley, I should like to add there that Mr. McGeer has again ignored the existence of the paid-up capital which is an additional guarantee to the depositors.

Mr. McGEER: Yes. I say put in the paid-up capital, put your disclosed reserves and your hidden reserves all together, and they are infinitesmally small as against the real security you have in dominion and provincial securities and Bank of Canada cash. On the one hand you have $3,000,000,000 and if you put all those reserves and capital together I do not suppose you would have $400,000,000. I mean, that is the difference. As I say, this is fundamental to confidence. Part of the statement made by the Minister of Finance reads: "Assuming no intervention of higher authority, the promises or undertakings of the banks to pay cash on demand or on short notice are only good as long as banks are conducted in such a way as to retain the confidence of the public in the banks' ability and willingness to pay, and that confidence can only be retained by prudent selection and conservative management of those promises or undertakings of debtors which constitutes their assets." If that is the basis of our monetary system, we are headed again for disaster. We want something stronger and better than that, and we have the machinery and the power to create something better and stronger than that.

Mr. TOMPKINS: It is based on comparable monetary systems in other countries of the world.

Mr. McGEER: Well, we will deal with that a little later when the time comes. Our monetary system has been subject to the same change during the last decade that a great many other political ideologies and theories of political economy have been subjected to; and in no department of the science of modern political economy have the changes been so sweeping and far-reaching as they have in the administration of national monetary systems. In Great Britain to-day, looking forward to the future, the whole program of finance for the Empire and for Britain is under review, as everyone knows; and yet we are to come in here, as committee men, carrying these responsibilities, and if one dares to put forth an argument for bettering the condition, he is told he is wasting time.

Mr. MACDONALD (*Brantford City*): Oh, no. I do not think anyone would say that, Mr. McGeer. I for one certainly would not, and I think this whole committee is open-minded.

Mr. McGEER: I am glad to hear that.

Mr. MACDONALD (*Brantford City*): If anyone has any suggestion to make, which is in the way of reform or for the improvement of the banking system, I think it would receive the support of the committee.

Mr. McGEER: When the trouble came in 1932, there was a stock boom collapse. The banks were in it. There is no question about that. They were all in it. Everybody was in it, and there was not a government in any province or in the dominion that dared to stop the scramble to get something for nothing, until the day came when the credits were withdrawn, and the tragedy of bankruptcy swept over the whole country.

Mr. KINLEY: That was because they tried to get something for nothing.

Mr. McGEER: I quite agree, and we do not want that to happen again.

Mr. KINLEY: Quite so.

Mr. McGEER: All right. Let us look at the Royal Bank of Canada, which was one of those in trouble.

Hon. Mr. HANSON: You will admit that a warning was put out prior to 1930.

Mr. McGEER: Yes, but nothing was done until the credits were called, when the bankers called in 8 billion dollars of credit on the New York Stock Exchange, and our bankers followed suit.

Hon. Mr. HANSON: In the budget of 1930, the warning was put out.

Mr. McGEER: The warning was put out, you say. We had a Bennett boom in 1930. We do not want that to happen again either.

Hon. Mr. HANSON: In a speech he called attention to it.

Mr. McGEER: We do not want any repetition of what was going on when you were chairman of the banking and commerce committee.

The CHAIRMAN: Order, gentlemen.

Mr. McGEER: I do not want any repetition of that, Mr. Chairman, and I am frank to say so. Maybe you do, but I want something better than that from you.

The CHAIRMAN: Mr. McGeer, I think we ought to get on with our job.

Mr. McGEER: All right. Now if you will let me, I should like to deal with the Royal Bank of Canada. In 1933 they had $35,000,000 of paid-up capital and they had dropped their reserves from $35,000,000 to $20,000,000 and they had the confidence of $128,000,000 of savings bank deposits and $450,000,000 of current deposits. In 1943 they still had $35,000,000 of paid-up capital and no more. They had no more than $20,000,000 of disclosed reserves, but their savings deposits had risen from $128,000,000 to $650,000,000, and their current accounts had only risen from $450,000,000 to $500,000,000. If that does not bear out what I said to this committee, that there was a drift into savings deposits, I do not know what would.

Mr. McILRAITH: As I understood your statement, it was that the drift was during the depression years.

Mr. McGEER: From the depression on.

Hon. Mr. HANSON: Oh, no.

Mr. McILRAITH: The year you have quoted is 1943.

Mr. McGEER: All right. If that was the impression that was given, let me make it clear.

Mr. McILRAITH: That was the impression I got.

Mr. McGEER: What I intended to say was that following the depression there was no lack of confidence in the banks; but right along during the piece you will find the drift towards savings bank deposits in the banks and it has increased, in the Royal Bank, as I say, from $128,000,000 in 1933 to $650,000,000 in 1943, or an increase of $522,000,000. Look at the difference.

Mr. McILRAITH: My point was this. I understood you to say a little earlier that was during the depression.

Mr. McGEER: You misunderstood me.

Mr. McILRAITH: I misunderstood your argument.

Mr. McGEER: You must have misunderstood what I said.

Mr. McILRAITH: I understood you to say that the drift took place during the depression years. The figures you have quoted do not support that.

Mr. CLEAVER: What you did say, as I recall very distinctly—

Mr. McGEER: The record will speak for itself.

Mr. CLEAVER: —was that during the depression, instead of there being a run on the banks, there was a run to the banks by depositors.

Mr. McGEER: Yes. And this continued right through until 1943.

Mr. CLEAVER: And you point out conclusively, as the figures show, that the run to the banks has been since the depression.

Mr. McGEER: I gave you the year 1933, and what I said was that there was a run to the savings banks. Take these figures. Take the relation of savings to current accounts in 1933 in the Royal Bank of Canada, which was one of the banks that disclosed, I think, a $10,000,000 or $15,000,000 raid on the disclosed reserves; I think it was probably one of the worst yet. The relation of the savings accounts to current accounts in 1933 was $128,000,000 of savings and $450,000,000 of current. In 1943 it is $650,000,000 of savings and $500,000,000 current. Instead of there being more than double the amount in the current than in savings, as there was in 1933, there is now $50,000,000 more in savings than there was in current accounts.

Mr. FRASER (*Peterborough West*): Would you be prepared to give the figures for 1930, Mr. McGeer, then 1933 and up to 1938? You are taking in the war years. You know very well that the reason the deposits have increased during the war years is on account of full employment, and it is not fair to include them in that.

Mr. McGEER: I should be very glad to take them all.

Mr. FRASER (*Peterborough West*): You should start at 1930 and go up.

Mr. McGEER: What I have taken is the statement which I believe. It does not deal with the general proposition of savings and current accounts, but it does deal with this question of confidence in our banking system as a repository for savings.

Mr. McILRAITH: Perhaps you could clear that up if you have the figures available for 1930 up to date.

Mr. McGEER: I would have to make up a table of that.

Mr. McILRAITH: Then it could be put on the record.

Mr. McGEER: I shall be very glad to do that. I will prepare it and put it on the record, because I am sure it will show what I contend.

Mr. MACDONALD (*Brantford City*): I have two of those years here. I have the total savings deposits in 1933, which were $1,378,000,000, and in 1934 the deposits were $1,372,000,000, which shows that there was a smaller amount in the savings accounts in 1934 than there was in 1933.

Mr. McGEER: But you have to weight that average with the general decline in the total volume of money in circulation at that time.

Mr. MACDONALD (*Brantford City*): Yes.

Mr. McGEER: There was a decrease. If you will check on your relationship of current to savings deposits, you will see that there was no lack of confidence on the part of the people who continued to keep their savings on a higher level than the general decline in the total volume of money in circulation would have warranted.

Mr. MACDONALD (*Brantford City*): Yes, but these figures definitely show that there was less money in the savings accounts in 1934 than there was in 1933. I understood you to say that the savings accounts increased in the depression.

Mr. McGEER: What I said was exactly what these figures show, that there has been a steady drift to the savings banks as depositories for savings deposits, and they have been increasing.

Mr. MACDONALD *(Brantford City)*: Since the depression?

Mr. McGEER: Since 1930.

Mr. KINLEY: Why did that happen?

Mr. McGEER: Because they have the confidence of the public.

Hon. Mr. HANSON: There has been a great increase in the national income.

Mr. FRASER *(Northumberland, Ont.)*: Don't you think we should take cognizance of these two facts when you compare the savings and current accounts in 1943 and 1933 and refer to the increase in savings and the small increase in current account—don't you think we must recognize the fact that since war broke out, since we have been engaged in this world war, the government has entered the financial field inasmuch as they have relieved the banks and relieved industrial companies from borrowing money on operating accounts. In other words, industrial companies and many other companies have been paid direct from the government through government financing instead of through bank loans. That money in turn went into circulation and increased prosperity and increased employment during the war, and, therefore, obviously increased savings. Would you not agree with that?

Mr. McGeer: I am not dealing with what was the cause of the increase of our total bank deposits; I think that is one of the problems we have to face; but I am dealing with the question of getting a sufficient amount of confidence by the public to get their money out of savings banks accounts and into general circulation and into the expansion that we must have if we are going to carry the load of debt that we have now bearing on the people of this nation.

Mr. Fraser *(Northumberland, Ont.)*: Can you do that with the savings bank accounts? Is not that where the banks are necessary to distribute those savings bank accounts into the very developments you mentioned?

Mr. McGeer: I am doubtful that they will do it.

Mr. Kinley: Don't you believe in the liberty of the subject?

Mr. McGeer: I do not think hidden reserves have anything to do with that.

Mr. Kinley: If the citizens of Canada want to save their money I think they are entitled to do it.

Mr. McGeer: I want to put on record a statement which shows—

Mr. Kinley: Furthermore, what he earns does not belong to him—part of it will go to taxes, and he had better put it in the bank for the day when he has to pay his taxes.

Mr. McGeer: In 1933 our total paid-up capital was $144,000,000, the total of disclosed reserves was $136,000,000, the total savings deposits were $1,130,000,000, the current accounts were $1,157,000,000, and the total deposits to the people were $2,287,000,000. Now, there has been an increase since 1943—and I have already put these figures on the record—of $1,982,000,000. In round figures there was an increase in the deposits of two billion dollars—$800,000,000 in the savings and $1,200,000,000 in the current account.

Mr. Kinley: Have you the number of depositors?

Mr. McGeer: The number is very large. It has all been put on the record.

Mr. Kinley: It shows the trend.

Mr. McGeer: I agree with you. What I am pointing out to you is that while there has been an increase in the deposits over one billion dollars in the savings bank accounts, in the disclosed reserve there has not been one dollar of increase in any bank with the exception of one, namely, the Bank of Toronto. I have taken these figures off, and I will get the other figures from 1929 to 1943 which tell the whole story.

Mr. Macdonald *(Brantford City)*: I do not see what bearing it has on the subject we are discussing at the moment.

Mr. McGeer: Maybe I am not responsible for that.

Mr. Macdonald *(Brantford City)*: Probably you are not, but I think other members of the committee would like to know.

Mr. McGeer: I cannot be responsible for that either.

Mr. Macdonald *(Brantford City)*: You have a very good way of explaining things.

Mr. McGeer: I thank you for that, but all I am trying to do is to place information that seems to appeal to me, and there is no reason why you should think it should appeal to you if you do not think so. I am trying to fulfil what I believe is my duty by putting before you the reason why I think the hidden reserves should be disclosed, and that a better method of sustaining the confidence of the people will be developed by this.

Now, I do not wish to take up too much of the time on this particular phase of the matter. Apparently, the committee has decided to vote. But I do want to summarize for a few moments what you are voting for. You say that we are going to grant these charters with the continuation of the hidden reserves. Now, what are the hidden reserves for? Hidden reserves are commonly known in banking parlance as panic reserves.

Hon. Mr. HANSON: Is not that a new name?

Mr. McGEER: A new name? Yes. They are reserves that come into operation when the public, taken into the market, lose confidence and get into a panic to redeem the positions they are in.

Hon. Mr. HANSON: What is your evidence in support of that?

Mr. McGEER: I will give it to you. The only time we have had hidden reserves brought to the attention of the public was following the last boom and depression, when the panic of 1930, 1931 and 1932 swept over the land. It was then that the hidden reserves came into play.

Mr. MAYBANK: There were lots of panics before that and there were reserves before that.

Mr. McGEER: We never knew about them because we learned of them when they came out in the statements of the various banks that they had withdrawn from their disclosed reserves $29,500,000 to make up the losses in the hidden reserves.

Mr. MAYBANK: When did they coin the expression "panic reserves"?

Hon. Mr. HANSON: Never.

Mr. MAYBANK: Or did you coin it?

Mr. McGEER: Did I coin it?

Mr. MAYBANK: My reason for asking that question is this: you said it was what was known in banking circles as panic reserves; I suggest it was known in McGeer circles as panic reserves and not in the banks. But you are quite at liberty to use it. I just wanted to get that clear—that it was not in banking circles that they coined the expression, that you coined the expression. Is that right?

Mr. McGEER: I have coined quite a few.

Mr. MAYBANK: You coined that one now.

Mr. McGEER: No, that is as old as depression.

Mr. MAYBANK: It is not current in banking circles, is it?

The CHAIRMAN: May I remind you that a few moments ago Mr. McGeer said he was about to make a summary of his argument in preparation for the vote. I suggest that we allow Mr. McGeer to continue his summary and have the vote.

Hon. Mr. HANSON: That is a vain hope.

Mr. McGEER: It may be that we should look forward to another boom, another cycle of unwarranted expansion, another trip through the realm of unwarranted speculation, and that our banks should be encouraged to promote that. The best way to do that is to allow them to continue the policy of hidden reserves, because they and they alone under that system will have a protection that the average person will never enjoy. They can follow up if there are serious losses; they can appropriate to an inner reserve; when a collapse comes they have that cushion to fall on, and that is an encouragement to the banks to support the movement up to the crest of the boom, and then it helps them to get away from the break by having an accumulation that takes care of losses which they can make larger than are disclosed. Is that sound banking business?

Hon. Mr. ILSLEY: Does not that contradict your previous statement? Mr. McGeer's previous argument was that these were insignificant as a cushion.

Mr. McGEER: I did not say that they were insignificant as a cushion, but I said they were insignificant as a means of sustaining confidence—in billions of liabilities and in billions of deposits.

Hon. Mr. ILSLEY: Oh, well.

Mr. McGEER: Oh, well, don't use my argument.

Hon. Mr. ILSLEY: Mr. McGeer's argument was this, that as the banks own such a large amount in government securities they do not need any reserves; that inner reserves or any reserves are practically meaningless as a means of enabling them to meet their obligations and discharge their liabilities. Now Mr. McGeer's argument is that they are far from that, that they are the way by which they are going to protect themselves against the consequences of a depression, they are the way in which they are going to enable themselves to discharge their liabilities, to meet their obligations. I do not think the two positions can co-exist.

Mr. McGEER: My argument may be faulty in that regard, but what I am submitting to you is that they were sure in the last depression. We have been told that they were sufficient on the one hand to see the banks through the losses of that depression. Now, will they be sufficient to see the banks through the losses of another boom and depression? And if they had not been sure, would the banks have gone as far in supporting the rise in the speculative market as they did go? My argument is that if the banks had not had those inner reserves as a cushion to protect them they would not have gone that far and that they not only would have issued a warning in 1930 but they would have clamped down in 1928 and 1929, and without the banks' support to that speculative market the market could never have risen as it did from 1927 to 1930 when the boom collapsed. You can go ahead and carry this system on, but my warning to the committee is that this is one of the policies which is fraught with danger and it should not be continued.

Another argument is this: I think the greatest problem facing the administration, no matter what happens in the future—facing the present one to-day is the cost of public finance. Don't make any mistake about the fact that our interest charge is a first claim on the taxes that are brought into the treasury; that is fixed, that must be paid.

Mr. MACDONALD (*Brantford City*): It seems to me like another subject.

The CHAIRMAN: Mr. McGeer is about to conclude. Proceed, Mr. McGeer.

Mr. McGEER: We are dealing now with the question of costs of financing through the private banking system. You are asked to vote to hide a part of the gross profits of the banks. No member of this committee—

Mr. KINLEY: Hold it in suspension.

Mr. McGEER: I know, but what is it? How much is it? They have various figures ranging from a few million dollars to an unlimited amount; what part is it of the cost of the banking system which we are called upon to pay? Mind you, nobody ever suggested that we could finance at $\frac{3}{4}$ of 1 per cent through our banks any substantial portion of the cost of the war which you are doing to-day, a few years ago, when men were enthusiastically supporting the policy of public finance based upon $5\frac{1}{2}$ per cent of tax free bonds, as they did in the last war, and which continued to be fastened on the people right up until 1937. Don't make any mistake about it that those $5\frac{1}{2}$ per cent tax free bonds were a charge on the people in the depression. What we have done is reduce the costs down to $\frac{3}{4}$ of 1 per cent; and despite the fact that we have done that 1943 shows as one of the best banking years from a profit making point of view before taxation that our banks have ever enjoyed. How much further can we go? Is not there a field of exploration there? Is there a possibility of our being able to continue the vast improvements in reducing the cost of public financing we have made so that we can look out to the future with a monetary system that is not based upon confidence in something that is not disclosed but is based upon confidence in a sound administration of our monetary system, recognized as our most important public utility.

You are asked to vote for the non-disclosure of the cost of one system of finance that is to-day actually competing with a national system of finance. Mr. Kinley pointed out to the committee—I was rather surprised at the remark—but he said, "the Bank of Canada has cut into the lucrative business of the banks"—of a part of the lucrative business of the banks. What is the lucrative business that the Bank of Canada has cut into? It has cut into the business of financing the dominion government, and it has compelled the banks to finance at $\frac{3}{4}$ of 1 per cent, and that is what Mr. Kinley apparently objects to.

Mr. KINLEY: Oh, now, on a point of order, I do not object to anything; I am stating a fact that the inception of the Bank of Canada did restrict the operation of the other banks, and Mr. McGeer said that banking was so much safer and so much better off than it ever was. I said that the Bank of Canada had an element of safety but if you look at the other side they took away some of the business of the banks. Now, what I want to say is that if the banks did not have other business they could not lend money at $\frac{3}{4}$ or $\frac{3}{8}$ of 1 per cent to the government. The public are paying the bill. But it is only a surplus fund from which they lend for a short time, and it is done because they have other business.

Mr. MCGEER: All right. I say we have achieved a great deal through the use of Bank of Canada cash and the use of Bank of Canada machinery. We can achieve, I believe, a great deal more, but instead of adhering to the past, instead of relying and depending upon securities or confidence that are now outmoded, let us move along and put our monetary system upon a more secure basis. Because it is not only the monetary system we are dealing with, it is the confidence of a growing concern, the expansionary activity of a young nation, where the people have more natural resources and wealth at their disposal than have any other 12,000,000 people in the world.

Mr. KINLEY: The banking system is only contributing to the business system; they use plenty of money.

Mr. MCGEER: The banking system is the foundation of the whole national economy to-day.

Mr. KINLEY: Oh, no. You quoted the Governor of the Bank of Canada; he said that the other day; he told you that in very precise terms that they were only the handmaidens.

Mr. MCGEER: My friend interrupts to say that the banking system is only complimentary to the business system. When Mr. Wedd was under examination he said that there were $450,000,000 of public securities and about half of that amount was in current loans. That was only one bank.

Mr. SLAGHT: $417,000,000 in Dominion of Canada public securities of the government and $214,000,000 was the total of all they have out on loan to the business interest of Canada.

Mr. MACDONALD (*Brantford City*): What was the return?

Mr. MCGEER: I say here that you are dealing with the foundation of the whole national economy, not merely with the foundation of the business economy.

Mr. KINLEY: You have quoted Mr. Towers so often that I would refer you to the paragraph where he says that the banking system is the handmaiden of business, and not business. I would like to see a complete segregation.

Mr. McGeer: What I should like to see is this. I should like to see a complete segregation of commercial banking from public finance. I believe that the day will come—and it is not very far distant; we may be one depression ahead of the times but we will be no more than that—when there will be a complete return to the kind of banking that was carried on before 1920, when our commercial banks flatly refused to finance long-term securities of any type, whether they were government or otherwise. Another change will come, I submit, and I submit this to the minister with the hope that he will consider it carefully. That is, that instead of going abroad for municipal, provincial and national finances as we did before 1914, we will realize that we have found the means of establishing power to issue whatever public finance is required for government and for national development. Hidden reserves are not a part of the kind of thing that the public or depositors require in order to have confidence in our banking system.

Hon. Mr. Hanson: Mr. Chairman, may I ask Mr. McGeer if he suggests that Canada does not need any new foreign capital, and under what circumstances?

Mr. Slaght: Not for public financing.

Mr. McGeer: Well, my friend raises that question. What have we shown in the last four years? We have shown that we could finance an enormous war programme; that we could build an air force of tremendous power from scratch and take on the British Empire Training Scheme; that we could establish a navy of substantial proportions from nothing, and that we could build up and maintain a mechanized army of tremendous power.

Hon. Mr. Hanson: That is a wartime economy.

Mr. McGeer: We go further than that; after assuming and financing all those obligations, lifting our national budget of 1938 by several billion dollars in 1944, we found the capital, as the honourable member for Northumberland has pointed out, to finance the huge industrial war programme that has got under way. We did not go abroad for that finance. We loaned right at the beginning $700,000,000 to London. What a change! Here in Canada we always thought that we were without capital and had to borrow in the London market. When the day of the great test came, we had the means to finance London, and a loan of $700,000,000 was appropriated at once. One billion dollars of surplus production went to Great Britain, and since then a further 2 billion dollars has gone or is provided to go in mutual aid. We never went abroad for a penny of the capital required to finance that.

Mr. Kinley: Where did we get it?

Mr. McGeer: We got it right out of our own financial order.

Mr. Kinley: The people paid half of it in taxes and half we borrowed.

Mr. McGeer: One billion dollars was issued in Bank of Canada bills; and we could have issued, under the controls that we had and without going into debt, enough of national capital through Bank of Canada money to finance the government, without incurring any obligation of debt at all, with the enormous production that we have. If we move away from the debt claim system by which to-day everybody seems to be controlled or be under submission to, into a national currency system, we will find a solution for the problems that have to be solved before we get the balancing of a progressive economy where a reasonable rate of expansion and a rise in the standards of living can be assured.

Mr. McNevin: And more costly.

Mr. McGeer: Well, another depression will probably take us out of that. My friend says, "more costly". I say nothing could be more costly than a system which imposes almost as much in the way of interest charges as was our total budget in 1930. Nothing could be more costly to a nation than the accumulation of the burden of debt, now 11 billion dollars on the federal treasury, 2 billion dollars on each provincial treasury and a billion dollars on each municipal treasury.

Hon. Mr. ILSLEY: Mr. Chairman, I should like to say a word there.

The CHAIRMAN: The minister wishes to make a statement, gentlemen.

Hon. Mr. ILSLEY: What does Mr. McGeer think of Mr. Towers' suggestion that we take the experiences of quite a list of countries which have undertaken to apply the proposal—that is, that they financed the war by very considerably larger government issues of money than we have undertaken here in Canada—and see just what has happened in those countries?

Mr. MCGEER: Well, of course you can take China.

Hon. Mr. ILSLEY: Yes.

Mr. MCGEER: China has gone into an inflationary condition.

Hon. Mr. ILSLEY: Yes.

Mr. JAQUES: It has no government.

Mr. MCGEER: You do not have to go to China. You have only to go to Newfoundland.

Hon. Mr. ILSLEY: Yes.

Mr. MCGEER: In order to see the rise in prices that has taken place there. But do not make any mistake about it. We have been able to establish controls of prices, production and distribution that have carried us through the greatest inflation of bank deposits and Bank of Canada bills that has ever been known in any country. Let us not depend altogether upon the inability of the Chinese, in their terrible plight, to control their bankers and to control their money. Let us not merely look at the condition in India where the problems of government and the power of government is very much less than it is in the Dominion of Canada.

Mr. JAQUES: There is no government.

Mr. MCGEER: Let us look at our own experience right here in Canada and find, as we will find if we examine it carefully, tremendous reforms, tremendous reductions in the cost of public finance, and possible ways to move to a better security and an elimination of the burden of voluntary debt. I am sure the minister will agree with me in this, that if we could find some way to finance public enterprise without mortgaging the future, if we could find some way to prevent all our progress from being frustrated by an ever-accumulating load of public debt, we would have a sounder economy than we have under the debt-claim system. I think we are moving in that direction. It is only since 1935, you know, Mr. Minister, that we have been experimenting with our national system; and with the exception of the Soviet I do not think there is any government that has gone further in the field of monetary reform than has the government of the Dominion of Canada. Let me ask the minister: Are we at the end of the trail? Are there no wider fields to explore and are there no opportunities to improve the system which we have improved so much already? I say to the minister, "Examine carefully the question of these hidden reserves." Examined in the light of their relation to the whole thing, I believe that he will agree, in the course of time, that they are not the factor in sustaining public confidence that the bankers declare that they are. As I say, here in this committee our responsibilities are heavy. Certainly the responsibilities of the minister are the greatest. But surely it is in discussion and argument, and in the examination of the facts that are available to us, that we can make recommendations that will improve the Bank Act and the monetary system of the Dominion of Canada. I think if we approach the subject in that attitude, something in the way of further and greater improvements than we have already developed may come about.

The CHAIRMAN: Gentlemen, Mr. Noseworthy has asked to be allowed to make a statement that will not exceed five minutes. Mr. Noseworthy has the floor.

Mr. NOSEWORTHY: Mr. Chairman, I hesitate even to make a short statement lest I precipitate another debate on this subject. I shall try to avoid doing that. I think I should first say that I am very doubtful myself whether the subject of the disclosure of the inner reserves warrants the time that this committee has devoted to it. I am satisfied that there are more important issues which this committee should consider, and I sincerely hope that the long time we have spent on this subject will not detract from consideration of what I consider more important issues. I think there are two of those, and I am only going to state them.

I think every one is agreed, not only in this committee but throughout the country, that we must look forward in the future to finding some means whereby we can maintain full production and a high level of national income. The banks, while not the only institutions concerned, are one of the major institutions concerned in that matter. Such a program will necessitate, in the first place, some mechanism that will provide the country with sufficient credit for both capital and consumer goods production. It will necessitate, in the second place, some mechanism which will provide the people of this country with consumer purchasing power. I think if we in this committee can add anything to what is already known regarding that problem, or take any steps towards the solution of those two problems, we shall have done much for the future. I am confident that we all recognize the merit of the banking system. We all recognize how important it is that the depositors should feel that their money is safe. We all recognize the extent to which security is dependent upon public confidence. I am not greatly impressed by some of those who seem to believe in the perfection of our present banking system or those who appear to look upon the banking system as something sacred. I read in the 1934 evidence that there were experts, and that there were interests who were just as violently opposed to the creation of the central bank, and especially to the creation of a publicly-owned bank, as there are now opposed to the disclosure of these reserves. We have seen that bank established. We have seen it become a publicly-owned bank, and no catastrophe has befallen the country. As a matter of fact, that institution is hailed to-day as one reason why it is unnecessary to go any further with the principle of public ownership. I have heard only one valid reason given for not disclosing these inner reserves, and that is the reason given by the minister, that such a disclosure would undermine public confidence. I do not consider Mr. Hanson's argument a valid one, namely, the argument that the banks are only required to do the same as commercial firms are required to do. In the first place, I am not sure but that many of those large commercial firms should be required to make more disclosures than they do, and that it would be in the public interest if they did so.

Mr. FRASER (*Northumberland, Ont.*): Why not carry it right through?

Mr. NOSEWORTHY: In the second place, the banking system is in a very different position, as we all recognize. The increasing dependence of the banking system upon government business and government securities is making it more and more a public utility, and as such I feel it should be subject to much more legislative authority. I sincerely believe that the refusal of this committee to recommend the disclosure of these inner reserves will do much more to impair public confidence in the banking system to-day than the disclosure of these inner reserves will do.

Mr. SLAGHT: Hear, hear!

Mr. NOSEWORTHY: There are two reasons in my mind: first, the enormous amount of publicity that has been given across the country to this whole question of inner reserves, for in itself it has aroused an enormous amount of public suspicion and public question, and the public to-day is asking why these reserves should not be revealed; and in the second place, the minister has admitted that upon investigation he has discovered two or probably three banks which have this year set aside more than he considers necessary and he will recommend that those banks transfer a part of that reserve to income where it will be taxed. So far as I can find out, and I have questioned bankers and others, this is the one instance on public record where a Minister of Finance has recommended to the Minister of National Revenue that any bank has set aside in its inner reserves more than in the opinion of the minister is necessary. Mark you, that revolution has come to the country only since this debate was precipitated in this committee and, rightly or wrongly, the country to-day will take the position that it is only because of the precipitation of this debate that that discovery has been made and that that recommendation will be forthcoming. That is the point of view which the people of Canada will take. In the light of these facts I am satisfied that you will undermine public confidence in their banking system much more if you insist on keeping these hidden reserves a secret than you will at the present time by disclosing them as is required by the motion before us.

As to how important that reserve is in the whole structure of maintaining public confidence, I am not going to attempt to say. Mr. McGeer has taken the best part of two days to show us that that reserve is not as important a factor in maintaining public confidence as the banks or even the minister would have us believe it is. That is a matter for each member to decide for himself.

Just one other point. It appears to me that the minister in taking the stand he has taken has demanded what amounts, in my opinion, to a vote of confidence in the minister. I have a great deal of confidence in the Minister of Finance. I have a very high regard for his judgment, but not being a member of his party I am not particularly concerned with his demand that this vote should be a vote of confidence. However, I think if I were a member of his party I would seriously object to a committee made up of representatives of different parties being placed in that position when a vote is to be taken.

The CHAIRMAN: Mr. Picard has asked for the floor for five minutes.

Mr. PICARD: Mr. Chairman, I shall not speak for more than a few minutes. I was one of those who was keenest to have disclosed to us all possible information concerning all aspects of our banking system, and I voted in the first few days of this committee to have this a general discussion of the problem before taking the bill clause by clause.

The banks are performing a necessary function in the economic life of our country. Whether this service should be rendered by banks controlled by private individuals as such or by banks entirely owned or controlled by the state is a wide question which we do not have to decide now, fortunately. I am still favourable to private banking, but I think the government should get away as much as possible from using private banks for its financing. We have advanced in that direction in the last years but I think we should come to the point where the government should have recourse only to the Bank of Canada for such purposes. I also think that all undue privileges should be taken away from the private banks and that they should be treated as other business concerns are treated. What is sound business practice for general business should be sound business for the banks. I thought at one time that bank reserves were allowed to be built tax free at a much higher level than necessary and, therefore, I was inclined to believe in the first moments of this debate that it would be imperative to have them disclosed.

The statement by the Minister of Finance last week, and his remarks of yesterday have changed my mind on the matter, and I have become convinced that his attitude on this point is sound, and I will support him by voting against the motion. In doing so I do not feel I am helping in protecting the banks' shareholders but the depositors, that is the so-called common man who makes the largest number of deposits in Canada. That is the main argument of the minister's speech that prompted me to vote against the motion. I do not agree, however, with some insinuations that may have been made in the committee that Mr. McGeer's and Mr. Slaght's activities on this committee have not been beneficial in some way. That is evidenced in the minister's statement of last week when he told us that a new subsection would be added to section 56. Another good result is the decision to amend bill 91 to require the minister to collect and assemble such information as would permit the publishing yearly of a table such as the one found on page 2620 of *Hansard*. This procedure should give the public the opportunity to get a truer picture of the banking situation in Canada.

I think it is for the good of our parliamentary system that the people in the country know that we are scrutinizing the situation in this committee and I am of opinion that no matter how long we have been discussing the banking problems, it is not to the disadvantage of the parliamentary system, but should give more confidence to the public in the work of our committee. It will show we are not here merely to rubberstamp some decisions of the minister's advisers, but to inquire and probe the situation and agree with them only when we are satisfied they are right. This is the case with me on this matter of disclosing inner reserves.

Now, I am convinced that there are beneficial changes introduced in this bill by the minister, and I am convinced that it is now high time we come to them and outline them and show the public of Canada that this bill means improvement over the past, and instead of being reactionary or sticking to the status quo it means that a considerable step forward in the right direction has been made. It is highly important that the discussion of the past week on bank reserves should not obscure all the good elements and the progressive clauses of Bill 91.

Mr. JAQUES: Mr. Chairman, before the vote is taken I wish to say a few words. As I have said before, the movement to which I belong is opposed to the nationalization of banking. We believe in private enterprise and in profits. To put the matter as shortly as possible we believe that financial policies should be directed to the end that the people can consume—of course I am speaking of normal times, not war times—that the people should be able to consume to the limits of their desire to consume and of their power to produce, whichever comes first.

Much has been said of "confidence" which word has been frequently used—with regard to banks and banking. May I submit to the committee that the banks are not the only institutions that depend upon confidence. I will say that parliament and the whole idea of parliament and democratic government depend on confidence, and unless I am very much mistaken at the present time the people, speaking generally, have much more confidence in the banking system than in our democratic parliamentary system. I hope I may be wrong, but I do not think I am.

With regard to the item under discussion, the hidden reserves, it seems that we have said either too much or not enough. I believe that to-day people know too much or too little about them. What they do not know they will imagine. And I believe that that being so it will be in the best interests of all concerned—not only the banks but all the people in general, and I might say of our chances of being returned to parliament—that Mr. McGeer's and Mr. Slaght's motion should be carried. As I say, I think the people know too much or not enough—they suspect something; they suspect that something has been hidden. Therefore, I believe it will be in the best interests of everybody if that mystery is cleared up, as suggested by this motion, and for that reason I intend to vote for the motion.

Mr. BLAIR: Mr. Chairman, I appreciate very much the arguments we have heard. There was so much to learn with regard to the banking system. I still have much to learn, but I congratulate those who have made inquiries, and I congratulate the minister in going part way to meet certain demands. I think it was very important. I believe that too much stress has been placed upon hidden reserves. I believe it does not matter very much whether they are revealed or still hidden, but from the remark of the minister I take it that it will be considered a vote of censure if we vote against the minister. The minister knows, and every member of this committee knows, that I cannot possibly help to pass a vote of censure by my stand with regard to any government that gives us a price control and the excess profits tax. The price control matter alone ties me for the rest of my life to any government that puts that through. It is a measure to prevent war; it is a measure on behalf of the poor classes. It is the greatest godsend that Canada has ever had, and we have given a lesson to the rest of the world. No, I cannot—whatever is said of this matter—I could not possibly cast a vote of censure when I think of price control and excess profits tax. I have to vote with the minister and accept this.

Mr. BLACKMORE: I have listened with a great deal of interest to the discussion which has followed the introduction of the motion by Mr. Slaght. I believe the discussion has been entirely profitable. I am not convinced at all that the confidence that the people have in the banking system depends in any measure at all on the hidden reserves. The statement has been made by the minister and, in my opinion, has not been substantiated in any degree at all; therefore, I am not at all impressed by the minister's argument. I believe in a general way that the full truth ought to be known by the people with regard to everything which pertains to the people. Consequently, I am unalterably opposed to the general idea of keeping anything hidden in the country.

Mr. MACDONALD *(Brantford City)*: Are you in favour—

Mr. BLACKMORE: I am making my speech.

Mr. MACDONALD *(Brantford City)*: I understand that Mr. Slaght's motion states that the aggregate amount of inner reserves should be disclosed once every ten years; do I understand your position is that each individual bank should disclose its inner reserves annually?

Mr. BLACKMORE: I would take Mr. Slaght's motion as simply the thin edge of the wedge, and I would go a long way farther than he goes. I think Mr. Slaght believes that too.

If the people at the present time are not sufficiently educated in the Dominion of Canada to enable them to learn the truth about the hidden reserves and still maintain calmness regarding the banking system, then I say the thing to do is to educate them until they can learn the truth and still face the facts of the situation with calmness. I do not wish to use any more time. I think I have placed my stand definitely on the record. I am going to support Mr. Slaght's motion because I believe it is in the best interests of the country.

Some Hon. MEMBERS: Question.

The CHAIRMAN: Mr. Slaght has the floor.

Mr. MAYBANK: Mr. Chairman, I wish to make this representation to you.

The CHAIRMAN: All right.

Mr. MAYBANK: I also wished to speak. Mr. Slaght has spoken several times on this motion, and I submit that other persons should have some right to speak.

Some Hon. MEMBERS: Hear, hear!

Mr. MAYBANK: The mere fact Mr. Slaght has risen again is, I submit, not justification for his being allowed the floor at this time. I stress the word "again."

The CHAIRMAN: Mr. Slaght will probably give way.

Mr. SLAGHT: Certainly. But this is my view. The resolution before the committee is my resolution. A great deal has been said—

Mr. MAYBANK: You close the debate.

Mr. SLAGHT: I should like to, if I may, close the debate. I will undertake to do it in five minutes and five only and will sit down in five minutes.

The CHAIRMAN: If you intend to close the debate, Mr. Slaght, then the vote cannot be taken to-day.

Mr. MAYBANK: That is so.

The CHAIRMAN: The vote cannot be taken to-day. It is now one minute to 1 o'clock.

Some Hon. MEMBERS: Take the vote.

The CHAIRMAN: I would suggest that you give way, Mr. Slaght.

Mr. SLAGHT: It is probably just as well that the vote should go over until to-morrow.

The CHAIRMAN: I think we will have to let it go over. Mr. Maybank has asked the floor.

Hon. Mr. HANSON: All right. Let us sit until 1.30.

The CHAIRMAN: Mr. Maybank, Mr. Slaght gives way.

Mr. MAYBANK: Mr. Chairman, if the vote is being taken to-day—

The CHAIRMAN: The vote is not to be taken to-day.

Mr. MACDONALD (*Brantford City*): I may have a few remarks I may want to make.

The CHAIRMAN: I expected you might have.

Mr. SLAGHT: If the vote is not being taken to-day, I willingly bow to Mr. Maybank.

The CHAIRMAN: That was the understanding, Mr. Slaght.

Mr. MAYBANK: Mr. Chairman, I had desired to speak upon this, and it is virtually 1 o'clock now. I saw no opportunity whatever of a vote being taken to-day, and while I desire to speak upon this, I would prefer not to do so under these circumstances. I do not know whether we have in the committee substantially the same procedure as in the house, but I would move the adjournment of the debate and we can take the vote to-morrow, we will hope.

The CHAIRMAN: I suggest that we adjourn until to-morrow morning at the usual hour and that Mr. Maybank have the floor.

Some Hon. MEMBERS: Hear, hear!

The committee adjourned at 1 o'clock p.m. to meet again on Thursday, June 15, at 11 a.m.

June 15, 1944

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Maybank, you have the floor.

Mr. MAYBANK: Mr. Chairman, I desired yesterday to speak on this subject merely to make clear my point of view with reference to this motion. I do not know that I should have desired particularly to say anything about it if it were not for the fact that there seems to be an attitude, as evidenced by a remark of Mr. Slaght, of making absolutely certain that every person gets himself on the record as though some might be seeking to escape. I felt that one remark addressed by Mr. Slaght to the committee was more or less menacing, that in effect there was a decision to be made now as to whether one would vote with the people or whether one would vote with these wolves, the bankers. All through the proceedings there has been that atmosphere either created or intended to be created.

You will recall I said at that time I would be only too glad to be given an opportunity to vote upon this but there seemed to me, at that time at any rate, to be an attempt going on to prevent any person voting upon anything. Not merely do I wish to vote against this motion but I should like to say this, that I do not know of any motion that I have ever heard proposed around here which I regard as contemptuously as I do this.

Hon. Mr. HANSON: Now, that is provocative.

Mr. MACDONALD (*Brantford City*): That is his opinion.

Mr. MAYBANK: Nevertheless, such is my view. I have been considering the arguments advanced in favour of it. The statement I have made has nothing to do with the individuals who are making the arguments. I do not desire my remarks respecting an argument to be related to the person who is making the argument, but much which has been spoken in favour of this proposal is either so irrelevant or else it is so utterly lacking in any strength towards persuasion that I cannot help but regard the arguments as being, at least, negligible. I'll use that word since Mr. Hanson seems to think my other expression was provocative.

I certainly do not want to be in the position of opposing something merely because it is new. For example, Mr. McGeer proposes in the course of this argument and generally a pretty wide departure, a great departure in our monetary system. Merely because that represents departure is not, in my opinion, a reason for being opposed to it. At the proper time I think Mr. McGeer will—I do not know whether he can further develop his argument—again develop his argument in that respect. Merely because that new financing idea of Mr. McGeer, if we may call it new, is coming up is no reason for being against it. I do not want to be against this proposition merely because disclosure of reserves has not been made before.

Another thing is I do not want to be against the motion if the practice we have had results in some person escaping taxation, but it should be abundantly clear there is no escape from taxation under present methods. What has been learned here makes this clear.

In the first place I say I do not think there is anything stronger one can cite against this motion than the lack of argument that has been given in favour of it. I read over very carefully the statement of Mr. Slaght as it appears at pages 450 and 451, and on down to the conclusion of that argument. That contains absolutely the whole argument in favour of this. I have read the rest of the proceedings, and I have gone over the typewritten transcript of the days that have not been printed yet, and the sole arguments brought forward are: first, that disclosure will not do any harm; and second, that there is not very much labour involved. Mr. Tompkins has all the material; it can be easily laid in front of us. There is no other argument made in support of the motion except that not much labour is involved in supplying the information, and, in the second place it cannot do any harm, but it would seem to me—

Mr. BLACKMORE: Would the hon. member permit a question?

Mr. MAYBANK: Yes.

Mr. BLACKMORE: Did he not gather from certain remarks of Mr. McGeer yesterday it was virtually impossible for us to determine the actual costs of our banking service unless we knew the extent of the hidden reserves?

Mr. MAYBANK: I shall probably come to that a little later, but at the moment, Mr. Chairman, I am dealing with the arguments put forth by the sponsor of this motion, and the statements of others I may characterize later. My view with respect to Mr. Slaght's argument simply is that before any person should endeavour to make a change in a system that has been in operation so long there ought to be some positive argument, a jot or tittle of argument, at least,—not mere rhetoric in which epithets of one kind and another are used, some very strong in description of many of those who hold the opposing point of view, and not cross-examination of a minister that made him look like a criminal whose credibility was being attacked. All of that sort of thing is not argument. That is verbiage, but it is not argument. There is nothing factual about it. There has not been anything factual adduced in support of this.

I think we should read the actual motion as though it were slightly amended. You will recall that the motion says that the chartered banks, each of them, will disclose to parliament the total aggregate amount of hidden inner reserve. The way that is worded it looks as though it is what is called a global disclosure. One might read it one way and one another but I think it is clear we have been told it is a global disclosure and not individual. At any rate, they are all to supply this. They are to state the source of the money, the method of furnishing it to the inner reserve, and the details and the amount. Mr. Slaght is not asking merely for a statement of the total amount of the inner reserves even if we take it every ten years. He wants all this detail.

Apparently the idea is, as he says, to trust the people, to throw this out in all this detail. On the face of it it would seem to me that in itself could lead to a great deal of speculative thought on the part of people as to just how one bank stood with relation to another; and the mere fact that one bank was holding back the information would in itself result in suspicion. So that if I were willing to run along with the sponsors of this proposition on the idea that every bank should disclose all—I am like the Doukhobors, as Mr. Kinley says.

Mr. KINLEY: Where did I say that?

Mr. MAYBANK: At any rate, the same arguments against it might not apply but as soon as you lump it all together then you lead to all manner of speculative and suspicious thinking respecting the position of the banks and you make the condition worse than it was before.

It is said this should be done only once every ten years. That does seem to be completely innocuous at first sight, and doubtless it has been offered with that idea in mind, but if there is one thing more than another that would turn me against this it would be when I found out the real idea in asking for it every ten years is only the thin end of the wedge, and it is proposed to make use of the decision in this committee to disclose that in 1943 to get disclosure in 1944, 1945, 1946, 1947, and so on. I would have much more respect for this proposition if it were a straightforward one to get full disclosure from the banks and it was fought out on that line, get full disclosure from every bank every year instead of this turning move, and this is a case where that is a fair description of it.

Hon. Mr. HANSON: Flanking movement.

Mr. MAYBANK: Flanking movement, turning movement, whatever you like, but it seems to me that the sponsors of this motion are endeavouring to make use of this committee for the purpose of getting them into a position later on where they will be able to argue that you should now disclose because you were willing to disclose in 1943. I would have much more respect for this whole proposition if there had been frankness in this respect from the start.

Mr. BLACKMORE: Would you vote for it?

Mr. MAYBANK: No, I do not think I would vote for it for reasons I shall disclose but at any rate I would not have the same lack of respect as is induced by this sort of approach.

Mr. BLACKMORE: You have no respect for strategy at all?

Hon. Mr. HANSON: You do not call that strategy, do you?

Mr. BLACKMORE: You do not see that?

Mr. MAYBANK: One cannot help having a certain sort of respect for strategy, but when it is strategy designed to encircle a person, make a friend of him, a friend to one's ideas, and to do it circuitously like that, one cannot have very much respect for that. Strategy against an enemy is understandable and one can respect it but strategy designed under guile and guise to win friends and influence people is not the sort of strategy for which one can have a great deal of respect.

I said I am not in favour at all of any escape from taxation. Over and over again in this regard it has been suggested that there is escape from taxation. My whole attitude with respect to this will change if it can be shown that the banks do, by reason of having these reserves, escape taxation which is proper taxation. Every person escapes taxation to a certain extent. When there is an exemption that is an escape from taxation in respect to whatever small amount is exempt. What I mean by my expression is if there is any improper escape from taxation by reason of the setting up of this reserve my position with respect to it will be wholly changed. I am saying this because over and over again throughout the record will be found references to the idea that there is some clandestine escape from taxation, some clandestine hiding of assets which would otherwise be subject to taxation. Now may I say this. If Mr. Slaght, Mr. Blackmore or any others who have spoken with respect to this or who support this can give any reason at all or any indication that there is any escape from taxation, my position will most certainly be changed. I am not in favour of any such evasion as that.

Mr. NOSEWORTHY: May I just ask a question at that point?

Mr. MAYBANK: Yes.

Mr. NOSEWORTHY: Would you not admit that the instance referred to by the minister in this statement is an instance of that kind?

Mr. MAYBANK: No. Most certainly not. I said, "Any improper escape from taxation." There is no improper escape from taxation. There is no final escape from taxation in case these moneys come out of reserves. The situation is not at all different from that of any other commercial concern. Every commercial concern either does or desires or tries to set up a reserve to take care of losses, such as bad and doubtful debts for example. As a matter of fact, the income tax people—and I say this by reason of some personal experience—had been some few years ago much easier with respect to the setting up of these reserves than they are to-day. My friend to the left happened to remark that they are pretty tough. I think that is quite right. There is a change in the administration in the income tax office. But the principle is there, that every commercial concern does, if its business is such as to require it or make it appropriate, set up reserves for the purpose of taking care of bad and doubtful debts. This is substantially the same sort of proceeding, but it is done in a different way. It is done in the way of evaluating the assets which the bank has. There is, however, this difference I think between a commercial company and a bank. Whereas a commercial company does it as a matter of sound practice, the bank must do it. The bank must set up a reserve. The bank must place a true valuation upon its assets, and that is what leads to the reserve. If they are over-valued, if it were left alone, that would result in too much money being taken out from taxation. If they are under-valued, of course the opposite effect would be had, and the effect there would be that the shareholders would be getting less than they ought to get. It may be that Mr. Noseworthy meant a moment ago, when he referred to the example given by the minister as being an escape from taxation, the fact that the minister had declared it would appear that some banks had undertaken to set up too large reserves. Of course, if that situation were left alone, there would be something improper. But then, that is not to be left alone. There is not any suggestion that that sort of condition has been left alone in the past. If there are arguments that that sort of condition has prevailed in the past, then we are in an entirely different position here to-day.

Mr. NOSEWORTHY: Is not this the only case where the Minister of Finance intervened?

Mr. MAYBANK: So far as I know, it is the only case where the minister has intervened or had cause to intervene. There has not been any other case mentioned where it has ever been done or been required to be done. These are matters of judgment, and always will be matters of judgment between half a dozen different sorts of people—directors, inspectors general, superintendents of income tax, ministers of finance and so forth. This question of judgment will always come into any of these problems, and you cannot get away from it. The human equation is bound to remain in the picture no matter what sort of system we adopt. But it is clear from the safe-guards that there is no intent, at any rate, to allow an escape from taxation. I think it is a good thing that some further tightening up in that respect is now to take place because of the fact that it might make people feel more secure. But as I say, if there is any argument to be adduced that there is a real escape from taxation in this sort of practice, then my position is certainly altogether changed.

There is another question I wish to point out with regard to the motion itself, and it is this. Whatever the argument is with reference to the meaning of this motion, when it is passed, if it is passed, it means what these words say. It does not mean the interpretation that various people in this committee may have put upon it. As an illustration, Mr. Slaght said that he would be satisfied with ten-year disclosures. Now, of course, it is his intention to have that put into his motion. But if he left that out, the fact that he had said a ten-year disclosure would be satisfactory and the fact that that induced the committee to vote for it, would not affect the terms of the motion. The motion would require annual disclosure. Of course I anticipate that he will formally make that change at some stage. But what caused me to make that remark is this. This motion, after it is passed, will mean what it says and not what various people in this committee interpreted it to mean at the time. Consequently what is asked every ten years is "the details and amounts thereof for the past fifteen years down to the present time," unless that is changed;

but complete details, at any rate, have to be supplied. It is not just a case of asking for the total amount of reserves that we had at a certain time, at the end of 1943. It is asking for much more than that; and indeed it may very well be that there will be some difficulty in understanding just how much is required in this case. One thing is clear, I think, and that is that it ought to be reduced to the clearest possible terms. If Mr. Slaght does not mean anything which is at the present time in that motion, I would suggest that he amend it so that it carries out his intention.

Mr. SLAGHT: Will the honourable member permit an interruption?

Mr. MAYBANK: Yes.

Mr. SLAGHT: With the permission of the chair I declare, so as to have him easy in mind about it now, that I abandon everything after the words "ten banks" and strike out from my motion (1), (2) and (3). That will make it crystal-clear that I am seeking the disclosure of the aggregate hidden reserves.

Mr. MACDONALD (*Brantford City*): Would you mind reading the motion as amended?

Hon. Mr. HANSON: How will it read now?

Mr. MACDONALD (*Brantford City*): Read it please.

Mr. SLAGHT: I was going to do that later. May I say that it is unfortunate that we cannot have typed copies of motions in the hands of members. I must say members are handicapped because they cannot carry in their minds what the motions are, and our printing is five days behind.

Mr. JACKMAN: Page 450 of the evidence.

The CHAIRMAN: Mr. Slaght, your original motion is in the printed copy of the record.

Mr. SLAGHT: It has come in to-day, perhaps. I shall be glad to comply with that request to read the motion as amended. It is: "That the chartered banks, each of which has applied to parliament for a ten-year renewal of their respective charters, should be directed and are hereby directed and required to disclose to parliament through this committee forthwith the total aggregate amount of hidden inner reserves of the ten banks."

Hon. Mr. HANSON: That is clear.

The CHAIRMAN: I am informed that the change must be made with the consent of the committee.

Mr. KINLEY: Surely.

Some Hon. MEMBERS: Yes.

Mr. MAYBANK: Whatever be the proper procedure in that respect, it does not matter to me at this present moment. Mr. Slaght has done what I supposed would be done, because no person knows better than he that words of his, which become law, will mean what the words say and not what he intended in case there may be any difference. Whether or not the change can be effected later on, I do not know. But at any rate whatever change is not put in there will have a consequent and possibly very serious effect upon the meaning of the law which we establish by passing the motion.

I have said that I considered there was no argument whatever of a positive nature offered to support this motion. I believe that a fair representation of the argument that Mr. Slaght himself has brought forth amounts only to the two propositions which I laid before you. If there be some other concrete argument to be found in those written words, I shall be glad to have them pointed out; I certainly strove to find an additional argument but was unsuccessful. In making a major change, where ministers of the Crown are definitely against it and very many other thoughtful people are definitely against it, it would seem to me that there ought to be some positive reason advanced for the change; but that is not the case here.

That sort of remark could not be made with reference to Mr. McGeer. Mr. McGeer does bring forth arguments of quite a different sort. Mr. McGeer, however, brings forth arguments that have relevancy if, as and when the monetary system of the country is changed. Mr. McGeer's arguments are his well-known arguments with reference to monetary reform. They stem almost wholly from the statement of the minister that the banking business is a business based on confidence; and it is in an attack upon that statement that all arguments are thereafter developed. I made a memorandum of what I found had been said and what I remembered having been said. He wants to see a complete segregation of commercial banking from public finance. He thinks that we may be one depression ahead of the time but we will be no more than that when there will a complete return to the kind of banking that was carried on before 1920 when our commercial banks flatly refused to finance long-term securities of any type, whether they were government or otherwise. Also he desires to see that instead of going abroad for our municipal, provincial and national finances as we did before 1914, we will realize that we have found the means of establishing the power to issue whatever public finance is required for government and for national development. His whole argument is that we have to get a new financial system or a different financial system. There may be some quarrel as to whether Mr. McGeer's proposals are new or not. But at any rate it is so different that, in this committee, one is justified for the moment in calling it new. I do not know that he will quarrel with me for using that expression.

Mr. McGeer: Well, it is new to this extent; it is largely based, or I suggest it is largely based on the Macmillan committee report of 1931.

Mr. Maybank: Yes. At any rate, with that explanation, should I happen to use the adjective "new" at any time, it will be understood what is meant.

Mr. McGeer: It is new to that extent.

Mr. Maybank: We both are endeavouring, at any rate, to mean the same thing. If you have this completely new system that Mr. McGeer mentions, certainly these inner reserves are not important. But it is putting the cart before the horse to introduce this sort of argument against the maintenance of these reserves at the present time. You just take the argument that Mr. McGeer brings to almost any financial discussion and does bring into I think nearly every financial discussion; I know that he has been talking to me for a long time and I have never heard him differ very greatly. I do not think it matters very much where the argument starts, it will certainly finish with Mr. McGeer propounding this new plan of his. Now, there is nothing to be said against it on that ground. There is no reason why we cannot have an appropriate time and take up the question as to whether it would be better to do our public financing, if I might use that term; public financing in one way and give to our commercial banks only the business of supplying confidence. There is no reason at all why we cannot go into that; and there is no reason against it either, just because we may find that it may have consequences which we do not like—that is a broad question. But to use that same thing as an argument against these reserves is quite irrelevant to the subject. It is arguing about not having the reserves, because there ought to be and doubtless will be a new system; but as to the way the reserves are kept now, whether they have been too great or too small, or the suggestion that they might have been too great or too small; or as to whether it would have been better to have them disclosed; that through keeping the system as it is at the present time would give any greater confidence or any less confidence, there is no word at all from McGeer or anybody else against remaining under our present banking system. There is no argument whatever adduced by any person in support of this proposition; they all boil down to the one argument, it can do no harm. The actual good effect of the disclosure has not yet been brought before the committee at all and the possibility of argument in favour of it has been merely touched upon.

Mr. BLACKMORE: Would the hon. member permit a question?

Mr. MAYBANK: Yes.

Mr. BLACKMORE: Has he found any evidence adduced by the Minister of Finance in support of the contention that the disclosure of these hidden reserves would destroy confidence?

Mr. MAYBANK: No, I do not recall any. I do not recall—

Mr. BLACKMORE: That is very important.

Mr. MAYBANK: I do not recall that there was any actual factual evidence of that sort; but my proposition is, and I think that all of us are pretty well agreed, that when a change is proposed the person proposing the change has the onus of showing some reasons—some reason, even the smallest—for the change being put into effect. I do not know why the impression has been created that the banks' hidden reserves are the chief reason for confidence of persons dealing with the banks in the banking system. I do not know why that impression has been created. It did seem to me that sometimes some were arguing as though that had been said. Well, I do not think for a moment that that is the reason for confidence or the main reason for confidence. Obviously the reason people have confidence in the system is that they can get their dollar when they ask for it; and if they cannot get their dollar when they ask for it, they haven't got it. Now, it is not solely because of these reserves that they may be able to get their dollar. It is by reason of their assets, by reason of the pledged securities from other people, by reason of their published reserves, and by reason of a great combination of things; this apparently being one. He does seem to me that if I were dealing with a man and had to obtain some liquid cash from him by reason of the fact that he owed it to me, if I wanted some of it and he gave it to me quickly, I would feel that I had a chance to get the remainder when I came to him. But if on the other hand I went to him and found that before he could supply it to me he had to sell half a dozen cattle I would begin to wonder if it were possible for me to get my remaining dollars from him. The fact that moneys can be paid out without depleting the reserves which are already known would it would seem to have a tendency to keep up or to create confidence. That, of course, is a matter of opinion with all people; but I would say that in my judgment these reserves which make it possible to make payments without apparently drawing on any other assets which are published and known would tend to create confidence of the customers in the banking institutions. That, however, as I say, is a matter of judgment; others do not need to follow that at all.

And now, Mr. McGeer in offering this system of public finance; if that be accepted, then of course it is quite unimportant whether we pass this motion or not. I am quite sure it will not matter whether we have these hidden reserves or whether we do not have them if we adopt that new system of public finance. That is something that can be determined in a short time and if we adopt it we will find that we have spent many many days debating this subject and that it has had quite barren fruits.

I do want to put in this table right now, however, although I think the argument was entirely irrelevant to this specific matter; but since Mr. McGeer has introduced his idea I want to put in this table against the system which he has advocated as he has gone along during the last several days. Mr. Ilsley did ask him, what about this proposition put up by Cowan; we will look at some of the other countries and see how they have made out when they have issued money out of proportion to what we have done. We are somewhere in the neighbourhood of 6 per cent as against various percentages in other countries probably going up as 80 or 90 I imagine in China. Mr. McGeer has been asked for the issue of money according to the needs of public finance; then he went ahead and started to talk about China. Mr. McGeer himself said we do not have to follow China. Then Mr. McGeer went on to make this statement; we have been able to establish controls of price production and distribution—

Mr. McGEER: Prices, production and distribution.

Mr. MAYBANK: Well?

Mr. McGEER: Prices, production and distribution.

Mr. MAYBANK: Prices, production and distribution; yes—and distribution. That has carried us to the greatest inflation of bank funds, Bank of Canada bills, that has ever been known in any country. Now, I do not want to take too much out of these remarks but if Mr. McGeer's proposal with respect to the new method of public finance means we are to issue money, either by the printing press or the fountain pen, that if it did nothing else it would tend to create inflation and to prevent inflation we would exercise the same controls of prices and of production and of distribution that we have at the present day for the purposes of the war. If that is the case then I may as well say now, you can count me out, I want none of it. The sooner we get away from this hodge-podge of regulations that we have, necessarily because of the war; the sooner we get away from this sort of thing the better and if the idea of this new system of public finance is first of all to put out a lot of money to take care of anything that we desire to have produced and to take care of all kinds of expenditures, and then in order to avoid inflation to have continued a scheme of controls such as we have been experiencing in the last few years; well then, I am quite certain, I know that I do not want it. I have had all the controllers and all the controls and all the regulations and all the ministerial orders and all the suggestions which are mandatory and all that type of thing by which we have been plagued, and we have been plagued because there is a war on; but whenever the war is over and we get back again under peacetime conditions surely I cannot believe that Mr. McGeer does propose that. But you can see from the words of wisdom I have read that that is a fair assumption at this stage when he comes to work out this question of a new form of public finance. However, I do wish that that point would be cleared up, because, Mr. McGeer, I cannot go along with you if you are going to be leading an army of controllers. That is what that means.

Now finally this proposition comes down to a question of judgment. Mr. Slaght and those who are with him say that these figures should be made public in order that we may see whether there is a right amount of money being set aside, whether it is too much or too little, and whether it being too much there is the possibility of taxation escape, if there is that possibility, and if there is any taxation escape possible then at any rate that should be brought out in front of us that we may exercise our judgment upon it. On the other hand, the position of the minister is that this material all goes before the government now, and additional examining officers are being created for making further investigations into it; and his proposition is that this final decision as to what reserves should be allowed should be left to the government as it is now in the case of other commercial concerns. Well, I have my own judgment on that specific point; all of us have, and we all have our own opinions of the judgment of the minister. And here let me say that while I do not worship the minister I certainly have no quarrel with him. He is sometimes too strict and rigid. I am sure that any person who has had any dealings in connection with matters concerning the Wartime Prices and Trade Board have found that out. At the same time I might say that I am not particularly a worshipper of anything, but when it comes down to a question of judgment, as to whether he and his advisers are to be trusted—and I say this without offence, I think that Mr. Slaght, Mr. McGeer or the various others who have spoken on the matter—so far as I am concerned there is no argument on it. I am asked by inference to vote against this government and turn this government out unless it discloses to the committee and to the sponsors of this motion these particular facts; I am asked to turn them out if they will not undertake to give this information now, at this moment, and bridging my thoughts into the future, ten years from now, the government of that day, there will be a government ten years from now and whatever government is there will be compelled to do this. This is not just a transitory step for the moment. What I have to decide is whether to throw out the Minister of Finance in favour of those who are proposing this motion; and if such is the case, it does not require a second to get away from it all—and I say that without any offence at all to the hon. gentleman concerned. Of course, I know that they may say it is not the Minister of Finance, that unfortunately he is under influence, the bankers have brought and enmeshed him and he cannot make up his own mind and he cannot fully understand this situation; these fellows bamboozled him. I realize that could be said, but I have no reason for thinking that is so.

Mr. SLAGHT: Nobody else has said any such thing.

Mr. MAYBANK: No person else has said it—then it comes down to a question, indeed, to use names for illustration, of the judgment of Mr. Slaght or the judgment of Mr. Ilsley. That is what the issue finally comes down to. It is a question of judgment as to what should be done and it finally boils itself down to that. Without being in the least disrespectful I have not any hesitation in deciding to keep the government in and to rely on its judgment in this matter and feel secure that they will not let any taxation dollars get away.

Mr. JAQUES: May I ask the hon. member a question?

Mr. MAYBANK: I am practically through, anyway.

Mr. JAQUES: I did not quite catch what you said. Did you say that it was a preposterous suggestion? Did you mean by that that the alternative to knowing what these reserves are is the defeat of the government? If that your position, because it seems to me if that is so there must be a great deal more in this question than we have been led to believe.

Mr. MAYBANK: I think it is perfectly clear the government has made its decision on the question of confidence, and consequently if you vote against it you are obviously turning the government out.

Mr. SLAGHT: Not at all.

Mr. MAYBANK: I do not mean it would be turned out by a vote of this committee, but it would have to be followed through and it turns out finally to be a vote of lack of confidence. If that is not right, of course, what I have said is incorrect.

Mr. JAQUES: What I was not clear about was whether you considered the government stand on that question was preposterous.

Mr. MAYBANK: I mean when it comes down to a proposal to turn the government out unless it will agree to the disclosure at the present time of the 1943 aggregate reserves, and also agree that the same shall be done in 1933, to turn a government out on that, and this government in particular, is a preposterous suggestion.

Mr. SLAGHT: This motion has nothing to do with the government or turning it out. It is directed to the bankers, if you will read it.

Mr. MAYBANK: That is a remark that I honestly did not think even Mr. Slaght would make. The matter has been set out clearly by the Minister of Finance that it is a question of confidence in the government or non-confidence. When Mr. Slaght says it is up to the bankers the bankers are subject to this parliament; the bankers are subject to the government and it is not for them to say whether they will disclose or not. The government already has the information, and as to whether or not there is confidence it seems to me that is very clear. As I say I think it all comes down to a question of judgment whether or not the right reserves are being set aside, and whether or not the determination of that question should be left in the hands of the government or whether it should be published as Mr. Slaght would request. For my part I have no hesitation whatever in continuing to rely on the judgment that has been exercised so far. I do not know that there is anything else I desire to say on it except if I have been wrong in saying there have been no positive arguments then the mere enumeration of them might be helpful at this time.

The CHAIRMAN: Mr. Hanson has the floor.

Mr. KINLEY: Would you defer for a moment? I have to go shortly.

Hon. Mr. HANSON: All right.

Mr. KINLEY: Mr. Blackmore asked a question of the member who was speaking. He said in effect: "Might not this reserve increase the cost of banking?" My answer to that is, in my humble opinion, quite on the contrary; this reserve should reduce the cost of banking and also allow more generous acceptance of hazards in dealing with those who have smaller assets. I have only to mention the new legislation for farm loans which has been introduced into the house whereby the government accepts 10 per cent of the hazard to show that this reserve enables them to take a greater chance on those who have smaller assets, and for the benefit of the poorer man.

Mr. BLACKMORE: The hon. member did not get me right.

The CHAIRMAN: Mr. Hanson asked for the floor.

Mr. BLACKMORE: The hon. member has misrepresented what I said. He did not mean to. That is not what I said.

Mr. KINLEY: What did you say?

The CHAIRMAN: Pardon me; Mr. Hanson asked for the floor a few minutes ago, and I have given Mr. Hanson the floor.

Mr. McGEER: I was going to ask if Mr. Hanson would permit me to put on the record a correction of some figures I quoted yesterday, and a statement of the figures that Mr. Macdonald asked for.

Hon. Mr. HANSON: I propose to correct you first.

The CHAIRMAN: Mr. Hanson has the floor.

Hon. Mr. HANSON: Yesterday the member for Burrard made certain allegations with respect to the huge increase in deposits during the depression period. Subsequently in the course of his speech he put on the record figures with respect to deposits made in the Bank of Montreal and in the Royal Bank of Canada which did not ring true to me. I have made an examination of the reports made by the ten chartered banks of the Dominion of Canada as of the 30th day of November, 1933 and the 30th day of November, 1943, which are to be found in the supplement to the *Canada Gazette,* in the first instance of January 6, 1934, and in the second instance of January 1, 1944. In the statement which was made, and the table I believe is filed as part of the record, he said that in the year 1933 the capital of the Bank of Montreal was \$36,000,000, its disclosed reserve was \$39,000,000, its notice savings were \$124,000,000, its current accounts—that is demand deposits—were \$509,000,000. In the year 1943 he gave the same figures with respect to the capital and disclosed reserve, notice savings being \$462,000,000 and current deposits \$603,000,000. On reference to the return to which I have alluded it will be observed that for the year 1933 notice deposits were not \$124,000,000 as stated but were \$378,000,000, and for the year 1943 the amount of the notice deposits was \$458,000,000 instead of \$462,000,000. With respect to the current deposits for the year 1933 the correct figures as disclosed by the return were $137,-000,000, and for the year 1943 $412,000,000. In any event, the figures do not bear out the inference which he desired to draw because he took into no account whatever the greatly increased assets of the banks in addition to the hidden reserve.

With respect to the Royal Bank of Canada the inaccuracies disclosed by the figures filed by the hon. member are even more glaring. In the year 1933 he correctly stated the paid-up capital of the Royal Bank of Canada as $35,000,000, and that the disclosed reserve was $20,000,000. Those same figures are correct for the year 1943, but with respect to the savings deposits payable after notice he made the statement that the figures were $128,000,000 whereas the returns published indicate that for the year 1933 the saving deposits were $263,000,000, and with respect to the year 1943 the savings deposits payable after notice were $395,000,000 instead of $650,000,000. With respect to current deposits for the year 1933 the figures were $133,000,000 instead of $450,000,000, and with respect to the year 1943 the correct figures according to the return are $438,000,000 instead of $500,000,000.

I desire to point out and suggest that in giving evidence before a committee the hon. member should have exercised greater care to see that his figures would be accurate and not mislead either the committee or the public. I do not suggest he did that with intent to mislead. I acquit him immediately of that charge, but the effect is to mislead, and the argument which he drew from his figures was based on a false premise. I put these figures on the record, and I offer in evidence if the committee desires to have it—and I think it should go into the record—the correct figures of all the banks, or if it is desired to limit it to the two banks in question that can be done, the return as of the 30th November, 1933, and the return as of the 30th of November, 1943, of the liabilities of the chartered banks made to the Minister of Finance in conformity with section 112 of the Bank Act. I do this in justice to these institutions which may find themselves injured to some degree by inaccurate statements of fact. I am going to offer this in evidence, if I may.

The CHAIRMAN: Mr. Fraser of Peterborough has asked for the floor.

Mr. MACDONALD *(Brantford City)*: I just wanted to make one observation.

The CHAIRMAN: Do you give way for the moment?

Mr. FRASER *(Peterborough West)*: Just for the moment.

Mr. MACDONALD *(Brantford City)*: I am not coming to the defence of Mr. McGeer. He is very well able to look after himself, but I understood him to say yesterday that the deposits increased during the years of the depression, 1932, 1933 and 1934.

Mr. JAQUES: Savings deposits.

Mr. MACDONALD *(Brantford City)*: I do not recall him comparing the deposits of those years with 1943. What I asked for yesterday was a statement showing the savings deposits during the depression years.

Mr. MCGEER: I should like to put that on the record. Let me say in explanation of what Mr. Hanson has corrected that Mr. Tompkins was kind enough to draw the mistake to my attention yesterday. The mistake arose through a transposition of the current with the savings accounts. It was a clerical mistake in the compilation of the record, but if you will check the totals which resulted from both figures of the deposits you will find my figures are not misleading. The total deposits of the Bank of Montreal were $1,065,000,000, in 1933 $633,000,000 or an increase of $432,000,000. The figures I took were from the annual reports of the Bank of Montreal and the Royal Bank of Canada in 1943, and the other figures were taken from the *Canadian Fiscal Review*, which are not exactly the same.

Mr. TOMPKINS: Those are different dates.

Mr. McGEER: Subject to that variation I do not think my totals are inaccurate.

Hon. Mr. HANSON: I have nct checked on that.

The CHAIRMAN: Gentlemen, just a minute please; Mr. Tompkins has a statement in regard to the matter that he would like to file with the committee.

Hon. Mr. HANSON: It was just to keep the record straight.

Mr. McGEER: I want to thank Mr. Hanson for drawing the attention of the committee to what I intended to correct on the information which Mr. Tompkins gave me yesterday.

Mr. TOMPKINS: Mr. Chairman, it is very true I drew Mr. McGeer's attention, as he has indicated, to one particular discrepancy in the figures. I think it must be remembered also that figures taken from the annual statements of the banks must necessarily be of uneven dates, and therefore in adding those figures together to get the total you do not get a total that is thoroughly good to use for comparative purposes. Furthermore, I think, Mr. McGeer, you omitted from your calculations Barclay's Bank of Canada figures.

Mr. McGEER: Yes, I did not include that.

Mr. TOMPKINS: I think it might be helpful to the committee if I filed a summary of the deposits by the public payable on demand, deposits payable after notice, deposits elsewhere than in Canada, and the deposits due to the dominion and provincial governments as of the end of each calendar year from 1928 to 1943 inclusive. There is this further difference between the monthly figures and annual statement figures. Annual statement figures break down the deposits in classifications of interest-bearing and non interest-bearing, whereas monthly statement figures classify them as demand and notice, and that in itself causes some slight difference from month to month. I have the statement here; if it is desired I will file it.

The CHAIRMAN: File it, yes. Is it your desire, Mr. Hanson, in view of the statement made by Mr. Tompkins, to have this statement printed also in the proceedings of the committee?

Hon. Mr. HANSON: I understand that Mr. Tompkins' statement is made up on a little different basis in point of time from my own. If I am assured that the results are illustrative of the same end that I have in view, I am quite content. But this is an official document. It is receivable in evidence in any court. It is a supplement of the *Canada Gazette*.

Mr. McGEER: It is quite acceptable to me.

Hon. Mr. HANSON: It is acceptable in court and is more legal evidence than any other you can obtain. Therefore it is the best evidence and so I trust you will have it included in the proceedings.

The CHAIRMAN: Is it the desire of the committee to have these two statements put on the record?

Some Hon. MEMBERS: Agreed.

Mr. CLEAVER: I suggest that Mr. Hanson have an opportunity of checking the statement which Mr. Tompkins has now filed, and if it is sufficient to meet his various points we should not clutter up the record with too many things.

Mr. MACDONALD *(Brantford City)*: I think it is a fair suggestion.

Mr. McGEER: With the consent of the committee I should like to complete this statement which Mr. Macdonald asked for. I promised to put it on the record.

The CHAIRMAN: Do you wish to read it or shall it go on the record?

Mr. McGEER: I should like to refer to what it contains.

Mr. FRASER *(Peterborough West)*: How long is it going to take?

Mr. McGEER: Not long. It shows that in 1929 the deposits payable on demand were $696,000,000; those payable after notice, $1,479,000,000; or a total of $2,175,000,000. In 1932 they fell. Deposits payable on demand, $486,000,000; payable after notice, $1,376,000,000; a total of $1,862,000,000. In 1936 the deposits had increased by a total of, demand, $132,000,000, and savings, $142,000,000; or a total increase of $274,000,000. In 1939 the demand deposits had increased by $255,000,000 and the savings by $323,000,000, or a total of $578,000,000. I take the depression years to start in 1930 and to continue up to 1939. The significant figure to me, and I think it is to the committee, is that in 1939, although the depression was continuing, we had total deposits of $2,440,000,000, as against total deposits in 1929 of $2,175,000,000. So that I think probably I was in error when I said as we went into the depression the deposits increased. What I meant to say was that we went into the depression, hit the bottom of it in 1932 and continued in the depression, and during the depression our deposits did increase. May I file that statement?

The CHAIRMAN: Yes.

Mr. FRASER *(Peterborough West)*: I will keep the committee only a moment, but I have a suggestion to make out of what Mr. Slaght has said and what Mr. McGeer has said. I feel that it would not be fair to the banks of Canada if they were not allowed to give evidence before a vote is taken on this motion.

Hon. Mr. ILSLEY: It would not be fair to whom?

Mr. FRASER *(Peterborough West)*: The banks of Canada. We have some of the bankers here. I feel that permission should be granted to them to state their case.

Mr. SLAGHT: That is quite agreeable so far as I am concerned.

Mr. BLACKMORE: Hear, hear!

Mr. FRASER *(Peterborough West)*: They can tell us perhaps the different swings in their losses. They have a better idea of it than anyone here. They know banking, and I do not doubt that there are many on this committee who know very little about it. I acknowledge that I myself do not. The reason I say that is that Mr. Slaght on Friday, June 9, page 535, is reported as follows:—

> Mr. Slaght: Mr. Chairman, I cannot be here on Tuesday when this vote is taken and I ask you to poll this committee. I represent 26,000 people in Parry Sound who want to know what this hidden reserve is and why it is not taxed.

I doubt if in Parry Sound there are twenty-six who know what a hidden reserve is or would even know anything about it.

Mr. SLAGHT: Have you ever been there?

Mr. FRASER *(Peterborough West)*: Yes. I think I know as much about the district as perhaps the honourable member does.

Mr. SLAGHT: I think you were fishing.

Mr. FRASER *(Peterborough West)*: No. I was not fishing. He also wants the chairman to make us all stand up and record our votes because he said further on, "and the continuation of that type of reserve escaping taxation when the little fellows pay their taxes 100 per cent", inferring I believe from that if they are not disclosed we are doing the little fellow out of something. I believe that every one on this committee is as much for the little fellow as Mr. Slaght says that he is.

Some Hon. MEMBERS: Hear, hear!

Mr. FRASER *(Peterborough West)*: I understand also from the evidence that has been given here that in the United States the banks there have been asked to build up inner reserves; I am very glad that is so, because I happen to have been in St. Petersburg, Florida, when that terrible crash of the banks came, when I saw three banks close up within three minutes and the streets just flooded with people. I know what such an event means. Here we have not had anything of that nature. That is why I suggest that the bankers be given the chance to state their case.

The CHAIRMAN: Mr. Fraser of Northumberland, Ont., has asked for the floor.

Mr. FRASER *(Northumberland, Ont.)*: I do not want it now.

The CHAIRMAN: Are we ready for the question?

Mr. FRASER *(Northumberland, Ont.)*: Apparently we are not going to have the vote.

The CHAIRMAN: I am not so sure that we are not going to have a vote.

Mr. BLACKMORE: I think there should be a question asked here just to clarify the whole situation. I wonder if the Minister of Finance meant to imply in his quotation that he read the other day that the United States banks had not had any hidden reserves up until recently. The statement of the honourable member who just took his seat would seem to indicate that the banks there had hidden reserves. I rather suspect they have had hidden reserves all along, perhaps for forty years.

Hon. Mr. ILSLEY: I certainly understand that they had inner reserves; that is, that the banks of the United States all had inner reserves.

Mr. BLACKMORE: Even in 1933?

Hon. Mr. ILSLEY: I think so. I think a great many of them were inadequate. I read a governmental authority there urging that they should have reserves against bad debts.

Mr. BLACKMORE: The point I am interested in is this. The question of the honourable member indicated that he had the idea that the banks in the United States had not had hidden reserves up until recent times.

Mr. FRASER *(Peterborough West)*: That is right.

Mr. BLACKMORE: The minister's reply has quite clarified that situation. The banks of the United States have had hidden reserves for many years.

Mr. MACDONALD *(Brantford City)*: But not enough.

Mr. BLACKMORE: There seems to be the idea that they had not enough hidden reserves. My reply would simply be this question: If it was lack of reserves that caused the banks to fail in 1933, which I greatly doubt, then the same object could have been attained by having greater published reserves. Greatly increased reserves did not need to be hidden reserves.

Hon. Mr. HANSON: That is not the point. It was how they had the money invested. In the case of the St. Petersburg banks, they had all their money tied up in real estate mortgages. I saw some of them liquidated under the hammer, and the depositors got about 12 per cent. That was because the money had been invested in real estate mortgages.

Mr. BLACKMORE: How valuable that information is to the committee at this time. The failure of those banks had nothing at all to do with reserves, either hidden or disclosed.

Mr. MACDONALD *(Brantford City)*: He did not say "nothing". Not altogether.

Mr. BLACKMORE: All right. The honourable member's statement is entirely sound, I think. You must go seeking for the causes of the failure of the banks in 1933.

Mr. NOSEWORTHY: Lack of government supervision.

Mr. FRASER *(Peterborough West)*: The minister did not say all the banks had hidden reserves in 1933. Only some of them had hidden reserves.

Mr. BLACKMORE: I wonder if the bank in St. Petersburg, Florida, to which the honourable member has just referred, had hidden reserves?

The CHAIRMAN: Please, gentlemen. Let us allow the minister to repeat what he said.

Hon. Mr. ILSLEY: Well, perhaps I had better get a little more definite information if it is important. I have understood that the inner reserve system has prevailed fairly generally in the United States. It may very well be that some banks did not have any, and I certainly believe that it was true that a great many of them had inadequate inner reserves.

Mr. JACKMAN: It would not make very much difference anyway because the American banking system was in a very different position from our own, inasmuch as they are allowed to take real estate mortgages, and secondly because they had these small country banks instead of a few large central banks with a great many branches. Many of these small banks had only one type of asset in the particular district in which they were located, and it hurt them very much when the run came upon them; also because of lack of confidence in the banking system generally in the United States, when one man went to get his deposit out and forced the bank to sell certain assets. We did not have that situation here to any extent. The people had confidence in the banks. The banks were not compelled to sell assets. When the United States banks threw assets on the market they depreciated the values of the remaining securities in their portfolios unduly, because there were very few takers of securities in those days, and there was a race for liquidity over there which did not exist here. What may be sound financial or banking practice for the individual—getting his cash into his own sock immediately—is extremely bad banking practice for the system as a whole, because at no time do you instantaneously—certainly under their system with real estate mortgages and other types of assets—liquidate everything at one time. So that you might find a bank which was by no means bankrupt because the fair value of its assets was greater than the value of its liabilities; nevertheless it was for the time being insolvent. It could not get cash in as fast as the run upon the banks. It was due to the lack of confidence that the situation over there, which did not obtain in Canada, led to their disaster. I think some 25,000 banks failed whereas not a single bank failed here, nor did we have any serious effect on business generally or on employment.

The CHAIRMAN: Are you ready for the question?

Mr. BLACKMORE: Mr. Chairman, I am very much pleased with this information that has just come out. I think it is valuable. May I state definitely that I have no desire at all to do anything that would impair the stability of the Canadian banking system. My contention all the way through has been that that stability, that confidence, does not depend upon hidden reserves. This evidence brought in by the two gentlemen who have recently spoken indicates quite clearly the soundness of my opinion on this matter. May I just go on to say this. I do believe that the minister has made a very wise suggestion when he suggested that he go further into this matter of hidden reserves and give us some more comprehensive statement in the matter.

Hon. Mr. ILSLEY: Oh no, that is not what I said. I said if it were considered important to get a report on the whole system, I would.

Mr. BLACKMORE: The whole argument before the committee is as to whether or not we shall have hidden reserves in Canada disclosed; and certainly anything which pertains to the efficacy or the non-efficacy of hidden reserves in Canada or elsewhere has an important bearing on the problem before the committee.

Mr. HILL: Mr. Chairman, with reference to this discussion of the American bank failures in 1933, it might be interesting for this committee to know that one bank in the western United States, that was run along the lines of the Canadian banking system for a period of twenty-five years, stayed open during the bank holiday, paid all its depositors in full, took care of a three-day run and had no trouble. It was the only bank in the United States, outside of a large reserve bank in New York city which was kept open by the government, that was able to stay open. It had no government support and it had been run on the lines of the Canadian banking system for twenty-five years.

Mr. BLACKMORE: In what respect? In respect to the hidden reserves?

Mr. HILL: On the lines of Canadian banking.

Mr. BLACKMORE: In connection with the hidden reserves?

Mr. HILL: Largely reserves.

The CHAIRMAN: Mr. Fraser.

Mr. FRASER: I would hesitate a minute or two—

Mr. BLACKMORE: Have they got any proof of that, do you know if it is a fact?

The CHAIRMAN: Order, Mr. Blackmore, please.

Mr. FRASER: When I hesitated a minute or two ago to speak I was not decided after the hon. member for Peterborough made the suggestion to the committee whether it was going to be the intention of the committee or the chair to continue with evidence from the banks before a vote was taken. And now I presume what was said a minute ago, Mr. Chairman, that the policy is going to be to put the motion; and I also presume that the hon. member who is sponsoring the motion will likely have an opportunity to speak before the vote is taken.

Mr. SLAGHT: I should like an opportunity of being heard.

The CHAIRMAN: How much time do you think you would need, Mr. Slaght?

Mr. SLAGHT: I would suggest ten minutes.

Mr. FRASER: I would personally prefer to make a few observations which I have to offer after the hon. member for Parry Sound has spoken, but in the circumstances I just want to put two or three facts on the record. In the first place we have had sufficient evidence before this committee on a number of occasions over the last three weeks to boil the question down in my humble opinion into one point and that point is covered by the motion of the hon. member from Parry Sound; not whether the banks should be permitted to create these reserves, but on the one point as to whether the banks should at a period of every ten years divulge to the Banking and Commerce Committee and consequently to the House of Commons, the aggregate amount of the hidden reserves at those times.

And now, I have listened very attentively to the arguments submitted by the capable lawyers that we have on this committee, and it seems to me that even a layman could come to this simple conclusion, and it seems to me that the conclusion which must be arrived at by the members of this committee is whether we as members of this committee accept the advice and the policy of the banking system supported by the Inspector General of banks, and whether we have sufficient confidence in the Minister of Finance and in view of the fact that the Minister of Finance stated it was also the policy of the government of the day, sufficient confidence in the Minister of Finance and the policy of the government of the day and their advisers to accept the advice and suggestions and recommendations made before this committee by the

Minister of Finance and the government of the day. That is the one question before this Banking and Commerce Committee, the one point we must decide upon, and the point that is definitely set out in the motion brought before the committee by the hon. member for Parry Sound.

And now, to go one step further, Mr. Chairman, in that connection—and it was referred to by the hon. member for Winnipeg this morning—there seems to me to be a constant trend on behalf of a certain section we will say of the people of Canada, on behalf of certain members of parliament and perhaps on behalf of certain members of the government to continually increase the policy of prying into everybody's business.

Mr. BLACKMORE: Why not?

Mr. FRASER: If that policy is going to be carried through in its entirety, and it was suggested by my hon. friend on my left yesterday, that the reserves of private corporations should be broken down and thrown open to the four winds of heaven in the face of the public, then let us follow the thing through, let us insist that the labour unions be made to divulge their funds, let us insist that the labour unions of Canada make public statements as to the amount of money they get from the members of the unions and many of the members of the unions are dissatisfied with the necessary contributions under the charters—not under the charters but under the agreements they have with the different industrial companies.

And now, I think, Mr. Chairman, that the responsibility confronting this committee is perhaps even greater than some of us realize when we refuse to accept the advice and the recommendations of the Minister of Finance. On the other hand we have in this committee discussed now for about three weeks the one point of hidden reserves. Personally I have interjected and I admit that I had something to do with it myself. I refer to the matter of taxation that was paid or not paid by the banks in connection with their hidden reserves. As stated the other day that might have been clarified, and the committee has been assured by the Minister of Finance that there will be no future possibility of escape by the transfer of funds from these hidden reserves to the declared reserves. I suggest, Mr. Chairman, referring to the deliberations in this committee and not wishing to exclude myself from any blame in connection with it, that democracy in Europe died out because there was too much talking and too little action; and it is high time that this committee got down to action; and I suggest and repeat that the committee must decide whether we are going to leave it in the judgment of those who are accustomed to the banking business and know the banking business; if we are going to follow the guidance and advice of those who are accustomed to doing the business that we are discussing in this committee backed up by the Minister of Finance and permit them to continue the policy that they have told us that the banks have adopted year in and year out of keeping these inner reserves undisclosed because they consider it is in the interest of the public, and the public not only embraces the depositors but the public generally is doing business with the Canadian banking system.

Mr. NOSEWORTHY: Why have a committee at all if we are to accept their views?

Mr. FRASER: I am only giving you the reasons why I think I should accept them; and I submit to my hon. friend that possibly the Minister of Finance and his advisers and the bankers know more about banking than either he or I. I do not know, there is no question about that. If I am sick I go to a doctor. If I want to be led or misled I go to a lawyer. I suggest in this particular case that we accept the advice and the recommendations of those who are expert in handling the banking business.

Mr. NOSEWORTHY: Why do you not dispense with the committee then if you are going to do that?

Mr. FRASER: In reply to my hon. friend I think that I said the other day not that this committee was a farce but that a great deal of such constructive evidence and a great many factual cases have been put on the record; and I for one, and I hope he does also, believe that this committee has benefited by the discussions that have gone on in this committee. And may I say to the hon. member (Mr. Noseworthy) that in the speech he made before the committee yesterday he made a very eminent contribution to the subject matter under consideration here.

I am only attempting at this time before the motion is put and the vote taken to give my reason as to why I think the motion by the hon. member for Parry Sound should be defeated in this committee.

Mr. RYAN: My reason for speaking on this motion by Mr. Slaght is this: I have formed my opinion of how this vote should go if it is taken; and I am of the opinion perhaps that the vote perhaps should not be taken. I am afraid that if this vote is taken it may have a very bad effect or a bad appeal to a large proportion of the population throughout Canada. I am of the opinion that it will give an opportunity to certain factions, to certain organizations, perhaps to certain political parties to make propaganda—

Hon. Mr. HANSON: It will anyway.

Mr. RYAN: —and to show what the members of parliament who form this committee have done in regard to what they would say would be bowing down to the banks.

The CHAIRMAN: No, no.

Mr. RYAN: Don't say "no" too quickly.

Mr. JAQUES: Hear, hear.

Mr. RYAN: As far as I am concerned referring to the question of the inner reserves, I believe these hidden reserves are absolutely necessary. I take the statement made by the Minister of Finance that it is not in the interests of the public, that it is not in the interests of the government and that it is not in the interests of the banks that these inner reserves be placed in their statements. Because of the confidence which I have in the Minister of Finance and his advisers I accept his statement and I do not think this motion should be voted on.

And now, in regard to the discussions we have heard, I want here to say that I congratulate Mr. Slaght and Mr. McGeer and the other members of this committee, for the suggestions and the contributions they have made to our proceedings. They are all interesting, very interesting. I know from experience that Mr. McGeer has been a pioneer in monetary reform, and not just to-day; we know what his opinion and what his dogma is. I have as much as any layman could tried to study since the last war the monetary system, financing and so forth which operates in this country. Mr. McGeer is not the only one who has opinions in respect to monetary reforms, there are many others.

And now, there are many things that are going to happen within the next few months perhaps; there is for instance this conference that will take place shortly which has been called by President Roosevelt and at which the Minister of Finance and other advisers of his department will assist. There is the question of international finance after this war, after peace is declared. There is the question of international trade which will have a bearing on this thing, at least in my judgment.

And now, so far as I am able to follow the administration of the Department of Finance I find that the Minister of Finance and the government have done a first-class job; and I base my opinion on what I have seen since I came into this House in 1940, during the period of the war. I have made a careful study of the speech by the Minister of Finance (Hon. Mr. Ilsley) when he presented this bill to the House; and I gather from that speech—and I think I am right—the fact that the government through the Bank of Canada has complete control over the currency and credit of the country. I gather from the answer made by Mr. Towers that if a bank were to fail there would be no danger to the depositors as to the possibility of their losing their deposits; that instead of letting a bank go under the Bank of Canada would take over. Mr. Towers says this: "if there is such a panic or fright, the Bank of Canada is there; and under those circumstances, no bank would have any difficulty in getting all the funds it wanted to pay up the frightened depositors." And now, we talked about these institutions; is it not only reasonable for me or anybody else to think that the Minister of Finance and the government are in a position to face anything that may happen in regard to the finances of the country? They are financing the war, they have looked after the finances of the war; and I for one believe that no matter what might come before them they would find a solution for it, as they have in the past. Now, I don't know, I do not want to interfere with any resolutions or any decisions made by anybody, but I really believe that it is in the interests of the country, it is in the interest of the government and the banks that this resolution be not passed. When this committee has finished its work it will make a report to the House; it may suggest amendments if necessary or changes; and it will be up to parliament then to decide what should be done.

This debate has gone on for many days. I think this is the twenty-first or twenty-second meeting. I divide the debate into three sections. First there is the Bank Act; secondly, discussion on the monetary system, and there is no doubt that it is necessary to discuss the monetary system here as it had some bearing on the question of inner reserves. Then, thirdly, there has been a lot of discussion in regard to banks administration. That is my way of looking at the whole thing. Some men say we must get rid of controls. That is not my opinion. Perhaps we should modify them but I believe controls are here for a long time if we want the financing of the country to be done in a very satisfactory way. I believe the controls carried on by the Wartime Prices and Trade Board have been a great factor during the war in assisting the Minister of Finance to carry out his duties. Again I say I have implicit confidence in the Minister of Finance. I have confidence also in those near him, his deputy minister, the Governor of the Bank of Canada and his other advisers. I am fully convinced that the government can cope with any situation that may be presented.

The CHAIRMAN: Mr. Noseworthy has asked for one minute.

Mr. NOSEWORTHY: I just wanted to make this remark. Mr. Fraser of Peterborough has suggested that the bankers might want to be heard on this question. I think in fairness to the banks that if the president of the Bankers' Association, or any other representative of the banks, feels that their case has not been adequately presented, or that there have been erroneous statements made which they would like to refute the committee should give them that opportunity. That is just an opinion.

The CHAIRMAN: We have had no request from the Bankers' Association in regard to the matter.

Mr. McGEER: Just before we close the door—

The CHAIRMAN: Mr. Jackman has the floor.

Mr. JACKMAN: Mr. Chairman, we have traversed a lot of ground in this discussion, some of which was perhaps strictly relevant and other parts of it which were not relevant to the motion as far as disclosure of inner reserves is concerned so if I should trespass slightly in answering some of the allegations made, particularly by my friends, Mr. Slaght and Mr. McGeer, I hope you will pardon me.

In the first place, Mr. Slaght has on a number of occasions referred to the fact that the banking system in Canada is a monopoly held by the ten chartered banks. It is not a proper use of that word to say that the banks, as at present existing, have a monopoly of the banking business in Canada. We have very specific provisions in the present Act, and those provisions are carried forward into the new bill, for setting up any new bank, and if the possibilities were such as Mr. Slaght envisions I have no doubt that a new bank or banks would be started immediately.

You will recall when Mr. Slaght said how the banks make money by creating deposits through a stroke of the pen Mr. Towers answered him in these words, that his example was like nothing on earth or on sea. So that bank charters amount to nothing more than a franchise. The banks are given this right the same as any other company. They are created with certain powers and responsibilities which make them persons in the eyes of the law but gives them no further right than an individual would have if he could accept deposits and grant loans. The banking system on the other hand, and the charters which come under it, are reviewed every ten years by this committee and are subject to the special act of parliament which we pass. That is unlike ordinary company charters which are perpetual in their nature and not just for a ten-year period. There is no periodic and fixed revision of ordinary company charters, and that system seems to get along very well.

The banks under the Bank Act are under very stringent regulations. We do not find under the Companies Act any auditor general such as investigates the business of the banks and receives their statements from year to year.

Then, as to the reserves it has been suggested they are set up each year, and that this inside reserve or insurance reserve particularly is set up at the whim of the directors. I suggest that these reserves are not set up at the whim of the directors. These directors are shareholders and they are also acting in somewhat of a trustee capacity on behalf of all shareholders of the banks, and if undue reserves were set up they would come to the knowledge of the shareholders and certainly the directors themselves as shareholders would not find it in their interest to set up an undue reserve which would minimize profits, not only for the particular year but over a period.

These statements are audited by the auditors, and that provision was greatly strengthened in the last revision of 1934 whereby the auditors were made responsible to the shareholders, and I believe were appointed by them. If one reads any one of the ten statements which we received he will find a reference not only in one place but in no less than three places to the so-called inner or insurance reserve. Just reading from the Bank of Montreal statement for 1943 we find the following statement under the profit and loss account:—

> Profits for the year ended 30th October, 1943, after making appropriations to contingent reserve fund—

that is the technical name for this so-called inner reserve fund

> —out of which fund full provision for bad and doubtful debts has been made and after deducting dominion government taxes amounting to $2,913,914.04, etc.

Then we find in the same report on page 5 the statement of the two independent auditors who are on a government panel all approved by the Department of Finance, I presume, and we find in the final sentence of their certificate the following:—

> In our opinion the above statement discloses the true condition of the bank and is as shown by the books of the bank.

In other words, we have representatives of one of the highest professions in the world, the accounting profession, endorsing and standing behind the report which is submitted. Then, as if that were not enough to bring to the attention of the shareholders and the public of Canada the fact that there are inner or contingent reserves we find on page 8 of the same report the following statement in the president's address. He says:—

> After paying a dividend of $6 per share, and reducing bank premises by $500,000 for depreciation, and making full reservation for bad and doubtful debts, we are able to carry forward to profit and loss account the sum of $642,834.19.

So that in not less than three places in every bank statement which we have before us we find this reference to the so-called inner or insurance reserves.

Now then, what kind of losses must the banks reserve for? I put them into three classes. We have had some discussion about it. I know nothing of the actual practice of the banks because I have never had the pleasure of sitting in on bank meetings or having been told exactly what they do, but it strikes me as a business man concerned in financial affairs that there are three types of losses against which a bank should provide out of its gross receipts. First there are actual losses which they have realized during the year. Certain people, borrowers of the bank, cannot pay a debt, and naturally I think we will all agree that they must provide for that write-off against the amount the bank took in during the year. Then they realize also when they review their accounts at the end of the year that certain companies or individuals, farmers, miners, or whoever they may be, may be in a position of jeopardy, and they provide an amount for those material losses. Then in the banking system we find that there are certain events which may transpire against which losses must be provided, and I would classify them as imponderables. They are the third class against which the banks must provide, and I will mention one which was of great consequence; that was when Great Britain went off the gold standard. We found that Dominion of Canada bonds, particularly the long-term variety, depreciated in market value no less than ten points. You can imagine, carrying perhaps some hundreds of millions of dollars of those assets, what would happen to the banks' capital and reserves if they did not have any insurance or inner reserves to provide against such a contingency as that. Then when you have a depression such as we had during the thirties, you will find that many, many companies which appeared solvent and sound got into a position where they could not meet their liabilities or were unlikely to be able to meet their liabilities in full, unless they were allowed to carry on, and the banks must make some provision against an eventuality such as that.

The extent of the reserves has also been mentioned. I believe that a figure of $4,100,000,000 was mentioned as the figure for deposits and only $136,000,000 in disclosed reserves. The latter is not a very large sum, but we must recall that on the asset side of the banks' balance sheets are the government bonds which have been made so much of here, and also the loans to business men in the carrying on of the industry and commerce of the country. I believe the figure given of the capital and published reserves in relation to the total assets was 5·2 per cent, which in this country has been sufficient margin because of the confidence the people had in the system. That has been a sufficient margin to carry on without any one suffering as happened in the United States and certain other countries. Mr. Slaght and Mr. McGeer have both made a great point, or endeavoured to make a great point of the fact that these so-called inner reserves are not disclosed. If one reads the evidence, in a number of places one will find that over a sufficient period we had a very good picture of the banking position, namely fifteen years, which is certainly not just a sample period but is a long time in the life of a business. 13·8 million dollars was provided or rather that was the extent of the actual realized losses. Perhaps I had better read the minister's statement in order to get it absolutely accurate. Mr. Ilsley said at page 493 of the evidence:—

> Now, the average annual amount required for losses or specific provision for losses on loans, investments and other assets, less recoveries—

That is, such amount that did not need to be provided for; loans which came back all right.

> —during the fifteen financial years ending the year to which this return relates, 13·8 million dollars. So there was 1·5 million dollars that something was done with and it does not show anywhere. It would be an inner reserve or a general contingency reserve.

So we have this very mysterious figure given to us for the whole banking system of Canada for a fifteen-year period, 1·5 million dollars, which is a very, very small percentage—I suppose much less than 1 per cent of the total assets of the banking system. So that we see that there is no substantial amount, there is no great hoard of money such as has been suggested to the committee being set aside in the banks' treasury to provide against losses. We have been given a figure here which has never been given before, and which I think is not only sufficient but wholly adequate for the committee to act upon.

Mr. JAQUES: Did you say money?

Mr. JACKMAN: Reserves.

Mr. JAQUES: Hoarded money or hoarded securities? They are not the same.

Mr. JACKMAN: Hoarded inner reserves. That is the suggestion that was made to the committee.

Mr. JAQUES: You said there was a hoard of money.

Mr. JACKMAN: No. The reserve is in the form of a write-down of assets which the bank has. So the people of Canada have confidence in this margin, even although it be a small margin, and that is the nature of any financial business, whether it be banking, insurance, discount business or anything of a financial nature. There is a relatively small amount of capital in relation to the total assets, but because of the fact that there was good management—and I cannot stress too much that factor of good management in the granting of loans only to credit-worthy people—that the system has maintained its soundness during one of the greatest trials of strength that any banking system could possibly have.

Mention has also been made of the undisclosed reserves which commercial and industrial companies set up. There is hardly a company in the country which does not, I will not use the phrase under-value its assets, but conservatively value its assets at the end of the year; because if it does not have a little accretion of fat on its bones, it will not be able to weather a storm or even a temporary squall which it cannot foresee. These little accretions of fat would perhaps be necessary in order to survive, just as the human body requires it in a cold winter. You must have a little fat on your bones, otherwise you will not be able to carry through. Now when industrial and commercial companies do suffer during a depression or at other times, we find that their losses are reflected in their working capital—that is, cash in their till, if you like. The banks who lend to those various companies will find that the decrease in working capital immediately reflects on the credit-worthiness of those companies, and if the banks are not careful they will find that the commercial or industrial companies will not be able to repay their loans. I mention this fact to show that the commercial and industrial losses in the country are focused into the banks, and if the banks do not have a little extra reserve they will find they will not be in a position to carry through in case of a depression even of the mildest sort.

As I pointed out previously this morning, what may be good banking for one individual or one bank is not necessarily good banking for all. If during the depression years we had found that one bank said, "I am going to play safe; I am going to call in my loans and get cash in the till, so that no matter what happens to the whole system I am not going to lose any money," and one bank had called in loans we would have found that companies would have had to fold and people would have had to fold up and unemployment would have been greatly increased. That, if I may suggest it, is exactly what happened in the United States. We had there not ten banks in charge of the commercial financing of the country but a great host of banks. A small bank in some outlying district said, "I am going to play safe" called in his customers and said to them, "You must reduce your loans." The customer has to sell something, whether it be real estate under their system or securities, wheat or whatever it may be. And the throwing of an additional amount on a poor market when there are no buyers reduces the price of the commodity, and the other banks find that the security which they have against their loans has so decreased in market value that their situation is jeopardized and it becomes a race for liquidity which ends in disaster for all.

The tax position of the banks was also mentioned when it was suggested that the banks could set aside these so-called inner reserves and not be taxed upon them. I believe it has been brought out most fully that the shareholders cannot possibly get any of these inner reserves unless they come through the profit and loss account.

I made a statement, which I still stand by, because it remains unchallenged, that if the insurance reserves were in any way disproportionate—and I am not suggesting for a moment that they were—during the last ten years or had they set aside more than was necessary during that period of time, then they would have been taxed on their extra reserves not at the rate of 18 per cent, but at the rate of 100 per cent on all of it. So I stand by the statement that the banks, if they were over-conservative during the period from 1930 on, are now being very heavily penalized and the national revenue of the country is increased not less than four or five times what it would have been if the banks had done exactly what Mr. Slaght and Mr. McGeer have suggested; namely that the banks should pare reserves to the bone. In that event reserves would have been entirely inadequate and the banks would have found themselves with no insurance reserves at all.

Mr. McGeer: No one has suggested that.

Mr. Jackman: It has been suggested that the banks profited by setting aside money for inner reserves. I would like to say this, if the banks had set aside inner reserves out of all proportion during those years—let us say it was five or six times as much as was eventually needed to meet losses of all kinds—they would have set up those reserves in the form of a write down of investments and loans which would of necessity have had to be realized upon and would have had in the course of time to be sold and the losses paid out from the inner reserves. Anything that came out of the inner reserves that was not required would be shown in the profit account and that at the present time is being taxed at the rate of 100 per cent over and above their average earnings during the basic period from 1936 to 1939.

Mr. Slaght: But Mr. Tompkins told us that in all the nineteen years of which he has knowledge it is a thing which has not been done.

Mr. JACKMAN: But in that connection you asked him a specific question. I suggest that if he had been speaking on a more general question he would have given you a quite different answer. I do not think that would have been the answer he would have given you. Mr. Tompkins has stated on more than one occasion when I have been here that the inner reserves of the banks certainly were depleted during the crisis of 1932 and 1933 to the extent of not less than $29,500,000. That was the amount which he indicated had had to be deducted from disclosed reserves upon which taxes had been paid, and that amount disappeared from the banks' books and went into the inner reserve. They had to draw from that inner reserve in order to build up their published reserves and thereby maintain confidence in the banks and the banking system of this country. That is my recollection of it, and if I am wrong Mr. Tompkins will correct me. The banks did take $29,500,000 out of their published reserves and put that into the inner reserves to rebuild those inner reserves to something like an adequate figure.

Mr. SLAGHT: Will you permit me a question? Of course they had to. That does not touch the statement that he was making that part of these inner reserves will get taxed because the bankers will take that out of the inner reserves and put it into the disclosed reserves; and if they do, they have to get taxed. I pointed out that Mr. Tompkins has stated quite clearly that they have never taken anything from the inner reserve into the outer reserve which would have the result of taxation on the inner reserve.

Hon. Mr. ILSLEY: They go into profit and loss account, not into the disclosed reserve.

Mr. FRASER: Indicating that the inner reserves were never at any time more than adequate.

Mr. TOMPKINS: I had in mind an entry such as this: take a special transfer from the inner reserve for a round amount. In the event that there has been a recovery that would go through the profit and loss account and as such it is taxed.

Mr. JACKMAN: I do not know whether you want to go on, but it is one o'clock.

The CHAIRMAN: How long will it take you to conclude?

Mr. JACKMAN: Three or four minutes.

The CHAIRMAN: We had thought that we would take a vote to-day. I think that was the disposition of the committee.

Some Hon. MEMBERS: It is one o'clock now and Mr. Slaght has still to speak.

The CHAIRMAN: Go on, Mr. Jackman, until you finish or, until one o'clock.

Mr. JACKMAN: In answer to Mr. Slaght's suggestion that nothing has ever been taken from the inner reserve and put into the disclosed reserve the suggestion is the exact opposite to what has happened, because it was from the disclosed reserve that the banking system had to take out the amount by which the inner reserve had been depleted, and then that $29,500,000 had to be restored to the inner reserve in order to reestablish this inner reserve; so that it is the exact opposite to what Mr. Slaght has suggested. No wonder they have not been able to take their inner reserves and put them through their profit and loss account and pay taxes on them and add them to the published reserves. I think that probably is a sufficient answer to this committee as to whether or not the Department of Finance has exercised proper supervision over the amounts which the banks have been allowed to write off in the years prior to the fifteen-year period which has been placed on the record.

Mr. BLACKMORE: How do we know they had to? They say they had to, but how do we know they had to?

Mr. JACKMAN: Just let me carry on as quickly as I may. The Minister made the statement—

Some Hon. MEMBERS: It is one o'clock.

The CHAIRMAN: Gentlemen, it is one o'clock; we will adjourn until 11 o'clock to-morrow morning.

The Committee adjourned at one o'clock to meet again to-morrow, June 16, 1944, at 11 o'clock a.m.

June 16, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Jackman, I believe you had the floor yesterday when we adjourned. Had you finished?

Mr. JACKMAN: Mr. Chairman, when we closed yesterday at 1 o'clock I was discussing the taxation position of the various banks in particular relation to the so-called excessive conservatism in setting up of reserves. There is some slight confusion in regard to these inner reserves of the banks, namely as to whether or not they set aside a fund of money, of gold or definite securities, as a reserve. I think it has been brought out in evidence here that the reserve is simply a bookkeeping valuation of the assets, namely the investments and the loans which the bank has made, and that this valuation is perhaps a little below the book value because there may be some loss entailed when a loan is finally paid off and perhaps paid off only in part or when the investment is sold.

I also made the point that if the banks had been overly conservative, as had been suggested by my friends Mr. Slaght and Mr. McGeer, it would have worked very much against their interests because of the rising scale of taxation in the last four or five years. It would take some time to explain exactly how that works out, because it would entail references to the Income Tax Act. But if my statement remains unchallenged by the two leading counsel who have so assiduously worked to prove their own cases, I think the committee may take it that what I have said is borne out by the facts.

The next point that I wish to make a few remarks on is in regard to the 1943 tax situation of some of the banks, two and possibly three, as the minister has said. I should like to recall to the committee that the Minister of Finance said that as of December 31, 1943, or whatever month the bank had its fiscal year ending in, the returns showing the amounts of reserves set up might have been and probably were satisfactory. But he said, and I recall his words very well, that in view of subsequent events, he felt that two and possibly three banks might have set up over-reserves. It is very easy, as we all know, to have better hindsight than foresight; and at the time the return was made, the minister did not challenge the extent of the reserve which had been set up. Perhaps if we wait until the end of 1944, it may easily be found that these reserves were by no means excessive.

Then Mr. Noseworthy has endeavoured to make something out of the fact that the minister now finds there may be a little additional tax on some of those banks to which I have just been referring, namely on some of the banks which set up over-reserves. I should like to read from page 517 of the evidence as follows:—

> Mr. Noseworthy: I notice the minister has admitted in his statement that, since this discussion of inner reserves began in this committee, he has had an opportunity of inspecting the amounts set aside by the different banks for inner reserves, and has reached the conclusion that two or possibly three have set aside larger amounts than necessary. Are

we to understand that special circumstances referred to by the minister prevented him from or caused him to delay that inspection this year longer than or later than that inspection was made in other years?

Hon. Mr. Ilsley: Well, I did not get around to it as soon as I should have this year. There is no doubt about that.

Mr. Noseworthy: In any event, you would have got around to it?

Hon. Mr. Ilsley: Yes.

May I point out that if the banks reported to the Department of National Revenue as do all other taxpayers in Canada, including the small grocery store that Mr. Slaght mentioned, under our present system—and I am not holding it up as a model, because I think it is perhaps far from it in many respects, although there may be extenuating circumstances—the Department of National Revenue would not get around to this statement, as they have not got around to the personal returns of many people, for perhaps eighteen months or two or three years. So that the system under which the banks now operate leads to a more speedy examination of their returns than if they had reported directly to the Department of National Revenue. As we all know, the Department of National Revenue catches up eventually with the taxpayer, although there may be a delay of a year or two, much to the discomfiture of the taxpayers generally, because we should all like to see the tax inspection much more prompt.

Then the point has also been made that, whereas the year-to-year return showing inner reserves might be unsatisfactory and lead to loss of confidence, a ten-year return every time the Bank Act was up for revision would not lead to any necessary loss of confidence in our whole banking system. Mr. Slaght amended his resolution in regard to that. I think the minister, however, has put it very well when he said that if the aggregate returns, whether from year to year or whether over ten years, were shown as to the inner reserves, some one would be bound to point out which particular bank or banks had lost the money and had to set up an inner reserve, and it would undoubtedly lead to substantial loss of confidence. The evidence on that given by Mr. Ilsley, in answer to Mr. Noseworthy's question, is to be found at page 517. Perhaps I should read it:—

Mr. Noseworthy: Yes. I can understand where it would be probably unwise to publish the reserve of individual banks.

Hon. Mr. Ilsley: I am not talking about that. I am talking about the publication of the aggregate, and if there were a big fluctuation downwards.

Mr. Noseworthy: You think it might start rumours about individual banks?

Hon. Mr. Ilsley: It certainly would.

Mr. Noseworthy: Instead of all the banks?

Hon. Mr. Ilsley: It certainly would. When I say certainly, I think it is inevitable that it would.

Mr. Noseworthy: Well, I have only to take the minister's word for that. As for myself, I could not profess to be an authority on the subject. But I am still not satisfied that publication of the aggregate would create that, necessarily.

In other words, Mr. Noseworthy said he accepted the minister's word on the matter because of his own inexperience; but being convinced against his will, he is of the same opinion still. Continuing on the same page:—

> Hon. Mr. Ilsley: Mr. Noseworthy, I do not want to put an argument but certainly if there was a big fluctuation there, people would begin to ask, "Who is losing all the money? What bank is losing all the money?" They would always find somebody to tell them, and that starts it.
>
> Mr. McNevin: The ultimate effect would be much the same as in the case of an individual bank.
>
> Hon. Mr. Ilsley: What is the question?
>
> Mr. McNevin: I say the ultimate effect would be much the same as with the individual bank?
>
> Hon. Mr. Ilsley: I would think so.

Then Mr. Slaght interjected: "One in ten years." In other words, loss of confidence once in ten years would not have a disastrous effect on our banking system. I suggest it would. The banking system of Canada has probably gone through the greatest financial crisis we shall ever have—let us hope so, at any rate—during the period from 1930 to 1934; and a system which has maintained confidence on the part of the depositors and the business public in Canada certainly deserves great respect and deserves great examination of its workings before we make any change which might in any degree, even the slightest degree, work against depositors' confidence.

The minister has already moved an amendment that the extent of the inner reserves should be reported to the Minister of National Revenue and I think that is quite satisfactory. It should answer any of the questions which any of the members of this committee may have in mind as to whether or not the banks can set up inner reserves and eventually get money into the hands of the shareholders without paying the proper taxes, the same as every other taxpayer in Canada pays. There can be no question about my not being a supporter of the present government, but I do support what I believe is right, and I believe that it would be unwise and greatly detrimental to the business interests of this country and to the people who must give employment to our people if we were to publish these reserves and were to support anything which might lead to loss of confidence. I believe that no matter what the government of to-day may be, if these inner reserves are disclosed to the then Minister of Finance and to the Inspector General, and now under this amendment which I assume we shall carry, to the Minister of National Revenue, it will be sufficient. I believe that the motion of Mr. Slaght should not be supported, that his motion should not carry, and I intend to vote against it.

Mr. MACDONALD (*Halifax*): Mr. Chairman—

Mr. JACKMAN: Just a minute. I have been asked to refer here to an annual report of the Canadian Pacific Railway for 1943. Here we find a private company which is not treated differently from other companies, and this is what we find on the liability side. As an offset against certain assets they have on the other side of the balance sheet, an investment reserve of $17,000,000 odd, an insurance reserve—and I presume that is because they carry their own insurance —of $10,000,000 and a contingent reserve of $5,000,000. So that it is quite obvious that ordinary companies carrying on business must set aside reserves if they are to carry on.

Mr. BLACKMORE: But they are not hidden reserves.

Mr. JAQUES: They reveal them.

Mr. BLACKMORE: Those are all published so everybody can read them.

Hon. Mr. ILSLEY: In a great many cases they are undisclosed.

Mr. JAQUES: Why should they be hidden?

Mr. JACKMAN: The extent of the hidden reserves, as I pointed out, was only $1,500,000 on the average over fifteen years.

Mr. McGEER: That is nonsense. How do you know that?

Mr. JACKMAN: Because the statement says so.

Mr. SLAGHT: Tell us what they are, if you know.

Mr. JACKMAN: I do not know what the total amount is, but I can tell you what the experience of the whole banking system over the last fifteen years was, as given to us by the Minister of Finance. I read that yesterday, and you will find it in the minutes when they are printed. The statement showed that, even including the realized profits of the banks plus the capital gains, which are rather an extraordinary item of $2,500,000 a year, the total amount of write-off left only $1,500,000 which, as the minister said, went somewhere; and he assumed it must have gone to the inner reserves. That was the average over the last fifteen years. Then again we have what Mr. Slaght said yesterday. He quoted Mr. Tompkins in showing that no money had ever been transferred from the hidden reserves. Then Mr. Slaght suggested that these inner reserves were very large in extent, had not gone through the profit and loss account where taxes would be paid on them, and that what was left could either be paid out to the shareholders or be added to the disclosed reserves. I pointed out that the first process had taken place, namely, that the inner reserves had not been adequate, from the standpoint of the banks, to protect the system, and they had appropriated from the disclosed reserves—which represented either capital stock premium contributed by the shareholders or it represented profits on which taxes had been paid to the government—not less than $29,500,000 out of the disclosed reserves and put them into the inner reserves so that the banks would have that cushion.

Mr. BLACKMORE: So much the worse.

Mr. JACKMAN: I might point out that if the banks did not have inner reserves so that they could have a cushion, or shall I say some fat on their bones, to weather a storm, we should find that in a bad year when they must report their true situation—we have the reports of the auditors saying that the accounts are according to the books of the company and also in accordance with the true condition of the institution—if their assets were not worth as much as the book value placed on them, the public might lose confidence. I find here an item, for instance, to which I should like to make reference, in the statement of a company of which Mr. Slaght is a director—and I am throwing no stones at him because he is the director of that company. I am, myself, associated in a like capacity with one which also has assets on its books which are not worth the book value, the market value being less. I shall read from the statement of the company of which Mr. Slaght is a director. I find here marketable securities having a book value of $404,000, and their approximate market value as of the 31st of December, 1941, is $213,000.

Mr. SLAGHT: There is nothing hidden there. We are not ashamed of the figures.

Mr. JACKMAN: Of course I am not ashamed of that, and it is not an unusual situation because it is recurring in business, particularly in the type of business which this company represents—one of the finest companies and one of the greatest developers of our natural resources particularly during those years when we are so badly in need of exchange.

However, what I am endeavouring to point out here is the difference between the banking system and ordinary commercial or industrial or natural resources companies. We have to make a distinction between banks and ordinary companics. No one cares very much whether or not the assets of an ordinary investment company or a mining company are worth the book value or not, that is the business of the shareholders; that has no relationship whatever to the public in general; there are no great hosts of depositors as we have in the banks—I do not know how many million of them there are in this country but I believe the statement was put on the record. Then, too, there are no great incentives in putting your money into a bank. You get a little interest on it, and if you have the slightest doubt, if there is the slightest risk to it, the first thing you do is to get your money out; of course, you do. If you put your money into an industrial or a mining company and expect a substantial return on it you are prepared to take risks. The depositor is not prepared to take risks on the bank deposits, it is not worth his while; the best thing for him to do is to get his money out at the slightest sign of danger.

Now, if the banking system had to do the same as an ordinary company we would find that in certain years, almost undoubtedly, there would be a situation where the assets would not be worth what they stood at on the books of the bank if there were not the inner reserves to take up that slack and then, there would be this loss of depositor confidence which would lead to a run on the bank and which would endanger the whole financial, commercial and industrial set-up of this country. That is why we must look upon banks as being in a little different position from the ordinary company and why it is that they should have these reserves which are not brought into the public eye so that the public can see exactly what is happening so that when there is a temporary situation which may be bad they will not have this loss of confidence and there will not be runs on the banks and distressing situations such as they had in the United States where the banks did not have any inner reserves with which to make up a temporary deficiency in their published statements. If our banks have these reserves with which they can take up temporary deficiencies in the published statements, and they are real reserves, then they are in a position to present a true statement and there is no loss of confidence. I think on the whole it may be said that this banking system has served the country well in so far as the reserve situation is concerned, over a long period; so that I am not only of the opinion that they should be permitted to continue these insurance reserves, but it would be fatal to have their disclosure.

Mr. MACDONALD (*Halifax*): Mr. Chairman, there has been a great deal of discussion on this matter but I wish to add a few words in order to make my own position clear. To my mind it is quite clear that there are only two points involved. There was a third which I mention in order to dismiss it from consideration; that is, the question as to whether there is anything illegal in the setting up of these inner reserves. We heard it said, it was argued at any rate, that the banks had no power to set up inner reserves and they were acting in defiance of the law in doing so. However, I understand that that contention has now been abandoned and that there remains for consideration only the two points. The first is whether the inner reserves should be disclosed; and the second is whether or not the banks evade in some way taxation that other companies and other persons are obliged in like circumstances to pay.

And now, with reference to the first point—that is as to the disclosure of these inner reserves—I want to say that the present system is working satisfactorily, it has proved to be quite satisfactory in Canada and in other countries for a great many years. The very nature of the banking system is such as to need reserves to cover it against unforeseen developments. Anyone who has the slightest acquaintance with the business of banking knows that the banks have their times when they assume risks in making loans and some of them are even highly speculative or possibly slightly dangerous, and there must be some reserve in order to protect the banks against the danger of unforeseen developments; and I would have thought that any member of this committee who wanted this committee to recommend a change of a fundamental such as this, a change in the practice which has been recognized for so many years, would have produced some evidence before this committee in order to justify our support of their submission. In all the evidence that has been brought before this committee we had no one who might be considered an expert in banking to give evidence before this committee which would lend any support at all to the argument of the sponsors of the motion. Mere assertions are not arguments, they are not facts; and however sincere the mover or the seconder of this motion may be—I do not for one second doubt their sincerity, because I believe they are both sincere in their statements—they have not been able to produce the evidence which should have been produced had they wanted this motion to succeed before the committee. Now, that is all I have to say with respect to the first point.

At the risk of incurring some repetition I wish to say one word on the second point as to whether there has been any evasion or avoidance of taxation through the use of the system concerned; and I want to say that there is no such evidence at all before us that that is the fact at present or that it can be the fact in the future. If that were not absolutely clear, it has been made so by the amendments which it is proposed shall be made to the present bill. It now appears that the Minister of Finance has a moral responsibility, if not a legal status and duty, of reporting to the constituted authorities what he considers to be excessive inner reserves in any one year. Now that obligation is to become statutory, and I am quite sure that we are all agreed that that duty will be carried out.

There was one other matter to which I wished to refer on this point, and that is the fact that the Minister of Finance when he made his address to the House disclosed a financial statement which indicated the earnings of the banks and their operating expenses for the past two or three years. That statement disclosed not only the earnings of the banks but also the sources of those earnings. Now, the amendment which is proposed to this bill, which will make it necessary for a similar statement to be disclosed every year, also provides that that statement shall be tabled in the House of Commons and published in the *Canada Gazette*. That statement will ensure that the banks do not make or will not be allowed to make undue profits. If anyone has any doubt on that score I would suggest that he examine these statements and find out just exactly what the banks have done during the last fifteen years. It is all in the evidence produced before the House. And I think that circumstance coupled with the disclosure of the banks' inner reserves to the Minister of Finance and to the Minister of National Revenue and in view of the obligation to which I have referred that any excessive amount transferred to the inner reserve shall, if the mere transfer is made, be subject to taxation leads me to say that I find nothing at all which leads me to favour this motion; therefore I intend to vote against it.

Mr. PERLEY: Mr. Chairman, I have not taken up very much of the time of the committee. I have missed a few of the meetings and that may perhaps explain why I am a little at a loss—

An Hon. MEMBER: What happened in Saskatchewan? You took a loss?

Mr. PERLEY: We didn't lose anything, we didn't have anything to lose.

Mr. FRASER (*Northumberland, Ont.*): No, you didn't have any hidden reserves.

Mr. PERLEY: We put our cards on the table, and that is more than this committee are going to do.

However, in looking over the discussions in this committee during the past few meetings I missed and having listened yesterday and also to-day, I think there is about as much confusion now as there was three weeks ago; so far as I am concerned I would like to see this thing settled so that we can get on with the bill.

Some Hon. MEMBERS: Hear, hear.

Mr. PERLEY: I also want to say, having reviewed the evidence and the discussion which has taken place, that I cannot see any argument which has been produced by anyone—and I listened to the speeches made yesterday and to-day—that would be to the effect that these hidden reserves should not be revealed. I refer to the statement made by Mr. Ryan yesterday morning. He mentioned the question of the confidence of the public and what might be the effect in that way if this committee were to vote so and so. I do not think, Mr. Chairman, it is a matter of confidence or non-confidence in the minister at all—

Mr. RYAN: Of course it is.

Mr. PERLEY: —because I think he will take his direction more or less from this committee. It is a matter of whether this committee establish or destroy confidence of the public by the action they take, and later how we vote when this matter comes before us in the House of Commons; so I do not think it is a matter of confidence altogether. But I can tell you it was a question in the provincial election in Saskatchewan; and unless you want to destroy the confidence of the public you should reveal these hidden reserves. If you do not, then, sir, you will destroy the confidence of the public in the system of banking which we have to-day; and also it might go further in respect to some other interests which some hon. members have mentioned.

Mr. Fraser yesterday stated that if these hidden reserves are to be revealed then other organizations should be called upon to do the same and give a full accounting of any reserves that have been set aside. Well, I think that is a pretty good argument and I think as far as agriculture is concerned—and I am interested in that—any agricultural organization that I know of or any co-operative association would be prepared to come here and reveal anything that they have in their reserves.

Mr. FRASER (*Northumberland, Ont.*): It does not show in your income tax returns.

Mr. PERLEY: I think if we got down to brass tacks and had a proper accounting it would not be half as bad as some other organizations, and industrial organizations, too. We know certain organizations have a reserve that is free of taxation. How about your Canada Packers? Another Mr. Fraser yesterday made a pretty fair suggestion that the bankers should be heard. Why should they not be heard on this question? I think they might establish a lot of confidence in the public mind by giving a straightforward statement with respect to this. Surely they have not got anything to hide. I do not think it is going to make any great difference. I do not know what it is but I will venture to say that it will not change the banking system one bit. It will not change their system of accounting one bit if it is revealed. There are one or two other matters on which I wish to say something. The banking system, like every other system or industry in Canada in the last ten or fifteen years, has gone through a certain revision of their method of accounting and doing business. It is only natural, and I say quite frankly that the amendments to the Bank Act proposed by the minister are quite natural ones, and most of them are being made because after the period of ten years we have gone through in Canada in the banking system and industrial organizations conditions have changed and it is necessary to have amendments. You could not expect otherwise.

I am not going to delay the committee longer. As I said at the outset I think there have been enough speeches made. That is what they are, speeches. We have taken up enough time and space in the report of this committee without saying anything further. I therefore wish to express myself that I am going to vote that these hidden reserves be revealed. I do not think there will be any serious effect on the general public in the country at all. I am not going to take any further time.

Mr. SLAGHT: Mr. Chairman, I shall be very brief. I want to first thank you and the members of the committee as a whole for permitting me the privilege of closing the debate. Perhaps I ought to first read the motion again. It is short:—

> That the chartered banks, each of which has applied to parliament for a ten year renewal of their respective charters should be directed, and are hereby directed and required, to disclose to parliament through this committee forthwith, the total aggregate amount of hidden inner reserves of the ten banks.

Mr. MACDONALD (*Brantford City*): Before Mr. Slaght proceeds, he has mentioned that he is closing the debate. I do not know of any rule in committee whereby one who moves a motion has the right to close the debate. So far as I am concerned I am perfectly agreeable to Mr. Slaght closing the debate, and I hope he will, but I think that if he raises new issues it should be open to any member of the committee to answer any new issue which he might raise. I take it that in closing the debate he is merely summing up what has taken place previously and answering previous arguments?

Mr. SLAGHT: Yes.

Hon. Mr. HANSON: Before you proceed, Mr. Slaght, may I ask you one question? As a statement of fact you have made the allegation that the banks have applied for a ten year renewal of their charters. I do not understand that is the case. There has been no formal application of the banks for a renewal of their charters. The minister has come forward with the proposal that they shall be renewed, not that the banks have applied. I think in that respect your resolution is not in accordance with the exact facts.

Mr. SLAGHT: Does the hon. member suggest that the bankers, who are here properly in force, are not seeking from parliament a ten year renewal of their charters? It would be monstrous so to suggest.

Hon. Mr. HANSON: I am suggesting that the government in accordance with the policy of the administration is asking parliament to do that very thing.

Mr. MACDONALD (*Brantford City*): In accordance with statute, I believe.

Mr. SLAGHT: Then, Mr. Chairman, may I tell the committee some things that this resolution does not seek to do, because a little confusion has crept in in that regard. It does not seek to condemn the practice of banking in setting aside out of current earnings a reserve for the future. I have made that clear, and I know of no member who has suggested during this whole lengthy discussion that the practice of banks in setting aside from their current earnings a reserve instead of paying them all out to their shareholders as dividends, is anything but a most commendable and worthy practice. That is not in issue in my resolution.

Mr. BLACKMORE: Hear, hear

Mr. SLAGHT: The second point I desire to make is that it does not seek—

Mr. MACDONALD (*Brantford City*): I think that is a change in your attitude from the early days of this committee.

Mr. BLACKMORE: Not at all.

Mr. MACDONALD (*Brantford City*): My recollection is you opposed most strenuously the setting up of this reserve before taxation. I think the record will bear me out.

Mr. BLACKMORE: What kind of reserve?

Mr. SLAGHT: You are talking about something entirely different. I have just told the committee, and I stand in the judgment of the committee, that throughout I have made it abundantly clear I approve of bankers setting aside a substantial reserve against the future. My friend does not appreciate my quarrel is with the hiding of a part of them and disclosing part of them with the result that the part that is hidden escapes taxation in the current year in which the money is earned.

Mr. MACDONALD *(Brantford City)*: As I understand it your quarrel was originally that these reserves were not taxed. If Mr. Slaght has changed his ground I think the committee should know that.

Mr. SLAGHT: I am not changing my ground on that score at all because if the inner hidden reserves were put to the disclosed reserves my friend ought to know they would automatically be taxed.

Mr. MACDONALD (*Brantford City*): Correct; I am quite aware of that.

Mr. SLAGHT: I am trying to take the mask off that is hiding them, put them where they belong with the proper reserve, and that subjects them to taxation automatically. Surely that is clear.

Mr. MACDONALD *(Brantford City)*: Then, would not that also make them subject to payment as dividends to the shareholders?

Mr. SLAGHT: Not until they had been declared—yes, if they are put in the reserve; of course you can pay dividends out of a reserve as well as out of earnings.

Mr. MACDONALD *(Brantford City)*: That is settled. I will try not to interrupt.

Mr. JACKMAN: May I just ask Mr. Slaght how it would be possible to-day for the banks to put any earnings on which they had to pay taxes to a reserve? Let us take in 1944 and 1945. As long as the excess profits tax applied how would it be possible for the banks to put any earnings to a reserve?

Mr. SLAGHT: I think they put $20,000,000 to disclosed reserve last year.

Hon. Mr. ILSLEY: Where?

Mr. JACKMAN: I just want to remind Mr. Slaght of this with regard to present taxation on anything over and above the 1936-1939 base which I assume, although I have not checked, most of the banks are working on in earning their standard profits. As to anything above that, which Mr. Slaght is now suggesting as a practical matter should be set aside for a disclosed reserve, it would be utterly impossible because the Minister of National Revenue collects 100 per cent of it.

Mr. SLAGHT: Let me point out to my friend that, since he has raised that point, the amount set aside last year out of gross earnings before taxation of $47,000,000 by all the banks was only $15,000,000 for taxation, only $15,000,000 out of $47,000,000

Mr. JACKMAN: They had standard profits.

Mr. SLAGHT: Yes, and now my friend is attempting to suggest, as I understand it, that the banks have nothing left after they pay taxes, that after what they pay out in dividends they pay it all out in taxes and he is refuted by the record of last year. There were $47,000,000 gross earnings before taxation, and $15,000,000 deducted from that leaving $29,500,000 as net profits on the year.

Mr. TOMPKINS: That does not take account of losses.

Mr. SLAGHT: That is all right.

Mr. TOMPKINS: So it is wrong to say they had $20,000,000 left after everything.

Mr. SLAGHT: What do you say they had left?

Mr. TOMPKINS: I am not saying.

Mr. SLAGHT: Oh, there is more secrecy.

Mr. TOMPKINS: Not at all. We gave in the statement the average figure for losses for fifteen years ending and including 1943, which was 13·8 million dollars, but the hon. gentleman is again confusing item 13 with item 15 by saying that the $20,000,000 shown by item 13 for 1943 was what was left after all expenses, dividends and losses, and I say it was not.

Mr. SLAGHT: If we need to digress let us straighten Mr. Jackman out if he is in error, Mr. Tompkins. Do you concede before any deduction was set aside for taxation in last year alone—let us take 1943—that there was a gross surplus of earnings over operating expenses of $47,000,000?

Mr. TOMPKINS: About $46,000,000.

Mr. SLAGHT: You will agree with me they paid $9,000,000 for dividends?

Mr. TOMPKINS: 9·6 million.

Mr. SLAGHT: You will agree with me they made provision for taxes of $15,000,000?

Mr. TOMPKINS: Almost $16,000,000; $15·9 million.

Mr. SLAGHT: That leaves that surplus.

Mr. TOMPKINS: Yes, and as I say from that surplus must be taken losses of last year.

Mr. SLAGHT: Of course they must.

Mr. TOMPKINS: We agree on that then.

Mr. SLAGHT: Now Mr. Jackman is getting some light. My resolution does not compel or seek to compel any individual bank to disclose even to us its own individual hidden reserve, nor does it compel the individual bank to disclose its hidden reserves to its competitors, a point that my friend, Mr. Hanson, very properly raised. So that these bugaboos are out of the way in so far as this resolution is concerned.

What it does seek to do is this; it seeks to compel our friends, the bankers—and they are gentlemen who the moment this committee asked them to disclose it would disclose it by authorizing Mr. Tompkins to, and I have not the slightest doubt they would do so—my resolution seeks to have disclosed here before we pass a bill which has the effect of renewing their charters—although Mr. Hanson seems to think they do not want them renewed.

Hon. Mr. HANSON: No; I did not say that.

Mr. SLAGHT: That we should know the real earnings of the aggregate ten banks in the year 1943. We should know the real earnings. We do not know the real earnings for 1943 nor for the past fifteen years. We do not know them.

Mr. TOMPKINS: I disagree with that, of course.

Mr. SLAGHT: Let me point out to you, Mr. Tompkins, that there was an amount set aside out of real earnings, a hidden amount, and it was deducted by bookkeeping entries from the gross value of the outstanding assets by way of loans, and then there was a writing down by the extent of that hidden amount out of last year's earnings, and the loans were valued at what they would have been less that hidden amount. You agree with that?

Mr. TOMPKINS: Yes; but, as I was trying to emphasize, part of that amount represents losses experienced last year which may have been in some part applicable to previous years, if you like. It is very difficult to allocate losses with precise accuracy to a given year.

Mr. SLAGHT: Of course it is.

Mr. TOMPKINS: That is the very reason why the experience of losses, as shown by item 15, was given as an average to reflect the experience for both good and bad years over that period. That is the very reason why that was done.

Mr. SLAGHT: All right.

Mr. MACDONALD (*Brantford City*): May I interrupt for a minute. Do I understand that Mr. Tompkins is still a witness before the committee, and is Mr. Slaght still cross-examining him? I understood Mr. Slaght was summing up his argument.

The CHAIRMAN: That was my understanding.

Mr. SLAGHT: I shall be glad to proceed. I do not need any more from Mr. Tompkins. He is on this record flat for all we need. Now, then, my reason is that they should not be allowed to continue this writing down of assets without disclosing it to parliament through this committee; and furthermore—and this resolution does not call for it—they should not be allowed to set aside the secret portion of their earnings of last year without disclosing it to the commission of taxation, which heretofore they have never done.

Mr. MACDONALD (*Brantford City*): According to the amendment proposed they will have to do so in the future.

Mr. SLAGHT: Well, that is some good, at least, that this committee has brought about.

Mr. MACDONALD (*Brantford City*): No one has suggested that the committee has not done some good; I think the committee has done a great deal of good.

Mr. SLAGHT: You will agree with me in some things.

Mr. MACDONALD (*Brantford City*): In a great many things.

Mr. SLAGHT: May I call the attention of the committee for a moment to what this committee is and on what matter we are sitting. This is a committee appointed by parliament. It is not appointed by any political party, it is not appointed by the Minister of Finance and it is not appointed by the government. Each member is here because parliament in parliament appointed each member to this committee, and being appointed by parliament our powers are outlined to us, and one of the powers given to us is to inquire into such matters as are referred to it, and I will remind you what they are: to enquire into the Industrial Bank Act, the report of the Bank of Canada, and the Bank Act as found in bill 91. And, power also given to this committee is to send for persons, as it is put, and records, and to find facts from those persons and records.

Now, the best illustration to my mind of the antequated broken down system under which we are limping along at the present time and endeavouring to secure proper taxation from the banks, is the fact that since this committee began its sessions on the 25th of May, dealing with the subject of inner reserves, which I, perhaps, innocently provoked—since that time two of the banks at least have been discovered to have underpaid their taxes for last year and will be made to disgorge that amount in some eight months from now. If they would tell us what the amount is this committee would settle it in eight minutes and so would the Commissioner of Taxation, Mr. Fraser Elliott. It would not need eight months to say, in so far as payment by them back into the treasury is concerned what amount they escaped taxation for last year by making, as the minister puts it, excessive amounts out of earnings set aside in hidden reserves. Every million dollars they do put back into the treasury will make that much less to be paid by the working people of this country for whose taxes deductions are made at source.

Hon. Mr. HANSON: I think the more money given them the more they spend.

Mr. SLAGHT: That is the philosophy of a man high in the tory party. That has been the tory doctrine for 200 years: don't let the people have money for fear they will spend it. That is not the Liberal doctrine, let me tell you.

Hon. Mr. HANSON: Yes, it is.

Mr. SLAGHT: Now, what is this motion? It is suggested—and may I without disrespect say that I think it is most unfortunate that our Minister of Finance should have endeavoured to make a vote upon this motion a vote of want of confidence in the government of the day, resulting, if he was right, in the defeat of the government of the day and an appeal to the people. Let me tell you, Mr. Chairman, that such a suggestion by the minister is as unconstitutional as it is unworthy, and it is as unworthy as it is unconstitutional; and I will tell you why: no vote of want of confidence can ever be put forward in any committee of parliament. Parliament delegated to this committee of fifty-two people—

Hon. Mr. ILSLEY: Now, before you start knocking down too many straw men let me tell you what I said. I said that the position I took in reference to this matter was not only my position but it was the position of the government, and that the government must know whether they have the confidence of the committee in this regard. That is what I said. What the consequences would be if the committee says they have no confidence in the government in this regard, I do not know.

Mr. SLAGHT: You ought to know.

Hon. Mr. ILSLEY: No, no. I say that we must know. This is the government's position in regard to this matter; it is my position in regard to this matter; and it is of the utmost importance that we know whether we have the confidence of this committee in this regard. I cannot spell out the consequences there and I do not want you to be spelling them out and painting pictures of general elections, resignations, dissolution and one thing and another. When I state that in my mature judgment, which I took two weeks to form, a certain course of procedure is not in the public interest, and when I state that I have the backing of the government in saying that. I must know whether I have the backing of this committee, not as a party matter at all, I must know that; otherwise the proceedings become impossible. If I am to be overridden after giving a statement like that, and if a course is to be followed that I have said is not in the public interest, and that the government has said is not in the public interest, then you can proceed to send for witnesses and do whatever is suggested.

Mr. BLACKMORE: Without allowing members to go into it at all—closing the door.

The CHAIRMAN: Suppose we allow Mr. Slaght to continue his remarks, and suppose Mr. Slaght confines himself to those remarks.

Mr. SLAGHT: The last statement of the hon. minister is very enlightening; but he told this committee, as he now says again, that if the members of the committee exercise their own judgment and do not accept his on this vital matter that that will constitute want of confidence in him and in the government.

The CHAIRMAN: I must protest. That is not an inference properly drawn from the minister's statement.

Mr. SLAGHT: Let me say this, that no want of confidence motion could be brought forward in this committee; such a motion would be ruled out as out of order. This committee is a fact finding committee and a committee empowered to find the facts and get the truth and report to parliament. We cannot pass bill 91 in this committee, or any other bill; we are only a committee of inquiry, a fact finding committee. The hon. minister says that he does not want me to discuss the consequences, but I intend to discuss them for a moment. If his suggestion is that a committee of fifty-two members have been delegated power by parliament to vote want of confidence in the minister and in the administration, what about the other 200 members of parliament? Did they ever delegate or intend to delegate such power—and there are some committees which have only fifteen members upon them—to a committee to declare want of confidence in the government?

The CHAIRMAN: I think it is generally agreed that this committee has no jurisdiction to vote want of confidence. I think that is agreed. Now let us get on with your summary.

Mr. JAQUES: It has been threatened with it.

The CHAIRMAN: No, there has been no threat.

Mr. BLACKMORE: The members of the committee have been bludgeoned into line.

Hon. Mr. ILSLEY:That is not so, Mr. Blackmore. Every time I hear a statement like that I am going to contradict it. I pointed out an obvious fact.

Mr. BLACKMORE: You saw Dr. Blair whipped into line only two days ago, and surely there is no doubt about it.

Mr. SLAGHT: May I remind the committee, Mr. Chairman, that several very worthy members have spoken and declared that it is reason enough for them; that they are not going to look behind it or exercise any proper judgment of their own because they say the Minister of Finance and the government, having declared that they must have the confidence of this committee, that is good enough, and that they are going to choose them as against myself and my colleagues as regards these hidden or inner reserves.

The CHAIRMAN: The records will not bear out that statement.

Mr. FRASER (*Northumberland, Ont.*): A statement has been made by Mr. Blackmore that the members of this committee have been whipped into line—

The CHAIRMAN: Bludgeoned.

Mr. FRASER (*Northumberland, Ont.*): I want that statement withdrawn, because as one member of this committee I have not been whipped into line, and neither you nor anybody else, the minister included, can whip me into line. That statement should be stricken from the record.

Mr. SLAGHT: Mr. Fraser has brought out some very helpful facts in this committee, and nobody could accuse him of a lack of independent judgment.

Mr. MACDONALD (*Brantford City*): I think that Mr. Blackmore should withdraw the statement. It is suggested that members have been whipped into line. Speaking for myself I have not changed my view from the moment I came into this committee. I said I would hear the evidence and draw my conclusions. There has been no whipping into line.

The CHAIRMAN: Suppose we just drop the incident.

Mr. FRASER *(Northumberland, Ont.)*: I rise to a point of privilege. The statement of Mr. Blackmore is a reflection upon every member of this committee and it should be withdrawn. I will make a motion to that effect.

The CHAIRMAN: You all have a clear conscience. We know that Mr. Blackmore's statement was not in accordance with facts.

Mr. BLACKMORE: I can prove it by reference to the record.

Mr. FRASER *(Northumberland, Ont.)*: Now he is contradicting the chairman.

THE CHAIRMAN: I am very anxious to get on. Mr. Slaght said yesterday that he wanted ten minutes to summarize. Now, I think we ought to give Mr. Slaght his ten minutes and then, if possible, unless Mr. Slaght raises extraneous matters, and apparently he is doing that very thing, we should try to get on with the vote and take the vote to-day.

Mr. SLAGHT: Mr. Chairman, you made it unnecessary for me to further discuss the fact that this is not a want of confidence motion in the government or in the minister. You have made that abundantly clear. I take it that I need not follow that point further, and I will conclude by telling the committee this, that not only is it not a want of confidence motion, but it is a motion declaring our confidence in the people of Canada and a motion which declares we are prepared to trust the people of Canada in learning from the bankers what money they are hiding away each year in inner reserves, and it is further a motion which declares our belief, if we vote for it, in the supremacy of parliament to compel recalcitrant witnesses that come before us seeking the renewal of a valuable franchise to put their cards on the table and give us all the truth and not half the truth. That is what my motion is for. I refuse to accept any suggestion that any vote that I cast against the record of this splendid government who for four and a half years have guided the people of Canada through a war in a magnificent manner shows want of confidence in that government, and I will not let any minister put me in a position of showing want of confidence in my government because I differ from him on a matter of what sort of evidence and fact finding this committee is entitled to receive.

Hon. Mr. ILSLEY: You are knocking down more men of straw.

The CHAIRMAN: Mr. Slaght moves:

> That the chartered banks, each of which has applied to parliament for a ten year renewal of their respective charters should be directed, and are hereby directed and required, to disclose to parliament through this committee forthwith, the total aggregate amount of hidden reserves of the ten banks.

Those opposed—

Mr. SLAGHT: Before you declare the motion either lost or won I request a recorded vote.

Hon. Mr. HANSON: You are going to get it now.

Mr. SLAGHT: I want the yeas and nays recorded.

The CHAIRMAN: Five voted for the motion. Eighteen voted against the motion.

Mr. BLACKMORE: Are the names entered?

Mr. SLAGHT: That is what I desire.

Mr. FRASER *(Northumberland, Ont.)*: To clarify that matter now, my name is W. A. Fraser, from Northumberland, Ontario, and I voted against the motion.

Mr. SLAGHT: A man of undaunted courage.

The CHAIRMAN: Order, please, gentlemen. It is according to the rules of the committee that we have a recorded vote on the application of any one member. Mr. Slaght has asked that a record of the vote be taken.

Hon. Mr. HANSON: I have no objection.

Mr. MACDONALD *(Brantford City)*: If it is necessary to second that, I will do so.

The CHAIRMAN: No. It is not necessary to second that motion. I will ask the clerk to call out the names. The clerk suggests that, for the purposes of clarity, the members record their votes by answering yes or no.

(The motion was negatived on a recorded vote of 18 to 4.)

Mr. JAQUES: Mr. Chairman, I was paired with Mr. Cleaver. Had I voted, I would have voted for the motion.

Mr. NOSEWORTHY: Mr. Chairman, I should like to have the matter of pairing cleared up. I agreed to pair with Mr. McNevin, but I was informed by the chairman and the secretary of the committee that pairing was not recorded in committee.

The CHAIRMAN: It is not recorded, but it is the general practice, Mr. Noseworthy. As you see, it has been done in the case of Mr. Jaques, but the pair is not recorded.

Mr. MAYBANK: In view of the fact that what Mr. Noseworthy is saying now will go on the record, the situation will be taken care of.

Mr. NOSEWORTHY: Quite so.

Mr. MAYBANK: I assume the situation would be that he does not vote but it is clear from the record what he would have done. Similarly with Mr. Jaques.

The CHAIRMAN: Yes.

Mr. JAQUES: I did not understand that, when I agreed with Mr. Cleaver. I thought it would be treated in the same way as is done in the House.

Mr. MAYBANK: It is all right. You are on record.

The CHAIRMAN: I think with that explanation, it will serve the purpose—it is on record, at any rate—and we will allow the matter to stand.

Mr. NOSEWORTHY: Mr. Chairman, I want it clear on the record that I was paired with Mr. McNevin, and had I voted I would have voted in favour of the motion.

The CHAIRMAN: The statement is on the record.

Hon. Mr. HANSON: You declare the motion lost, Mr. Chairman?

The CHAIRMAN: I declared it lost on the standing vote, as I understand it.

Mr. FRASER (*Northumberland, Ont.*): I suggest that we proceed immediately with the bill clause by clause.

The CHAIRMAN: Gentlemen, we have had a very wide discussion. There has been a great deal of latitude given with regard to the motion. I wonder—and I am asking you, Mr. McGeer—if we could find some clauses in the bill that have already been discussed which we could pass and narrow down the contentious clauses to several. Then as you will recall, on some of those contentious clauses we might ask that there should be witnesses appear. I wonder if we might go over those clauses that have not been passed, and see if we can make some progress.

Mr. KINLEY: That would give us a start.

Mr. FRASER (*Northumberland, Ont.*): You have already got your stand-over clauses.

The CHAIRMAN: There are some of them that will stand, yes; but we are trying to dispose of some of those stand-over clauses.

Mr. MACDONALD (*Brantford City*): This argument may have cleared up a lot of them.

(The committee proceeded to discussion of bill 91, clause by clause.)

Mr. MACDONALD (*Brantford City*): Well, Mr. Chairman, I think we are all agreed as to the title of the bill, can we not carry that section?

Hon. Mr. HANSON: I believe the usual practice is to carry that section last.

The CHAIRMAN: That is the usual practice, yes.

Hon. Mr. HANSON: Have you given any study to the interpretation clause? It seems to me that the interpretation clause is a very important section, and I have no doubt that the minister thinks so too because frequent reference has been made to it in speeches on second reading. I should say that the subsections might be called one by one and then if any of us have any objections they can be noted.

Mr. MACDONALD (*Halifax*): Better let it stand and we can refer back to it later on

The CHAIRMAN: Well, gentlemen, as I understand the procedure and what we are trying to do, we have passed some twenty non-contentious clauses that have been explained, and we secured information which we required as a result of the previous debate. What we are trying to do now is to take up the contentious clauses, and we may not be able to take them up to-day because we may not have the information. It seems to me that Mr. Hanson's suggestion is quite proper; we should proceed with the sections, the first clause, the second clause and so on. And now, we have agreed that it is the practice to allow number one to stand—I think we generally adopted that practice in committee—until the other clauses have been disposed of. Now then, clause 2: I think within the time we have, some twenty minutes, we might well let that clause stand at the present time.

Clause 5; do you wish to adopt that clause to-day? Mr. Perley has an amendment. Mr. Perley, is it your desire to go on with your amendment?

Mr. PERLEY: Mr. Chairman, I filed this amendment with you, and it is to this effect:—

> That section 5, subsection 1, be amended by striking out the word "fifty-four" in line 31 and substituting therefor "forty-six."

The reason for this is that listening to the discussion and the evidence of the witnesses who have appeared I thought it was quite obvious we could not get really sensible or proper amendments to this Act during this session, or during the hearings of this committee. I think that is quite apparent now from what has taken place. I think the public is demanding some change and that action of this character that is suggested should be taken. As I said before I am quite in accord with a great many of these amendments. I think it is only natural after a ten-year period, but I think the interest rate in section 91 and the other sections is a little too high. With regard to the charters I am suggesting they be extended for two years and during that time a commission be set up to make a thorough investigation of the whole banking business in Canada from the standpoint of how it affects every line of industry. On that commission I should like to see representatives of certain industries, particularly agriculture. Then we should get a thorough report similar to the MacMillan report in 1934 on the investigation that commission held. The revision of the Act which took place then was based to a great extent upon the findings of that commission. I think this committee of parliament should consider that report and then make any necessary revisions of the Act. In the meantime they could carry on for two years as they are to-day, and under the amendments that have been passed and will be passed in the next few days as the clauses are considered. Briefly that is my suggestion, and I file the amendment with you, Mr. Chairman.

Hon. Mr. HANSON: I should like to make an observation. While it is true that this section of the Act purports to extend, and will, unless altered, extend the charters of the banks for a period of ten years yet we must not lose sight of the fact that Acts of parliament may be altered, repealed, amended or varied at any session of parliament. Therefore, I do not see very much merit in the hon. gentleman's suggestion that we extend the charters for only two years.

If my memory serves me rightly in 1933 we extended the charters for one year only because of the pressure of public business. That bears out the contention I made a moment ago that by Act of parliament it can always be varied, modified, or changed at any session of parliament. One parliament really does not bind another; one government measure does not bind another government; one government policy does not bind another. So that unless there is an absolutely good reason for not extending the charters for ten years I would suggest that the bill be left as it is. It is always open to review by parliament to amend or vary the sections.

With respect to the suggestion made by the hon. member as a reason for his amendment I suggest if that appealed to government policy they could still go on irrespective of the tenure of the charters of the banks. I have not heard of any demand for a royal commission to review the whole financial and banking position of the country. The MacMillan commission did that some thirteen years ago, and I think did it very thoroughly. I am not aware of any circumstances that have arisen since which would make it necessary to have another review such as that. There was a review of the position in this committee in 1939, irrespective, of course, of the ten-year limitation of the bank charters. There is nothing to prevent such a commission being set up if it is deemed desirable and necessary, and it could not be hindered by this provision in the statute. In the interests of stability I think it is only fair to the banks they should know their position is stabilized by this parliament, at all events, for a substantial period of time. They should not have to come back to parliament every year or two unless for good cause shown.

May I point out in this connection there is no form of corporation known to the law in Canada which is subject to such restrictions, such supervision, such limitations, such inspection, as the banking corporations of this country. I doubt if you will find anywhere else in the world that the limitations imposed on banking corporations are as great or as extensive as they are in Canada. I am not saying that is wrong. I think it is because they do have a franchise from parliament, and because they are perhaps the greatest of all our public utilities, if that is a proper term to use with respect to banking corporations, that they must be subject to limitations. They have become subject to limitations and circumscribed in their activities because of the experiences of the past. Every revision of the Bank Act has tightened up the whole position arising out of the experience of the past.

Let me contrast that with the position of other large joint stock companies. Their charters are perpetual. They are only subject to winding up in case of bankruptcy and the like of that while the banks are limited to ten years. I think that a good case could be made for asking that the charters of the banks be made perpetual as well, but subject to the control of parliament under the jurisdiction given by section 91 of the B.N.A. Act through the imposition of restrictions and limitations that experience and the business of the country show are necessary.

I must say to my hon. friend I am not impressed with the reason he advanced in favour of his amendment, namely, that they should only be extended for two years so that their position might be reviewed in the interim. That can be done irrespective of the limiting time that is imposed by this bill. For these reasons, perhaps not expressed as well as they might be, I am opposed to the amendment.

Mr. Noseworthy: Mr. Chairman, I should like a little more time to think over this motion. At the present time I am very strongly inclined to support it but I hesitate to second the motion until I have had a little more time to study the effect of it. I certainly do not believe there is sufficient time at our disposal this spring to give the study required to grant a ten-year extension of the charters. If it is the intention of the government to get legislation through this session for the extension of the charters then I would certainly be opposed to the ten-year extension on the grounds that there will not be sufficient time to study the banking situation in view of the uncertain years that lie immediately ahead of us. If it is the intention of the government to extend the life of the charters for one year, or for a period until this committee is ready to bring in their report then I think we can wait to give more study to this motion. I should like it to stand.

Hon. Mr. Ilsley: Mr. Chairman, for some reason I did not know of Mr. Perley's motion. It is my own fault, but I am going to say what I think about it and think about the program ahead of us. I think that it is very important that the charters of the banks be extended for a ten-year period, and that it be done this year. I do not think that keeping the banks and the public in a state of uncertainty for the next year or two as to what the status and powers of the banks are going to be, and what the rights of the public are going to be in reference to the banks, is desirable.

We have a very difficult task of reconstruction ahead, and the banks must play an important part in that. Therefore, in the period immediately ahead, 1944, 1945 and 1946, I do not think that it is in the interests of this country that the powers, rights, and obligations of the banks, and of the public in relation to the banks, should be in doubt. I think we should settle it this year.

It is quite obvious to me that we cannot give sufficient attention to the Bank Act to report it back to the House of Commons before July 1. Something will have to be done to make a temporary extension of the charters, but that can be done. There are two ways in which that can be done. It can be done either by Act of parliament or it can be done by order in council under the War Measures Act for a month, for two months or for three months, or first for a month and then for another month as it seems most desirable. I think this committee should work if it has to work through July and, if necessary, through August until it concludes its study of the Bank Act and of the amendments which are placed before the committee, and have been placed before parliament for their consideration.

We are proposing amendments here which we think are important. We are proposing amendments which we think will be of great importance to agriculture and to other primary producers. We are proposing changes which we think are reforms and we think the banks should know whether they can carry on, going ahead on that basis for a number of years. We think they must be put in a position to know that before they will embark upon the programs we want them to embark upon. The banks, of course, should be examined as to what they are willing to do and what they will undertake to do in the furtherance of these important tasks of reconstruction. If the committee is of the opinion that these are important tasks and will be advantageous to the country they should sit here and work until they put the banks in a position to know what they can rely on for the decade ahead. I think anything else would simply result in turmoil and hesitation and holding back on the part of the lending institutions of this country which would be extremely unfortunate in this period. Mr. Noseworthy seems to think it would be desirable to keep the banks suspended between heaven and earth for a year but I do not believe it would be. I think it is most undesirable, and that is the position I propose to take.

Mr. JAQUES: Mr. Chairman, I feel as Mr. Noseworthy does. This amendment was unknown to me, and I hesitate to commit myself at short notice. My first impression is that there are very good reasons behind it. It is all right to say that we should sit here during July, August and maybe September. I have no objection to that; but we are supposed to adapt the Bank Act to enable the banks to carry on for the next ten years. Surely that presupposes knowledge of what the conditions will be during the next ten years. Who can say what they will be as a consequence of the war? That is one reason for the stand I take. Here is another. What about this international monetary control to which I believe this government is more or less committed? That is bound to have an effect on monetary policy in all the participating countries.

Hon. Mr HANSON: I do not see how it affects the banks' charters.

Mr. JAQUES: I suppose nobody thinks for a moment that anybody in this committee is against renewing the charters of the banks. That is not the idea at all. If we are to meet successfully the conditions which will be imposed as a consequence of the war, I personally believe that the banks will need to have their scope enlarged, not decreased. I think we have to get away from this limitation of credit for the purpose of production. This idea that they can only advance so much money and then they are put in danger of becoming insolvent is wrong, I think. I do not think that will meet the necessities of the post-war world at all. I think we should look at it in this light. If any honest and competent person has a good idea by which he can increase the wealth of the country, I think he should be provided with the money to carry the idea out, irrespective of whether it is going to endanger the solvency of the banks or not. They should be made perfectly safe. That is the view I take. Of course, I am not here as a banking expert, and I do not suppose any other member of the committee is. We have here numbers of such experts and I think it would be as well to get a little information on that point, as to whether it is not possible to so frame the Bank Act that they can meet the legitimate requirements of the country without any danger to themselves or, as we have heard so often, to the small depositor. Personally I think it is a mistake to run the banks primarily from the point of view of the little depositor. That may be part of their duty, but surely the main purpose of the banking system is to finance the industrial requirements of the country.

Mr. MACDONALD (*Brantford City*): But you would not get the small deposits or any deposits if the banks were not secure.

Mr. JAQUES: If what?

Mr. MACDONALD (*Brantford City*): If the people did not have confidence in the banks, then they would not put their money in, so you would not have the deposits.

Mr. JAQUES: That is a matter of argument.

Mr. MACDONALD (*Brantford City*): That is the first essential.

Mr. JAQUES: That is a matter of argument.

Mr. MACDONALD (*Brantford City*): The bank cannot lend money until it gets it.

Mr. JAQUES: I am not so sure about that.

Mr. MACDONALD (*Brantford City*): I stand by that position.

Mr. JAQUES: May I quote from the hearings of the Committee on Banking and Currency, House of Representatives of the United States of America in 1937 and 1938, at page 377? I quote Governor Eccles on the Federal Reserve System. He says this:—

> In purchasing offerings of government bonds, the banking system as a whole creates new money or bank deposits. When the banks buy a billion dollars of government bonds as they are offered—and you have to consider the banking system as a whole, as a unit—the banks credit the deposit account of the treasury with a billion dollars. They debit their government-bond account a billion dollars, or they actually create, by a bookkeeping entry, a billion dollars.

Mr. MACDONALD (*Brantford City*): They get the deposit, according to their own statement.

Mr. JAQUES: I do not want to argue the old question of the egg and and the chicken, and I am not quarrelling about that. What I want to see is a banking system in this country which is adequate to meet the post-war demands so that the country can continue under the system, as we have known it, of capitalism and democratic government, and that the banks can furnish the money which would be necessary, without risking their own solvency and the savings of their depositors, big and small. I do not see how we can do that at this stage. I do not think we can commit the country for ten years when we have yet to win the war. I am not prepared to take a definite stand on Mr. Perley's motion, but I do think it is worth considering. I am not saying this to in any way embarrass this government at all. I can almost say that I have no party bias one way or another. All I want to see is the freedom of this country continue and every legitimate demand met without, as I say, endangering either the banks, the shareholders or the depositors.

Some Hon. MEMBERS: Question

The CHAIRMAN: Shall we call it 1 o'clock?

Some Hon. MEMBERS: Yes.

The committee adjourned at 12.58 p.m. to meet again on Tuesday, June 20, at 11 a.m.

June 20, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: May I just say that we are all glad to see Mr. Coldwell back in the committee.

Some Hon. MEMBERS: Hear, hear!

The CHAIRMAN: When we adjourned we were—

Mr. JACKMAN: He did not hear the compliment, Mr. Chairman.

Mr. COLDWELL: What was that?

The CHAIRMAN: I just said that we were all glad to see you back again, Mr. Coldwell.

Mr. COLDWELL: Thank you very much, Mr. Chairman. I am very glad to be back. I had a very nice holiday.

The CHAIRMAN: The discussion, as I recall it, is on clause 5 of the bill.

Hon. Mr. HANSON: Before you proceed, Mr. Chairman, I desire to give notice of motion with regard to an amendment which I propose to move on the appropriate occasion. It is that section 88 (1) (*a*) be amended by inserting the word "producer." in line 34, after the word "shipper of" and before the words "or dealer." It merely enlarges the scope of the class to which section 88 may apply.

Mr. COLDWELL: Is that an amendment to section 88?

Hon. Mr. HANSON: Yes, it is a notice of motion. It will appear in the minutes.

The CHAIRMAN: We are on clause 5. We have an amendment moved by Mr. Perley. Are you ready to vote on the amendment?

Mr. SLAGHT: I was not here, Mr. Chairman, and I wonder if it might be read.

The CHAIRMAN: The amendment is that section 5, subsection 1 be amended by striking out the words "fifty four" in line 32 and substituting therefor the words "forty six."

Mr. COLDWELL: Before the motion is put, I should like to say that I would have preferred to see this a motion for the extension of the charters for a year. I realize, of course, that the house approved the principle of the bill which was to extend the charters of the banks, and refused to accept the principle that the charters be not continued but that the chartered banks be taken over by the country. However, since this motion has been moved for an extension for two years, and because I do not want to move another motion which would merely split those of us who think that perhaps they should be extended for a brief period, I am going to support the two-year motion. I may say, Mr. Chairman, since a general election must come within the next two years, anyhow, and probably within the next year, I believe, that an incoming government's hands should not be tied in regard to the chartered banks, because of the importance of its securing control of its financial institutions in order to do the things that I believe are necessary for the post-war period. I am thoroughly of the opinion that many people in this country—and I am inclined to believe the majority—think that the time has come when we can no longer safely leave the control of our financial institutions, and particularly banking policy, in the hands of irresponsible boards of directors. I used the term "irresponsible" in the proper sense, meaning irresponsible in the sense that they are not responsible to anyone but their own shareholders. I believe, with the prime minister, that currency and credit must be utilized in terms of the nation's needs, and that the people who are obligated to carry out national policy are the representative people elected to our legislative institutions. Consequently I am firmly of the opinion that the chartered banks, which deal with the day-to-day giving of credit and the making of loans, ought to be national institutions and directed by government policy. I am therefore going to vote for this motion, because I believe that, within the next two years, we shall have enough members in this House of Commons who have at least a common view, irrespective of party affiliation to carry out any decision we make, and I feel we should have the opportunity then of deciding what this nation requires and what ought to be done. I am thoroughly opposed to tying the hands of the country for ten years.

Hon. Mr. HANSON: It is not tying its hands.

Mr. COLDWELL: It may be argued that we could at any time repeal a statute; but it is much more difficult to repeal a statute of this description than to deal with it *de novo* when the time comes.

Hon. Mr. HANSON: No, no.

Mr. COLDWELL: I am going to support Mr. Perley's motion on those grounds.

Mr. NOSEWORTHY: Mr. Chairman, I indicated on Friday that I wanted a little more time to consider the motion brought in by Mr. Perley. I understand that it is not necessary that a motion in committee be seconded; but if it were necessary, I should be very pleased to second that motion. I want to set forth a few reasons for doing so. I do not expect the committee to agree with the reasons I give to the extent of supporting the motion; but what I have to say may provoke some thought in the committee.

I am sorry I did not get here in time to hear what Mr. Coldwell had to say on this motion. I may, and probably will, repeat some things he has already said. My first thought is that very crucial days lie immediately ahead of us. I think we all realize that, throughout the war years, the whole psychology of the people has changed considerably, and that they will demand of any government that is elected to power at the next federal election—be it Liberal, Conservative, C.C.F. or whatever it may be—much greater social security, or more social security measures than we have had in the past. They will demand this for all classes of civilians. There will be in addition to the cost of the social security programs vast costs and charges arising out of our war. A large part of the war cost will still have to be borne by the Canadian people. There will be those costs in terms of aid, or for rehabilitation of service men and women who are returning from the war. There will be additional costs by way of interest charges on money that we have borrowed during the war. There will be additional burdens to be carried because of the aid we shall have to render to the war-ridden countries. All these extra burdens which the public and conditions will require governments to carry, will make a very high standard of production necessary. I think every one in this committee is agreed that the only way in which we can possibly manage in the future is by maintaining production at a very high level and maintaining our national income at a very high level. I think the James' committee agreed that the national income after the war, to effect prosperity, must be at least 70 per cent of to-day's national income. That income, of course, will be based on increased production. I am quite sure that even our Social Credit friends will agree that printing of money, the creation of money, cannot outstrip production. Production must keep pace if we are to have a high national income.

Mr. BLACKMORE: We have always maintained that.

Mr. NOSEWORTHY: I think we all maintained that too.

Mr. JAQUES: That is not the problem. The problem is to sell what you produce.

Mr. NOSEWORTHY: To meet all of these public obligations will also require a much more equitable distribution of wealth than anything we have had in the past, and a more equitable distribution than we have today. I think, probably, that we are agreed that we have a more equitable distribution, a greater distribution of wealth to-day than we have had at any time in our history.

Mr. BLACKMORE: Would the hon. member permit me a question? What does he mean by wealth—money, or the means of producing goods?

Mr. NOSEWORTHY: I am only thinking of money as representing values created by production. I am thinking of the distribution of wealth. It is true we cannot distribute possibly many of the things we produce, and we shall have to distribute the dollar value.

The CHAIRMAN: Mr. Noseworthy, may I say that you are using the term in the sense of the goods and services produced.

Mr. BLACKMORE: You have not money in mind at all when you speak of wealth?

Mr. NOSEWORTHY: Only in so far as money is the instrument or the means by which distribution can be effected, by which those who produce can be assured of a relative portion of the things that they produce.

Mr. BLACKMORE: If the money could be properly distributed the distribution of the goods would naturally follow, would it not?

Mr. NOSEWORTHY: I admit that the distribution of the goods depends upon the purchasing power of the masses of the people.

Mr. BLACKMORE: By purchasing power you mean money? If you could get distribution of money you could get distribution of goods.

Mr. NOSEWORTHY: Yes, if we can distribute the dollar value or the money value of the goods that we produce we would solve the problem of distribution.

Mr. BLACKMORE: That is the social credit stand.

Mr. NOSEWORTHY: I was saying that we have possibly a more equitable distribution to-day than at any previous time. There are a number of government measures that achieve that: the wage rates, the larger number of wage earners, price fixing, income and excess profits tax, inheritance tax, and other measures contribute to a wider distribution of wealth than we have had up to the present time; but the distribution is still far from equitable. You cannot tell the public to-day anywhere in this country that profits are not being made from the war, and that certain individuals and certain institutions are not accumulating profits even in war time. I can recall, as an illustration, men engaged in war production, engaged on war contracts in the city of Toronto, who before the war were not rated very high financially, men who found it very difficult sometimes to meet their obligations, but who are to-day able to support motor launches, they are able to give numerous parties to high government officials and others, they are able to support racing stables which were almost non-existent before the war. There are numerous instances that the people can see every day of profits which have been made out of war industry; and despite all that the government has done, and despite probably all that a government can do that still is the result.

I may over-estimate the importance of the banks perhaps, but in my opinion they are the most important single institution in our economic life. When we consider the extent to which the government to-day depends upon the banks—I mean the privately-owned banks—for government financing; and when we consider the extent to which the government is indebted to the privately-owned banks for money which they have borrowed, the principal sums they have borrowed, and the extent to which the government is under obligation to pay interest to those banks, one will, I am sure, be excused for wondering whether in reality the government controls the banks or the banks control the government. It is readily agreed, I think, that the greatest possible production then should be maintained after the war, a production which the James committee tells us will require one and one-half billion dollars a year invested in capital goods. I was rather interested in the *Financial Post* review of 2,400 of our largest manufacturing concerns in eight major industries which in 1939 contributed 60 per cent of the gross sales of Canadian manufacturing; that is, in 1939 these 2,400 major industries or major manufacturing concerns produced between one-seventh and one-eighth of the national income. Manufacturing altogether contributes about one-fifth of the national income.

Mr. CLEAVER: What issue of the Financial Review are you quoting from?

Mr. NOSEWORTHY: It was published, I think, about two weeks ago. I have not the exact date. Those concerns in 1939 contributed between one-seventh and one-eighth of Canada's national income. The James Committee report tells us that we shall need about one and one-half billion dollars for capital investment to maintain full employment. This is what the report showed these 2,400 concerns plan for the post-war years. Let us not forget that they contribute probably about one-eighth of the national income. They plan to invest only $318,000,000 in three years or $106,000,000 a year or 1/15th of the capital investment that will be required according to the James Committee to maintain full production, instead of one-eighth which they normally produce and which is their ratio of Canadian production. Therefore, they will be contributing 1/15 of that one and one-half billion dollars required. Furthermore, according to the same report they plan to employ 75,000 fewer workers or 11 per cent fewer than the 600,000 workers who are to-day employed by those same industries. These industries incidentally are the major consumer producing-goods industries in the country. I have the list of the eight larger industries which comprise these 2,400 and they, as I have said, normally contribute about 60 per cent of the manufacturing that is done in this country. The eight are the industries concerned with animal products, vegetable products, textiles, lumber, pulp and paper, iron and steel products, non-ferrous metals, and electrical goods—the industries which are expected to take up the slack in employment in the post-war years as far as manufacturing is concerned. There is their own picture of what they propose to do. So that picture is not a particularly bright one. In addition to maintaining the capital investment we shall require somewhere around five or six billion dollars' worth of production consumer goods to maintain our national income at anywhere approximately near its present level.

Mr. BLACKMORE: I was wondering if the article to which the hon. member referred gave the reason why they proposed to limit the number or restrict the number of employees?

Mr. NOSEWORTHY: I do not know that reasons are given; they gave an estimate in the survey of the number of men that they could reasonably be expected to employ in peace time production, and the estimate totalled 75,000 fewer than the 600,000 who are to-day employed by these same industries.

Mr. BLACKMORE: Would the hon. member care to give us any idea as to why they propose to reduce the number by 75,000?

Mr. NOSEWORTHY: Yes? I do not know what my ideas are worth, but I think there are probably a number of reasons. In the first place, I assume they consider that with that particular number of men they will produce all the goods that they can dispose of.

Mr. BLACKMORE: And that can be bought?

Mr. NOSEWORTHY: I think that is probably the major reason; certainly, to produce all the goods that they can dispose of at a profit that would warrant them in carrying on business.

Mr. BLACKMORE: They are worried about the purchasing power in the hands of the people.

Mr. NOSEWORTHY: Yes, unquestionably. I think we all recognize that one of our important needs in the future is to devise some means whereby the masses of the people can be provided with money to purchase the goods and services they create. I do not think anyone in the committee doubts that, Mr. Blackmore. I think we all agree, moreover, that if we are to find a market for that enormous production we must consume at home either those goods which we produce or those that we receive from other countries in exchange for those goods that we produce. I think economists are pretty well agreed that our exports in the future will have to be balanced pretty well by our imports; that we cannot expect nations to which we export to pay for those goods in anything except goods which they themselves produce. That simply means therefore we must find some means of stepping up the living standards of the Canadian people themselves.

Mr. BLACKMORE: Purchasing power in the hands of the people.

Mr. MCGEER: That survey you referred to was not altogether out of line with the survey made by the Governor of the Bank of Canada in his 1943 report.

Mr. NOSEWORTHY: Yes, he approves in a general way of the James Committee recommendations; I think he accepts the James Committee recommendations.

Mr. MCGEER: He gives the number gainfully employed in 1939 at 4,000,000 and suggests that we will have to take care of 4,700,000 after this war and also suggests that our capacity to produce has been substantially increased; and if I read the report correctly that would leave about 1,500,000 roughly, to be taken care of over what normal requirements will take care of.

Mr. NOSEWORTHY: There has been a fairly close study made of the number of men and women—and women particularly—now in industry who can normally be expected to remain in industry after the war. The Gallup poll has made a survey, and the figures are available on that point; I have not them here, but I have them in my office.

I was going on to point out that in this whole economic mechanism the banks constitute a very important part and have a very important function. I say a most important function. Certainly the most important function from the economic point of view. They play that part for three reasons, to my mind: first, they are the institutions that deal exclusively in money and credit; secondly, with the Bank of Canada they possess the power to extend or contract credit at will. I am not so confident as the minister is that they cannot expand and contract credit under certain circumstances in spite of what the Bank of Canada may be able to do. I am not going to debate that point this morning, but I shall question Mr. Towers when he is again on the witness stand on that point. Certainly, when we get to a place in history where industry refuses to borrow for any reason then I cannot see where the banks have much choice but to contract credit, regardless of anything that the Bank of Canada may do under those conditions.

The third reason for the importance of the banks is one which I discussed before the committee before—that of the interlocking of directorates. I know that Mr. Wedd assured the committee that the fact that there were the same men acting as directors of a bank and also acting as directors of a large number of industries or financial concerns has no effect upon either the policy of the bank or the policy of those industrial concerns; but it is very hard to convince the public that that is true. It is very hard for one to believe that that is true. The fact is that you have the same men who direct the policies of the banks directing the policies or taking part in directing the policies of major industries in the country, as well as financial and commercial institutions; and I think we have either got to admit that these men have an influence upon the policies of those institutions or industries or that they are just mere nonentities on the board. I do not think those directors are of such calibre that they can be considered to be just mere figureheads or nonentities on those boards of directors.

Mr. BLACKMORE: I wonder if he believes that the last depression developed in any considerable degree because borrowers refused to borrow? Mr. Noseworthy referred to that as a second point—when industry refused to borrow.

Mr. NOSEWORTHY: What is true, what is generally recognized is that concurrently with the fall in production and the decrease in production there was a similar or equivalent reduction in credit, a contraction of credit. Studies have been made of that, as Mr. Blackmore knows. And now, I am not in a position to say, but I think banking experts maintain that the drop in production came first and the contraction of credit came second. There are economists better versed in this than I am, who maintain that the reverse is the true position, that the contraction of credit came first, and that the drop in production was due to that contraction of credit. I think Mr. Blackmore can argue that point probably much more effectively than I can.

Mr. BLACKMORE: What I am interested in is what you yourself think.

Mr. NOSEWORTHY: Yes. I suspect that there is a great deal of truth in both statements, and that what actually happened was that the two worked very closely together, the contraction of credit and the drop in production.

Mr. BLACKMORE: The contraction of credit and the drop in production?

Mr. NOSEWORTHY: Yes, that they worked pretty close together, and that it was pretty much an integrated part of one operation.

Mr. BLACKMORE: What actually did happen out among the farming communities was that the banks refused to let the farmers have credit in the spring of 1930, and that caused the contraction of credit.

Mr. NOSEWORTHY: I was not living in a farming community in the thirties, and I am not very familiar with just what did happen in those communities.

I do not think you can get away from the fact that you have the same men directing the banks and directing our major industries, or that you can dispose of that question by simply saying their presence on those boards had no influence on either the policy of the banks or the policy of industry. I think that interlocking directorates do give the banks a position of supreme importance in the economic life of the country.

The question that concerns the public or will concern the public in the years to come is this. I do not go so far as to say that it is the question that the public are asking now; I do not know that they are actually voicing that opinion; but certainly the question that concerns them most is whether our banking system as it exists to-day, or as it will under this amended Act, is the best that we can devise to meet the financial and credit needs that will be required to maintain full production; and secondly, to provide equitable distribution of the dollar value of that production. I think that is the most important question before the public as far as the banking institutions are concerned. The working classes of the people—with all due respect to such honourable members as Mr. Macdonald and others who have voiced sincere concern for the welfare of those working classes—are not half as concerned to-day about whether their $144 deposit in the bank is safe as they are about whether their jobs are safe and whether or not their wage rates are safe.

Mr. BLACKMORE: Hear, hear!

Mr. NOSEWORTHY: And will be safe when the war is over. Those millions who make up those depositors with accounts of $1,000 and less, constituting over 90 per cent of the deposits in the banks, those people who have between them an average of $144 each in the bank, are much more concerned—and it is much more important to them—that their jobs should be secure, that their wage rates should be secure, than that their $144 should be in some place for safekeeping, important as that latter may be.

The question before us then is: Will the banks, functioning under this amended Bank Act, be able to measure up to the demands of the future? We see, this year, certain amendments being brought in which are felt to be necessary in order to enable the banks to render better service to the public in the years to come than they rendered in the past, such as amendments calling for cheaper money for small borrowers, cheaper loans to farmers, an industrial bank to assist industry and other changes. These are brought in concurrently with the request for the renewal of the charters; and apparently few amendments are made to the Bank Act except at these ten-year intervals when the charters come up for renewal. Will the granting of a ten-year charter in 1944 make it more difficult to secure any amendments that may be necessary to meet future conditions, amendments that may be necessary two, three or five years from now? Mr. Hanson, on Friday I think, opposed the two-year amendment on the grounds of insecurity, or instability, that it would provide for the banks. Am I right or wrong in that?

Hon. Mr. HANSON: And a dozen other reasons? You can always rescind the Bank Act.

Mr. NOSEWORTHY: And he pointed out that parliament always had authority to revise the Bank Act, as occasion required.

Hon. Mr. HANSON: Right.

Mr. NOSEWORTHY: Mr. Hanson, I am sure is confident that there will be a change of government in this country before ten years have passed. I do not think he has any doubt of that.

Hon. Mr. HANSON: Why bring that in here?

Mr. NOSEWORTHY: I wonder if he considers the Bank Act, as amended in 1944 by a Liberal government, sufficiently progressive for his new party and his new leader?

The CHAIRMAN: Mr. Noseworthy—

Mr. NOSEWORTHY: I wonder if he is willing to guarantee—

The CHAIRMAN: Excuse me, Mr. Noseworthy. When you turn around, the reporter finds it very difficult to follow your statement.

Hon. Mr. HANSON: I should like to rise to a point of order. What has this whole speech to do with the proposed amendment?

The CHAIRMAN: I have been wondering that too.

Hon. Mr. HANSON: There is a rule in committee that remarks in it must be directed to the point at issue. We have had in this committee this morning a rehash of things we have heard for three weeks, and I suggest to my honourable friend that he leave me out of this discussion.

Mr. NOSEWORTHY: I simply brought Mr. Hanson in because he came into the debate himself in opposition to this motion on Friday; and I was simply referring to the very reasons that Mr. Hanson gave on Friday for his opposition to the motion.

The CHAIRMAN: Pardon me for a minute, Mr. Noseworthy. In view of what Mr. Hanson has said, it seems to me that much of your remarks properly belong to the debate that was held in the house.

Hon. Mr. HANSON: That is right.

The CHAIRMAN: Over this very matter, in which a reference was made to the committee. There, you will recall, the matter was debated that consideration be given to the national ownership and complete public control of the chartered banks, with a view to the promotion of the peace, order and good government of the people of Canada. That was the subject of the debate, and it was negatived by 112 to 15. It seems to me that we ought now to confine our remarks, as far as we can, to the matter that has been submitted to us by the house. At the same time, I am very unwilling to interfere with general discussion of the matter, and particularly with Mr. Noseworthy, who has been very considerate, and whose remarks have been compressed, up until the present time.

Mr. NOSEWORTHY: Mr. Chairman, I may say that, so far, I have not mentioned the question of public ownership of the banks nor do I intend to mention public ownership of the banks. I have set forth what I consider the reasons for supporting the motion before the committee, and I am sorry if the chairman does not consider they are relevant. I considered that they were.

The CHAIRMAN: I consider that they have been on the border line.

Mr. NOSEWORTHY: I consider that they are relevant to the matter before the committee.

The CHAIRMAN: They were on the border line. That is why I allowed them to go on.

Mr. NOSEWORTHY: I shall try to stick closer to the subject. Certainly parliament, as Mr. Hanson said, may change the Act from year to year. But when you grant that, I think you have destroyed the minister's argument of last Friday, as to the necessity for stability. If you grant a ten-year charter in order to give the banks stability, and concede that parliament or a new government has the authority any year to change the charters or to change that Act, then I think you have destroyed the argument used by the minister about the necessity of stability. Surely there can be no guarantee to the banks that the Act as amended this year will remain unchanged for ten years, unless possibly we can guarantee them the continuance of a Liberal government for ten years, which government is sponsoring the present amendment; and I doubt if that point would be conceded. What is undoubtedly true is that, regardless of what government may be elected, and regardless of what the needs of the future will be, a ten-year renewal of the charters in 1944 will unquestionably render it much more difficult for that government to make the changes required to meet those future needs. The minister intimated in so many words that the banks could not be reasonably expected to carry on, to co-operate, without the assurance of the stability that a ten-year renewal would give them, which in effect means a ten-year period without major changes in government policy regarding the banking system; because once you get major changes in government policy regarding the banking system, and if you get those within the next ten years, then you have not that assurance of stability to which the minister was referring. I do not know who to-day would undertake to assume that the Bank Act, as amended to-day, will be effective to meet the needs of the Canadian people for the next ten years; and I do not see what choice the banks have but to co-operate, to carry on, whether they get a two-year renewal or a ten-year renewal of their charters. I fail to see where they have much choice. One thing is certain, I think; and that is that unless the banks can serve the public better in the 1940's than they served the public in the 1930's, there will be an increasing public demand for major changes in policy.

Mr. BLACKMORE: Hear, hear!

Mr. NOSEWORTHY: The banks will be on trial in the next few years as they have never been on trial before in this country. They will no longer be considered to have served their purpose to the general public when they have kept the general public's deposits safe. Much more important service will be required of them; and I am confident that the bankers, knowing their business as they do, realize quite fully the significance of that fact. I fail to see that a ten-year renewal will be any more advantage to the banking system than a two-year renewal, in the light of the uncertainty that lies ahead, and in the light of the fact that any government will have the power at any time during those ten years to change this Act. I am afraid that a ten-year renewal will give the reactionary forces within the banking system and the reactionary forces within governments, a further excuse to place obstacles in the way of reforms that time may show to be necessary; and it is chiefly on that ground that I support and second the motion before the committee.

Mr. BLACKMORE: Mr. Chairman, before supporting the motion to grant the banks a charter for two years even, I believe it is fitting that we examine with some care the success with which the banks have discharged their responsibilities during the years, say within the last fifteen or twenty years. I should like you, Mr. Chairman, to call Mr. Wedd to the witness stand. I should like to ask him some questions which will enable him to present the case of the banks in support of the proposition that they have discharged their functions properly in the last ten or fifteen years.

The CHAIRMAN: Mr. Blackmore, we would ask Mr. Wedd to come forward except that the Governor of the Bank of Canada will be here in a few minutes for the purpose of answering questions. Would you prefer to have the Governor of the Bank of Canada or would you prefer Mr. Wedd?

Mr. BLACKMORE: I should like to give Mr. Wedd a chance first; then I will talk to the Governor of the Bank of Canada also.

The CHAIRMAN: All right, Mr. Wedd. Will you come to the head table, please.

Mr. MCILRAITH: Just before the examination of the witness begins, is it understood that the examination will be confined strictly to the motion before the chair, or will we go on to a wider field?

The CHAIRMAN: I think it should be confined to the motion before the chair.

Hon. Mr. HANSON: Yes.

Mr. BLACKMORE: The motion before the chair is that we grant the banks a continuance of their charters for two years.

The CHAIRMAN: That is the idea.

Mr. BLACKMORE: We therefore must be assured that the banks have discharged their responsibility successfully. Otherwise we would not be in favour of giving them even a two-year extension. With that idea in mind, I think you will find that all my questions are directly pertinent to the matter before the committee.

Mr. COLDWELL: May I ask Mr. Blackmore a question? If he is not in favour of extending the charters for even two years, is he in favour of the government taking the banks over immediately when the charters expire?

Mr. BLACKMORE: In reply to Mr. Coldwell, I would say this, unless the government can show that they know enough about running the banks to enable them to offset the disadvantages which the banks have had, I would say that for the government to take over the banks would do us no good at all.

Mr. COLDWELL: Who would operate the banks if the charters are not renewed?

Mr. BLACKMORE: I shall be glad to reply to Mr. Coldwell after I get through with Mr. Wedd.

Hon. Mr. ILSLEY: Mr. Blackmore, will you permit a question?

Mr. BLACKMORE: Yes.

Hon. Mr. ILSLEY: You are now pointing your questions as to whether there should be any extension of the charters of the banks. Is that what you are doing?

Mr. BLACKMORE: I am pointing the questions as to whether the banks have discharged their responsibilities to the Canadian people during the past ten or fifteen years.

Hon. Mr. ILSLEY: With a view to determining whether there should be any extension of their charters?

Mr. BLACKMORE: Yes.

Hon. Mr. ILSLEY: That question has been determined I submit. I have been turning over in my mind as to whether the other question has not been determined, as to whether there should be an extension for ten years or not. I am doubtful about that. If a person moves an amendment that there shall be a nine-year extension instead of ten years or two years instead of ten, perhaps that is in order. But I certainly do not think it is in order now to embark upon a discussion of a matter which has been determined by the House of Commons, definitely; that there should be an extension of the charters of the banks. If that is what the line of questioning is directed to, I submit, Mr. Chairman, that it is out of order.

Mr. SLAGHT: Speaking to the point of order—

Mr. BLACKMORE: May I answer that?

Mr. SLAGHT: Certainly.

Mr. BLACKMORE: The committee has gone a long way in strangling the members of the committee—

Some Hon. MEMBERS: Oh, oh!

The CHAIRMAN: Mr. Blackmore, I object to that statement, as chairman of the committee.

Mr. BLACKMORE: I do not say the chairman has done it.

The CHAIRMAN: There has been no strangling. We have had the very widest discussion, and I have been criticized for allowing so much latitude in discussion.

Some Hon. MEMBERS: Hear, hear!

The CHAIRMAN: And I do say that we ought to confine ourselves to the issue now before the committee. We are now in the twenty-second session. I doubt that any man can say there has been any strangling of discussion in this committee.

Some Hon. MEMBERS: Hear, hear!

Mr. BLACKMORE: I presume, Mr. Chairman, that the policy which has been followed up to the present time will continue to be followed, so that I may ask the questions I have in mind in order that members of the committee can tell whether they are out of order before they declare them out of order.

The CHAIRMAN: So long as they bear on the issue before the committee, all right.

Mr. SLAGHT: Mr. Chairman—

The CHAIRMAN: Mr. Slaght has the floor on a point of order.

Mr. SLAGHT: Speaking to a point of order, and with a desire to avoid confusion before Mr. Wedd is examined, because others might want to examine him, may I ask you to clarify to me the position we find ourselves in, Mr. Chairman? We are primarily discussing an amendment which simply changes clause 5 in one particular only, by reducing the time of the charters by eight years, from ten years to two years.

The CHAIRMAN: Yes.

Mr. SLAGHT: That is a very simple question. But I desire to know whether, when that amendment is disposed of, and assuming it goes either way, we go back to the questions involved in 5? I believe that we do.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: Because after reading clause 5, honourable members will find that it is an acceptance in advance of dealing, for instance, with clause 59; it is a frank acceptance of the provisions of this Act which runs to 123 sections as the future charters of the banks for the next ten years. I have something to say when we come to clause 5, and I wanted to assure myself that, whichever way this amendment goes when it is voted on, we then can take the discussion of 5 and that will have to be passed or rejected. Am I correct in that?

The CHAIRMAN: I would think so.

Mr. MAYBANK: We are on 5 now.

The CHAIRMAN: We are discussing 5. At the moment we are discussing an amendment to 5. When we dispose of that amendment, then we will take up the remaining substance of 5.

Mr. BLACKMORE: Mr. Chairman, I think probably a word of explanation is due to you, because of what I said about strangling discussion in the committee. I had reference particularly to the motion for closure which Mr. Hanson made several days ago, which was out of order completely and which was jammed through by the majority of this committee, strangling discussion in this committee. Now if that can be explained in any other way than as a straight measure to strangle discussion in the committee, I am ready to hear it explained.

Hon. Mr. HANSON: You had the right to take a point of order. The trouble is you did not know enough.

The CHAIRMAN: Proceed, Mr. Blackmore. We have already discussed that matter, and it has been disposed of.

Mr. BLACKMORE: Very well. I just wanted to be fair to you, Mr. Chairman.

The CHAIRMAN: Thank you.

Mr. BLACKMORE: That is all I had in mind.

Hon. Mr. ILSLEY: Excuse me a moment but may I be permitted to ask a question of Mr. Blackmore. Are you departing from what you have been insisting on right along, that the second hour be devoted to general discussion and the first hour to the sections?

Mr. MAYBANK: It is the other way around.

Mr. BLACKMORE: The second hour has been devoted to more or less an extended investigation, extended discussion, or extended speeches or examination of witnesses.

The CHAIRMAN: Also the first hour.

Mr. MAYBANK: The first hour was for the sections of the Act, was it not?

The CHAIRMAN: Yes.

Mr. MAYBANK: The first hour was for the sections.

Hon. Mr. HANSON: That has been talked out.

Mr. MAYBANK: That is what I say.

Hon. Mr. ILSLEY: And the second hour was for general discussion.

Mr. MAYBANK: That is what I thought.

Hon. Mr. HANSON: That rule has not been observed for some days.

Hon. Mr. ILSLEY: Do you want to scrap that rule?

Mr. BLACKMORE: I am not in favour of scrapping anything. All I want to do is to have the privilege of examining Mr. Wedd.

Hon. Mr. ILSLEY: All right, if you want to do that.

The CHAIRMAN: Proceed, Mr. Blackmore.

Hon. Mr. ILSLEY: But do not come back and stop discussion on the sections to-morrow if we are going on to one o'clock.

Mr. BLACKMORE: I do not think I have been an offender before this committee up to the present time, and I do not propose to be one in the future. I should like to ask Mr. Wedd some questions and I want to be fair with him. I must say that he has not known anything about this, and he is perhaps in an unprepared condition. I want to be just as fair as I possibly can be to him. I am going to ask him rather general questions, I think, to start with.

Mr. S. M. WEDD, President, Canadian Bankers' Association, recalled.

By Mr. Blackmore:

Q. The banks look upon themselves as public servants, Mr. Wedd. Is that correct?—A. Quasi public servants.

Q. All right. The statement has been made pretty definitely, though, that they are to be looked upon as public servants. That has been conveyed to us by Mr. Towers, the Minister of Finance and most of those who have spoken for the banks. So we would be safe in assuming that they are public servants.—A. I say quasi public servants.

Q. Very good. Now I am going to name what, as far as I can judge, are the functions of the banks, and you tell me whether or not I am correct, Mr. Wedd, will you?—A. I will try.

Q. First of all, they function as safety vaults for the savings of the people. Is that correct?—A. We think that is correct.

Q. Second, they serve as facilities for the transfer of money in the conducting of business?—A. Yes.

Q. That is No. 2. Third, they serve as agencies for providing loans for production?—A. Yes.

Q. Fourth, they serve as agencies for providing, through loans, the money to supply all the sound credit needs of the Canadian people?—A. I agree.

Q. The words which I use from "all" down to "people" were taken from the minister's speech reported in Hansard at page 2,612, column 2, at the bottom of the page. May I read the words, "All the sound credit needs of the Canadian people." Very well. Then you and I are agreed as to what are the functions of the banking system as they set about being the servants of the Canadian people. We agree on that. Now there are several sound credit needs of the Canadian people. I may say that in all the discussion I have heard of the banking system since I came into Canadian public life, I have never heard any minister define accurately just what are those needs. Our present Minister of Finance did not feel called upon to do so in his speech of May 2. He simply said all the needs would be supplied. Would you agree that one of the sound credit needs of the Canadian public is enough money to avoid depression?—A. Mr. Blackmore, that is a very wide question.

Q. That is right.—A. You talk about them being the servants of the public. We make ourselves available to good borrowers—good, worthy borrowers—and we lend them what they, in their judgment, think is sound to borrow from us.

Q. And also what you, in your judgment, think is sound that they should borrow?—A. That goes without saying.

Q. That is right. And what you think is more important than what they think, generally, as far as loans are concerned?—A. I say this, that we are usually not far apart, when a man comes and asks us for a loan, unless his thinking is perhaps a little bit wide of the mark.

Q. A little bit wide of the mark covers a multitude of facts.——A. Or thoughts, not facts.

Q. Well, a multitude of decisions.—A. Quite.

Q. Very well. I just want to see whether the members of this committee can agree that one of the needs of the Canadian people, the sound credit needs, is enough money in circulation in Canada to avoid deflation in Canada; for if there is not enough money in circulation in Canada, then prices begin to fall, the prices of primary products, and certainly it is one of the sound needs of the Canadian people to have prices maintained at a stable and profitable level. Is that not correct?—A. Of course, that, in my interpretation, is a function of the Bank of Canada, in conjunction with the operation of the chartered banks.

Q. You do believe, though, that with the Bank of Canada and the chartered banks working together, the Canadian people could expect of the whole organization, even demand of the whole organization, that a sufficient amount of money should be kept in circulation in Canada to avoid the evils of deflation?——A. Well, Mr. Blackmore, I could not answer that, I do not know.

Q. Exactly. Now, I think, Mr. Chairman, that Mr. Wedd's statement that he could not answer that is of great significance at the present time.

The CHAIRMAN: Mr. Blackmore would you allow an interruption?

Mr. BLACKMORE: Yes.

The CHAIRMAN: Having regard to questions of that sort, I suggest if the members want a considered opinion they should give written notice to the witness. We have had too much of this, of people coming in with big bundles of papers, and after thinking out questions then asking them of witnesses. It is impossible, I think, to answer a question of that kind offhand. It is unfair to the committee to try to answer it offhand. I believe that, with regard to certain questions, notice should be given to the witness, if we want to get on with our work and if we want considered opinions.

Mr. BLACKMORE: That probably will meet the needs of the situation which you raise, Mr. Chairman, by having it recognized that when I ask a question notice is given for that particular question.

The CHAIRMAN: Yes.

Mr. BLACKMORE: In other words, we may say that this question stands.

The CHAIRMAN: Yes.

Mr. BLACKMORE: Then, I am quite prepared to grant the witness that privilege; I want to be fair.

The CHAIRMAN: Mr. Wedd will understand that if a question is asked to which he does not feel like giving an offhand opinion he will simply ask to have the question stand. Then I think it is only fair that we should allow Mr. Wedd to say, "Well, I am taking an assistant and I will pick out someone who is a theorist who can answer the question." I do not know Mr. Wedd very well, but I understand that he is a practical banker, and a practical banker and a theoretical banker are sometimes two different sorts of people.

Mr. BLACKMORE: I can understand the difficulty which faces Mr. Wedd. The difficulty results—

The CHAIRMAN: Or any other man who will be in the same position.

Mr. BLACKMORE: That is right. That difficulty results from the fact that he and I happen to be in the particular positions we are in to-day, and it is not because of any ill-will on my part or anything else that is reprehensible. So we will let that question stand. I do not wonder that Mr. Wedd would want that question to stand, because that is an extremly difficult question to answer, and when he answers it he will have gone right to the very heart of the whole proceedings of this committee. I suggest that in getting his answer he consult the Minister of Finance and the Deputy Minister of Finance and the Governor of the Bank of Canada so that we may have the very best information that men in financial circles in Canada can give.

By Mr. Blackmore:

Q. Now, I shall ask this question: does the witness agree that such money or credit needs can be supplied by the banks only by lending; that is, only through borrowers? And let us have in mind what the Minister of Finance had in mind. He did not specify, but he spoke of the sound credit needs of the Canadian people. Now, if stable prices and enough money in circulation is not one of the sound credit needs of the Canadian people then the situation is simply grotesquely peculiar, is it not?—A. I think that one question follows from the other.

Q. That is perfectly true. May I ask this question: does he agree that the money for credit needs can be supplied by the banks only by lending; that is the banks are unable to get money into circulation except by lending through lending institutions?—A. Lending to their customers.

Q. Right. That is only through borrowing. That is, if there are not enough borrowers to come forward and borrow money from the banks it will be impossible to supply the Canadian economy with sufficient money at any given time to meet the needs of that time?

Mr. CLEAVER: Does Mr. Blackmore suggest that the banks should give money away?

Mr. BLACKMORE: What I propose to suggest will become obviously patent in the course of my questioning.

Mr. CLEAVER: Do you suggest that the banks should do anything other than lend?

Mr. BLACKMORE: I make no suggestions. I say that what I suggest will become obviously patent even to Mr. Cleaver.

Mr. CLEAVER: I do not think there is anything mysterious about it. I am asking whether in your opinion the banks should give money away.

Mr. BLACKMORE: I am asking Mr. Wedd whether the banks in the conduct of their business can give it away, and his answer will be no.

Mr. CLEAVER: Are you suggesting that they should?

Mr. BLACKMORE: I am not suggesting anything. I am asking Mr. Wedd a simple straightforward question.

The WITNESS: Mr. Blackmore answered it for me.

Mr. CLEAVER: I beg your pardon.

Mr. BLACKMORE: This, Mr. Chairman, is one of the essential fundamentals underlying the whole financial system of Canada, that banks can issue money only by loans. In other words, the action of the banks results in debt in Canada. Consequently, borrowers become exceedingly important in the economy where banks issue all the money, is not that so? The borrowers are a prime consideration. That is, if you must have borrowers and you do not have borrowers your whole system breaks down as Mr. Noseworthy indicated?

The WITNESS: We recognize that we must have enterprise on the part of the Canadian people.

By Mr. Blackmore:

Q. You must have borrowers?—A. We must have enterprise.

Q. But you must have borrowers, too. Even enterprise would be of no value unless men came and borrowed money?

Mr. ROSS: May I ask the hon. member a question: how are you going to make money unless you work for it, and how are you going to borrow money unless the money has been worked for in turn?

Mr. BLACKMORE: I think the questions are so obvious, Mr. Chairman, to all members of this committee—

Mr. ROSS: I would like to have an answer to the question.

Mr. BLACKMORE: If the hon. member would allow me to finish the set of questions I have to ask Mr. Wedd I shall be delighted to answer his question.

Mr. ROSS: Can the hon. member answer my question?

Mr. BLACKMORE: I shall answer the question to the full when the time comes.

Mr. ROSS: Answer it now.

Mr. BLACKMORE: Surely I have the right to defer answering that question until I have ended my questioning of the witness.

Mr. ROSS: That is the trouble with their theory; they will not answer.

Mr. JAQUES: Did you say "make" or "earn"?

Mr. BLACKMORE: The answer is completely obvious. If the member will defer his question until the end of my questioning of Mr. Wedd I shall answer his question.

The CHAIRMAN: Order. Mr. Blackmore asks that the question stand.

Mr. BLACKMORE: No, I do not even ask that it stand; I ask that it be deferred.

Mr. ROSS: That is the same old story.

Mr. BLACKMORE: That is not the same old story. Bring on your questions at the end of my questioning of Mr. Wedd and I will answer them.

Hon. Mr. HANSON: Let us get on with it.

By Mr. Blackmore:

Q. Now, Mr. Wedd, if you had been a producer in the period of 1925 to 1935, during which part of that period would you most have needed loans, between 1925 and 1929 or between 1930 and 1935—if you had been a producer, say a farmer or a manufacturer—during which of those two periods would you have wanted loans or needed them more?—A. I think the question should stand, if you don't mind.

Q. Meanwhile, I will answer it this way: that you needed the money if you were a producer very badly between 1930 and 1935. You could have got along better with it if you had had it between 1925 and 1930, but you needed it desperately when your creditors began to close in on you and things began to go to pieces. Now, that need was greater during 1930 to 1935. What was your bank's policy as regards loans during those two periods? When would your bank have been more ready to loan, say, to a farmer? Between 1925 and 1929 or between 1930 and 1935?—A. Mr. Blackmore, in every case of a borrower from our bank we go into the individual circumstances, and if I were to answer that question I would have to take you down through a course of hundreds of thousands of borrowers.

Q. Then your answer would be unquestionably that you would loan rather broadly between 1925 and 1929 and you would restrict your loans quite rigidly between 1930 and 1935?—A. I think if you will refer to the proceedings of 1934 you will see a very full discussion on that particular question when you will notice that the banks, as things began to appear as though the prices were getting high and so on, were encouraging their customers to perhaps not spread themselves out, and I think there is a very good exposition of the whole situation there spread on the records of ten years ago.

Q. But when prices began to fall and the depression began to come on, the banks did not do any encouraging at all; they simply said to the customer: You cannot have this money?—A. It would likely be the other way around. The customers would say, "I do not want any money."

Q. Now, I speak only from the experience of the men, of the hundreds of men who are around the territory where I live in southern Alberta, and to a man they would agree that even with tears they could not get loans from the banks in 1930, 1931 to 1935, and they could get loans very easily in 1928 and 1929. That was the situation which obtained in my area, and I presume that obtained all over—just that way. The real needs of Canada between 1930 and 1935 were for greater loans than in 1925 to 1929. Those were the real needs, but the banks actually refused the loans between 1930 and 1935 while they gave the loans between 1925 and 1929. I speak with experience as a practical farmer who actually had these experiences, and as a man living right among a lot of farmers. In the light of those circumstances can the banks possibly maintain that they supplied the needs of the Canadian people between the years 1925 and 1939?—A. It has been my experience that the Canadian banks invariably supply the proper needs of the public who come to them for loans.

Q. Your use of those words rather condemns you.—A. Sorry.

Q. Your use of those words rather condemns you because they reveal so clearly that your point of view is entirely different from the point of view of the average Canadian whose needs you are placed there to supply.

Mr. CLEAVER: Would you permit a question at this point?

Mr. BLACKMORE: Gladly if it is a sensible one.

Mr. CLEAVER: It is directed to the point of your question. If you were in the lending business would you lend money to a man or to a firm who could not repay?

Mr. BLACKMORE: My question is as to whether the banks of Canada provided the needs of the Canadian people.

Mr. CLEAVER: As I understood your question you were criticizing the banks for loan decreases during the depression period. During that period, if I understood the evidence correctly which we had before that committee—during that period the banks lost millions of dollars in bad loans, and I am asking you whether if you were in the lending business you would lend money to a man you knew could not repay the loan?

Mr. BLACKMORE: The answer to the question is simply this: Mr. Ilsley, as Minister of Finance on May 2 indicated quite clearly that it was the object or purpose of the Canadian financial system to supply all the sound credit needs of the Canadian people, and my object is to show—

Mr. CLEAVER: Is it a sound credit need to lend money to a man or a firm who cannot repay the loan?

Mr. BLACKMORE: May I come back with this question? Is it a sound credit need to have enough money in circulation to keep prices from falling?

Mr. CLEAVER: I think you are missing the point on that.

Mr. BLACKMORE: I am entirely on the point. I am not discussing the question as to whether or not the banks could afford the money or whether it was wise—whether I lend it or whether anybody else lends it—my contention is that there was need among the Canadian people for the money and the banks did not lend it. In other words, the banks failed to meet the responsibility which devolved upon them because they were banks.

Mr. CLEAVER: A bank is a lending institution and the banks must protect their shareholders, and if a bank makes loans to anyone which loans cannot be repaid or will not be repaid surely you do not argue that that is your stand. I am saying if there is inability to pay.

Mr. JAQUES: It is not that the banks would not lend; it is that they could not lend.

Mr. BLACKMORE: The important point is this: we are supposed, according to the words of the Minister of Finance, and I am going to quote them to him in considerable number—that is perfectly all right. I do not object, I am not condemning at all, all I am undertaking to point out is this, that if the banks as a whole together with the Bank of Canada are public servants, and if one of their duties and responsibilities as public servants is to supply the sound credit needs of the Canadian people, and if one of those sound credit needs is enough money to keep prices from falling, and if the banks failed to supply that money when it was needed, then the banks failed in the discharge of their responsibility.

Mr. MAYBANK: What was the question to the witness?

Mr. BLACKMORE: I will come to the question in a minute or two.

Mr. FRASER (*Peterborough West*): I understood that when the examination of this witness was started it was to be based on this motion. I do not know whether Mr. Blackmore has said anything on this motion.

Mr. BLACKMORE: May I explain that the proposal is to grant the banks charters for ten year. Now, if you had a machine which had failed to properly accomplish the work it was supposed to do or it was designed to do would you take that machine on for another two years?

Mr. FRASER: (*Peterborough West*): No, I would make the machine work.

Mr. BLACKMORE: That is right. My contention is that on one score the banks have failed to accomplish the object which they are definitely set there to accomplish; consequently, is there any reason extending the charters two years?

Mr. COLDWELL: Why not vote for the motion and socialize them?

Mr. MAYBANK: What was the question to the witness?

Mr. BLACKMORE: I am trying to get rid of this question. I will come back to the question in a minute. The witness has answered the question as far as he needs answer it at the present time. I am dealing with the questions which are coming in now. Mr. Coldwell has raised this question: if you do not favour renewing the charters to the banks for two years would you favour the proposal for the government to take the banks over? My answer to Mr. Coldwell would be another question: would Mr. Coldwell, if he took the banks over have the banks lend to people whom the ordinary banks would not lend to? In other words, would he lend money with the risk of losing it?

Mr. COLDWELL: You know my theory; what would you do?

Mr. MAYBANK: In presenting this point of order, may I say I have no objection to the statements Mr. Blackmore is making nor to the opportunity which is being given to him to make these statements, but I understood he was going to examine the witness, and he is not proceeding to do so.

Mr. BLACKMORE: My point is this—

Mr. MAYBANK: It may be that Mr. Blackmore, by making statements, has invited questions to himself, but that should not absolve him from the need of going ahead and bringing out the facts from the witness. Now, it may be that we have been wrong in interrupting him and in asking him questions which, in turn, may have resulted from the fact that he made more statements than he asked questions. However, I think we should start all over again and that Mr. Blackmore should proceed with his questioning and with his examination of the witness as he said he was going to do.

Mr. BLACKMORE: All I am waiting for is an opportunity to do so.

The CHAIRMAN: Proceed, Mr. Blackmore.

By Mr. Blackmore:

Q. May I ask this question which is a very ticklish one, but the witness should be able to answer it: why did the banks begin to curtail loans between 1929 and 1930?—A. Mr. Blackmore, I did not say that the banks did begin to curtail loans.

Q. You do not need to; everybody knows it.—A. I suggest that the customers did not come to us for loans in the same way as they had done before. The curtailment was probably motivated by the customers.

Q. With all due respect, Mr. Chairman, I shall have to contradict the witness; that is not so.

The CHAIRMAN: Let us allow Mr. Blackmore to continue.

Mr. BLACKMORE: Now I want to know about this. Undoubtedly the banks curtailed credit. There is no doubt about that. Otherwise there would not have been a depression. There is not a doubt of that.

Mr. MAYBANK: Stay with the witness.

Mr. BLACKMORE: What I want to know is this. We are a Canadian banking and commerce committee, with the responsibility of finding out facts. That is why we ask these questions. I want to know this: Were the banks given the reason, do you suppose? Were they given the reason, as a whole in 1930, why they should curtail loans? They did it everywhere. Were they given the reason for doing that by somebody.

The WITNESS: Mr. Blackmore, I do not know just what your question is leading to.

Mr. BLACKMORE: No, of course not.

Mr. MAYBANK: It does not make any difference what it is leading to.

The WITNESS: Are you suggesting that somebody, some high authority, came to the banks and said, "You must not make any more loans"?

By Mr. Blackmore:

Q. I am assuming that the banks had intelligent people in charge of them, and there must have been a reason for curtailing the loans. What I want to know is whether somebody from outside of Canada told them that the time had come to curtail loans, or whether they met together in conclave of their own volition and decided that the time had come to curtail loans; and if they met together and decided that the time had come to curtail loans, I want to know why they did it.—A. That seems sort of silly to me.

Q. It does not seem silly to any one who is trying to find out whether or not we are sound in giving the banks complete control of our lending business for the next ten years, because what happened once might happen again; and if we are going to find out what was the cause of the depression and remedy it, we must find out the answer to just this question, silly as it may sound. There was no Bank of Canada at that time. There was a Minister of Finance. There was a Deputy Minister. Somebody gave the banks the idea that they should curtail loans in the spring of 1929 and by 1930 the loan curtailing business was very well under way.

Hon. Mr. HANSON: You had better page Mr. Dunning, who was Minister of Finance then.

The CHAIRMAN: Go on with your question, Mr. Blackmore.

Mr. BLACKMORE: Does the witness want that to stand? I ask this question again—

The CHAIRMAN: No.

Mr. BLACKMORE: Were the banks of Canada—

The CHAIRMAN: We have had the question, Mr. Blackmore.

Mr. BLACKMORE: Were they given the reason why they should curtail loans?

The CHAIRMAN: We have had the question several times, and we have had the witness' answer. I suggest that you proceed.

Mr. BLACKMORE: The witness has not asked it to stand yet. If he asks that it stand, well and good.

The CHAIRMAN: Let it stand.

The WITNESS: Well, we will let it stand.

Mr. BLACKMORE: That is fine. But remember, I want that answer and so does every one in Canada. That is an exceedingly important point.

Some Hon. MEMBERS: Question.

The WITNESS: I think I should go on record right now in saying that there was nobody who attempted or interfered with what was considered the sound sense of the bankers in Canada at that particular time.

By Mr. Blackmore:

Q. What I am looking for is the reason why the bankers in 1929 would feel it was all right to make loans and then by 1930 they completely changed their minds.—A. I think you will also find from the records of 1934 that there was advice by bankers at that time that people should pull in their horns.

Q. Exactly. But they did not demand they pull in their horns.—A. The banks have never been in a demanding position, really.

Q. They were not in 1930? I was principal of a high school in Raymond all during those years, with twenty teachers under my supervision. That town of Raymond, one of the best little communities in the country, was not able to get enough money out of their banks to pay their teachers. Do you tell me the banks were not curtailing loans?—A. Well, that might have had something to do with the situation with respect to municipal finances or might have had something to do with provincial finances. I could not answer that.

Q. It was a condition common all over the country. The banks were curtailing loans. What I am trying to get at is this. What was it that made the banks of Canada decide that they should curtail loans in 1929 and 1930 and continue to curtail them in 1931, 1932, 1933, 1934 and during all the dreary waste of depression?—A. Let us go back to the minister's statement and say that the banks were always willing to take care of sound loans.

Q. How are you to determine when a loan was sound?—A. Oh, over long experience, I suppose, Mr. Blackmore.

Q. Now, I will just tell you, I can name you farmers. I can give you the very names of farmers who were in the livestock business. Those men had just as many livestock, just as much land, just as much machinery, just as much skill as farmers, just as much capacity to produce and deliver all the products of agriculture which they were adapted to deliver, in 1930 as they had in 1929; but the loans they could obtain were not 50 per cent as great in 1930 as it was in 1929.—A. Was it not the case that the livestock that they could deliver would not produce nearly as much money as it did in 1928 and 1929?

Q. That is the point. Surely that is the point.—A. All right. Then that gets back to whether you would ask the custodians of the savings of the people to make loans to people that you knew perfectly well could not pay them back.

Q. That is perfectly right. That is the bankers' answer. But the answer I give is this. It was the need of the Canadian people that the loans be advanced. The manufacturers in eastern Canada needed to have the farmers in my area have the loans so they could buy their goods and pay for what they had already bought. The farmers needed to be able to borrow the money so they could produce their goods. The needs of the Canadian people demanded that loans be advanced, but loans were not advanced in accordance with the principles of sound credit needs. They were advanced in accordance with the principles of sound bankers' needs, not the people's needs.

Hon. Mr. HANSON: Mr. Blackmore, if the sole criterion is the people's needs, how long could that continue? Where would the end be? It is just the needs of some people, not the whole Canadian economy.

Mr. BLACKMORE: All the Canadian economy was certainly involved; because in a very short time, as the result of curtailment of these loans, we had unemployment in every direction, and the further unemployment went, the less the manufacturers and business men were able to sell.

Hon. Mr. HANSON: That was not confined to Canada. It was world-wide in scope.

Mr. BLACKMORE: But it was the sound need of Canadian business that money be in circulation to prevent prices and wages from falling. No one can challenge that point. The minister has stated definitely that he aims to have a banking set-up or a financial set-up that shall supply all the sound credit needs of the people of Canada. I am simply examining the situation to see whether the banking system as at present constituted is able to supply those needs; and if it is not able to do so, why is it not able to do so; and if it is able to do so, why did it not do so in the depression? Now I want to ask this. I think Mr. Wedd pretty well answered this question. He said there was no one who interferred from outside. I am just wondering if instructions were issued from somewhere outside, either directly to the banking managers in Canada or to the Minister of Finance or to the deputy. Were they, as far as Mr. Wedd knows?

The WITNESS: No, Mr. Blackmore.

Mr. BLACKMORE: That is fine. The thing apparently was just in the air; was caught apparently.

Hon. Mr. HANSON: Read the budget speech of 1929.

Mr. BLACKMORE: Well, that is fine. I wonder if I might get Mr. Tompkins in on this thing too. May I ask him a question?

The CHAIRMAN: Are you through with Mr. Wedd?

Mr. BLACKMORE: No. I just want to know whether Mr. Tompkins can give us any light as to why the banks in Canada began to restrict loans in 1929 and 1930 and continued through 1931, 1932 and 1933. Was it because he and the bankers, the bank managers, got together and decided it ought to be done or was there an instruction or suggestion issued or brought in from outside?

Mr. TOMPKINS: I know of no instruction from any mysterious source outside, no instruction from Ottawa, no instruction from me. I think the banks were guided by what they considered the prudent and proper policy to follow.

Mr. BLACKMORE: The interesting thing is that they all did it at the same time.

The CHAIRMAN: Mr. Blackmore, may I interject something here?

Mr. BLACKMORE: Yes.

The CHAIRMAN: I think I have the solution for your difficulty. When the depression began there was a conference of the Economic Committee of the League of Nations with the executive of the International Institute of Agriculture. You will find that they made a report in 1931 entitled "Agricultural Crises". They gave two years' careful consideration to this question, because it was a world-wide depression.

Mr. BLACKMORE: That is right.

The CHAIRMAN: They have summed it up, and I shall be very glad to get the report from the library and send it to you. I think after you have read that you may return to the question. But please let us get on with the examination.

Mr. BLACKMORE: Exactly so, Mr. Chairman. That is exactly the thing we wanted. Are we to gather then that the League of Nations and the international organization made a decision and then passed it on to our bankers in Canada?

The CHAIRMAN: They made a report as to the cause of the depression.

Mr. COLDWELL: What was the date of that?

The CHAIRMAN: 1931.

Mr. COLDWELL: That was after the depression was under way.

The CHAIRMAN: As far as their labours were concerned, they made a very definite statement that the depression was caused by a relative over-production of wheat.

Mr. BLACKMORE: Which means a shortage of purchasing power in the hands of the people.

The CHAIRMAN: A relative over-production of wheat and a relative shortage of other things.

Mr. JAQUES: Including money.

The CHAIRMAN: No. They did not say that. But I would suggest that you read that report before you go on with your examination, Mr. Blackmore.

Mr. BLACKMORE: That is fine. I have gone far enough. I am getting the things I want. The important thing is, if that is the case, any over-production of wheat—

The CHAIRMAN: No; relative over-production.

Mr. BLACKMORE: Relative over-production of wheat in the world in the future could cause our bankers in Canada to cease to discharge one of the most important responsibilities which rests upon them simply because they had charge of Canada's financial affairs; and if we pass this Bank Act giving them charters for another ten years, we are doing nothing but preparing ourselves for another depression if there happens to be a relative over-production of wheat in the world. Can you conceive of a situation more completely incongruous than that, and one more ludicrous, in a self-governing nation?

The CHAIRMAN: Mr. Blackmore, I suggest that you read that report. Those two committees were presumably composed of the world's highest economic authorities. I think that is worth your consideration before you jump to a conclusion.

Mr. BLACKMORE: Very good. I have other questions I want to ask. I think I have pretty well established this fact, though, that in time of need, when the Canadian people needed credit expansion, they got credit contraction, just the opposite of what they needed, just exactly that; and there has been nothing done in this Bank Act, nor any other act in the Dominion of Canada up to the present time, to change that situation at all.

Hon. Mr. HANSON: Are you suggesting that the banks be compelled to loan money against their own judgment? It is an impossible situation, if you are.

Mr. BLACKMORE: I am suggesting that the banks be so organized that they shall be able to discharge their responsibility which the Minister of Finance assumes for them, of supplying to the Canadian people their sound credit needs. That is what I am suggesting, and I think it is quite clear. If I may refer to Mr. Coldwell's question again, I would simply say this: If government ownership of the banks would be the adjustment necessary, then we might consider government ownership of the banks.

Mr. COLDWELL: Good.

Mr. BLACKMORE: But it would have to be shown that government ownership of the banks would meet the needs, because I do not believe that a government-owned bank will lend money that there is a danger of losing any more than a privately-owned bank will. If it will, the whole thing needs to be explained.

Mr. COLDWELL: It has been explained.

Mr. BLACKMORE: Now I have these questions left. I am going to cover them as quickly as I can. I want to know who in Canada decided upon the policy of restricting loans. Mr. Wedd may answer or Mr. Tompkins, either one; and if they do not know, they can tell us that they do not know.—A. Speaking only for my own bank, I would say that the borrowers decided whether they wanted money or did not want money in the main. There were individual cases such as you outline where in the judgment of the bank or the branch managers so and so, John Smith, was not entitled to more money. Doubtless he had got as much money as could be safely advanced to him.

Q. And 95 per cent of all the prospective or potential borrowers were John Smiths, and the banks deemed them unworthy of the credit of the year before?—A. I do not agree with that—not 95 per cent, a small percentage.

Q. For example, 75 per cent?—A. Let me be a little offhand, please.

Q. We want the truth if we can possibly get it, and if our present financial administrators cannot supply us with that truth then there is something wrong with them?—A. Do you suggest that what I am saying is not the truth?

Q. Not all. It stands as a condemnation of you, though.—A. I will have to accept that.

The CHAIRMAN: Order, please.

By Mr. Blackmore:

Q. Everybody knows that the loans were restricted. Hundreds of millions of dollars in Canada were withdrawn. I doubt very much if 2 per cent of all the borrowers refused to borrow. They were refused the loans, and I challenge Mr. Wedd to bring statistics to prove that more than 2 per cent of all the borrowers in Canada refused to borrow money. They were denied money by the banks?—A. I do not think our borrowing customers would welcome that inquiry into their goings and comings.

Q. In other words, the question cannot be answered and you hide behind a smokescreen of secrecy.—A. I think that is very unfair. I do not think that is in your usual form.

Q. And it is very unfair to this committee representing the Canadian House of Commons and the Canadian people at this time that we should not be able to get the truth regarding these matters in these critical times.

The CHAIRMAN: Proceed with your questions Mr. Blackmore.

By Mr. Blackmore:

Q. Now, was there a meeting of the heads of Canada's ten chartered banks to decide on this matter of restricting loans?—A. Not to my knowledge.

Q. You did not attend any such meeting?—A. I did not.

Mr. BLACKMORE: Mr. Tompkins, did you?

Mr. TOMPKINS: Absolutely not.

Mr. BLACKMORE: You did not attend any such meeting?

Mr. TOMPKINS: Absolutely not.

Mr. BLACKMORE: The marvel is that they all started doing the thing at once; they all started restricting the loans.

Mr. MAYBANK: Probably it was mental telepathy.

Mr. BLACKMORE: For the sake of charity we will say it was mental telepathy. Where the thought originated—in Canada or outside—that is another matter. I wonder if the Minister of Finance can give us any light on this question or whether the deputy minister is able to do so? I wonder whether this restricting of loans took place with the cognizance of the Deputy Minister of Finance or without his cognizance. I think Dr. Clark was deputy minister in 1930.

Dr. CLARK: I was not deputy minister until 1933—1932, rather.

Mr. BLACKMORE: Then, of course, you were in when they were restricting loans. Was the loan restricting policy pursued with your consent and knowledge or without it?

Dr. CLARK: I was doing everything possible which I could within my power to see that the opposite kind of policy was being or would be followed. I think you are talking about a system that is entirely different from the system that exists to-day. You are talking about a system in which there was no central bank. To-day there is a central bank responsible for the regulation of the control of the volume of credit and currency in the general public interest. That did not exist back in the early period of which you are speaking.

Mr. BLACKMORE: That is a good answer, Dr. Clark. Your answer centres responsibility directly on the Bank of Canada. In due time we are going to examine the Bank of Canada to see whether it would be possible for that bank to prevent that restriction of loans. I am glad to get that answer. Now, I am going to ask Mr. Wedd another question.

By Mr. Blackmore:

Q. The ability of the chartered banks of Canada to supply the money which the Canadian people need depends on borrowers; he has acknowledged that?—A. Yes.

Q. Very good. Now, then, would you tell us this, whether or not as the result of the credit restricting policy pursued by the banks a number of good credit-worthy borrowers were destroyed in Canada?—A. I would say that no credit-worthy borrowers were unable to get credit during this particular period.

Q. Good. Then I am going to give Mr. Wedd some information which will come as a shock to him. Scores of credit-worthy borrowers—men who could walk into a bank and borrow a $5,000 line of credit—anywhere from $2,000 up to $5,000 without any difficulty in 1928—many of those men were reduced to complete ruin by 1932 and were unable to borrow anything by that time. In other words, they were by 1932 classed as non-credit worthy, and the only thing in the world that destroyed them was the fact that they could not get loans to carry on their business?—A. It may be that they had already borrowed too much in the early period and embarrassed themselves rather than the bank doing it.

Q. In other words, the simple fact remains that the withholding of the loans destroyed credit-worthy borrowers. Now, if the ability of the banks to discharge their function, their responsibility, of providing credit according to the needs of the Canadian people depends upon borrowers, and if the banks by a policy adopted in 1929, 1930, 1931, and 1932, absolutely destroyed the credit-worthiness of borrowers, then the banks undoubtedly did a thing which prevented them from doing the very thing they were supposed to do, namely, supply the credit which was needed by the Canadian people?—A. Of course, we have different opinions; that is obvious.

Q. I can supply plenty of information to support what I have said. Probably I shall have to do that for Mr. Wedd. Now, when the banks destroyed the trust-worthiness of hundreds and hundreds of borrowers throughout the country they destroyed their own ability to discharge an important function which they must discharge if they are the real servants of the Canadian people which they pretend to be. How can that behaviour be justified?—A. I do not admit the behaviour.

Q. No, but everybody else will. All the people except the bankers will admit that. There will not be any doubt about it.

The CHAIRMAN: Not all.

Mr. BLACKMORE: I refer you to the statement of Dr. Clark. He said that he had done everything in his power to bring about the opposite policy. That statement recognizes that he saw there was a policy of restriction of loans which was not in the interest of the Canadian people. In other words, they were not providing for the needs of the Canadian people; and if the Bank of Canada was established for the purpose of enabling the banks to discharge the function of loaning, meeting the needs of the Canadian people, obviously the banks had not been pursuing a policy which would meet the needs of the Canadian people. So that what Mr. Wedd has said about the banks not restricting their loans is probably open to revision.

By Mr. Blackmore:

Q. Now, next. There are two points. Now, the third: curtailment of loans in 1930 on resulted in a disastrous fall of prices in Canada. Mr. Wedd will agree that prices did fall in Canada?—A. The loans decreased after the fall in prices. If you will study the figures you will see that the effect came after the cause. That is, perhaps, not putting it clearly. I mean that where there was a fall in prices then in due course there was a fall in loans. I think you will see that was the tendency from a study of the banks' figures.

Q. Will you tell me this: when there is a shortage of money in circulation prices automatically fall. There is, in other words, a depression as the result of the lack of purchasing power in the hands of the community as a whole?—A. Will you let that stand?

Q. In other words, the depression is brought on by a shortage of purchasing power. Now it is certain, and there is evidence of that, that when this war came on we began to put purchasing power out in the hands of the people and conditions began to pick up immediately. We can reason safely that a fall in prices during depression is owing to a shortage of purchasing power, a shortage of money. Very well, then, it was the restriction of loans which caused the fall of prices in Canada?—A. I think that a study of that situation would show the opposite.

Q. I think it would be a very profitable thing if Mr. Wedd would make a submission on that matter.—A. I may be able to. I will see what I can do.

Q. And I will be glad to give a submission on the other side.

Hon. Mr. HANSON: Let us have the question.

Mr. BLACKMORE: I will ask this question: farmers who had contracted debts with wheat at over $1 a bushel found wheat prices down below 50 cents a bushel. That condition was brought on the farmer by a restriction of loans.

Hon. Mr. HANSON: No, no; it was due to an oversupply of wheat.

The WITNESS: This, of course, started far away from Canada, you know —this fall of prices.

By Mr. Blackmore:

Q. Let us suppose that Canada were an island and there were no external influences on Canada?—A. That is a geographical impossibility. I think the question is not material.

Q. That is exactly so; but if Canada has any ability to control affairs in her own country at all she ought to be able to control her credit. The Prime Minister made his famous remark about currency and credit in terms of public need; once the control of a nation's credit leaves the government all talk of democracy is idle and futile. He evidently had the idea that control of credit could reside in Canada; and if it cannot the members of this committee ought to know definitely why not and should determine what can be done to remedy the situation.

I wish to make this comment. The result of the restriction of credit was that there was a fall in the prices of goods. The result is that men who owed a certain amount of money which they had borrowed on wheat worth over $1 a bushel and found themselves obliged to pay that debt with wheat which was under 50 cents a bushel were ruined. They were thrown into irrepayable debt. The blame for that debt condition and that hopelessness must be found right at the doors of the institutions that withdrew the credit?—A. Let us get back to the depositors. Nobody seems to pay much attention to the depositors this morning. We have a banking system which has millions of depositors; do you suggest that those people who have put aside a certain amount of money for a rainy day—do you suggest that the banks who are the custodians of that money should advance that money to a man who had, say, a lot of dollar wheat, when that wheat is only worth 50 cents?

Q. The point I want to bring to bear on Mr. Wedd, and I have done it again and again, is this, that it is the belief that the banking system of Canada is the public servant of Canada to supply the sound credit needs of the Canadian people—A. Quite right.

Q. And the sound credit needs of the Canadian people were that that wheat should not fall in price to 50 cents. Certainly, the sound credit needs of the Canadian people were that a large percentage of those farmers should be kept on the land and not destroyed. that whole provinces should not be cast into debt which they could not possibly deal with. And for the conditions which developed the blame should be placed where it ought to be placed and that is at the door of the banks.

Hon. Mr. HANSON: You say the withdrawal of credit caused the price of wheat to fall. I deny that. The price of wheat fell because of over-production and under-consumption in Europe.

The CHAIRMAN: Gentlemen, I declare it one o'clock.

Hon. Mr. ILSLEY: May I say before we close that a lot of members have been talking about examining Mr. Towers. Mr. Towers will not be available throughout the greater part of July, and if members want to examine Mr. Towers I suggest that they do so during the second hour over daily periods from now on.

Mr. BLACKMORE: I ask the privilege to examine Mr. Towers the second hour to-morrow; and I will deal with Mr. Wedd later.

The WITNESS: Thank you; that sounds rather ominous.

The committee adjourned to meet Wednesday, June, 21, at 11 a.m.

June 21, 1944

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, we have with us this morning the Governor of the Bank of Canada, and it is suggested that we go on with the examination of the Governor. Mr. Blackmore asked for the floor.

Mr. BLACKMORE: I understood yesterday that I was going on from 12 o'clock until 1.

The CHAIRMAN: No. I think it is just as well to go on now.

Mr. BLACKMORE: I should be much better pleased to go on from 12 to 1..

The CHAIRMAN: Then we shall allow somebody else to have the floor.

Mr. BLACKMORE: I have some notes coming in between now and 12 o'clock.

The CHAIRMAN: You wish to submit some written questions to the Governor, do you?

Mr. BLACKMORE: No. I wish to do my questioning from 12 o'clock until 1 in the second hour. That was my understanding of the arrangement.

The CHAIRMAN: Is it your pleasure, gentlemen, that we go on with the examination of the Governor or continue on with discussion of clause 5?

Hon. Mr. HANSON: If the Governor is here I think we ought to hear him and let him go. He is, I believe, a busy man.

Hon. Mr. ILSLEY: You could combine the two. There may be a discussion on section 5 in the questioning of Mr. Towers.

Mr. MCGEER: Of course; clause 5 is pretty wide open.

Hon. Mr. ILSLEY: Yes.

Mr. MCGEER: Whether or not we should grant the charters is a pretty wide question.

Hon. Mr. ILSLEY: My only point is that Mr. Towers is going to be away in July.

Mr. MCGEER: Do you not think if we had discussion on clause 5, it would eliminate discussion later on; I mean, in the issues that are threshed out?

Hon. Mr. ILSLEY: That is right.

The CHAIRMAN: I think we are all in agreement with Mr. McGeer's statement. May I ask the Governor of the Bank of Canada to come forward.

Mr. FRASER (*Peterborough West*): Is that for one hour only?

The CHAIRMAN: For the two hours. Mr. Blackmore has asked for the hour from 12 to 1, and we will try to give him the floor. While the Governor is coming to the platform, may I say that I have received from Gowling, MacTavish and Watt, barristers, Ottawa, a letter on behalf of the province of Alberta which reads as follows:

On behalf of the Province of Alberta, we enclose herewith brief being submitted in connection with section 92 of the Bank Act, which we understand will come up for discussion shortly, before the Committee on Banking and Commerce.

Mr. GRAHAM: Who is that from?

The CHAIRMAN: Gowling, MacTavish and Watt, Barristers of Ottawa.

Hon. Mr. HANSON: On behalf of whom?

The CHAIRMAN: On behalf of the Attorney General of the province of Alberta. Is it your pleasure that we have it printed in the record of the committee?

Some Hon. MEMBERS: Agreed.

Hon. Mr. HANSON: Mr. Chairman, may I say a word before Mr. Towers proceeds; I am wondering if the committee could not arrive at some conclusion as to how long general discussion on a given section should proceed, because we are just getting nowhere rapidly.

Mr. McGEER: Oh, I would not say that.

Hon. Mr. HANSON: That is a fact.

Mr. McGEER: That is a matter of opinion.

Hon. Mr. HANSON: I put myself in the judgment of members of the committee and of the public.

Mr. JACKMAN: Hear, hear!

Hon. Mr. HANSON: I do not think we should limit discussion unduly, but I think there should be an end to discussion on a given section at some time, and that the committee ought to take charge of its proceedings.

Mr. McGEER: Do not forget that the voice of Saskatchewan has already spoken.

Hon. Mr. HANSON: I do not care. That does not mean a thing. I am not scared by one robin. It does not make a summer.

Mr. McGEER: Oh, no, but—

The CHAIRMAN: Order, please. Mr. Slaght has asked for the floor.

Mr. SLAGHT: Was it the desire that those who wished to question Mr. Towers further should proceed?

The CHAIRMAN: Yes.

Mr. SLAGHT: Or should we proceed with a general discussion?

The CHAIRMAN: I think, no matter what we decide, we proceed with a general discussion.

Mr. SLAGHT: It takes different forms. I did not desire to examine Mr. Towers at the present moment, but I did desire to place before the committee two points which come under section 5. It would take me a little while to do so, and I am sympathetic with Mr. Towers being freed from attendance on this committee. If it is the desire of the committee that those who want to examine him should now examine him, of course I will stand by. Otherwise, I should like to present two points to the committee, and they may be commented on.

The CHAIRMAN: I think you had better proceed, Mr. Slaght, unless some one wishes to ask some questions.

Mr. PERLEY: I make the suggestion that we deal with the amendment, dispose of it; then you can go on with any further discussion on section 5.

Mr. SLAGHT: I am quite agreeable to that.

The CHAIRMAN: I should like to do that, but the Governor cannot be here next month, so I understand. If there are any members of the committee who desire to ask questions of the Governor, they should do so at once.

Hon. Mr. HANSON: I should like to ask Mr. Towers a question or so.

The CHAIRMAN: Very well.

Mr. GRAHAM F. TOWERS, Governor of the Bank of Canada, recalled.

By Hon. Mr. Hanson:

Q. I should like to remind Mr. Towers that on the discussion of the Industrial Development Bank bill, I read into the record a series of questions which I hope he will be good enough to answer at some time before he leaves on holidays. Immediately, I should like to ask Mr. Towers' opinion as to the advisability of accepting the amendment or the original motion under section 5. To make it quite clear as to what I mean, should we limit the extension of the charters to two years, and if not why not; or should we go to the ten years? That will invite an expression of opinion.—A. On the first part of the question, we have the answers available here in respect to your questions.

Q. My other ones?—A. Yes.

Q. Very well.—A. They do relate to the Industrial Development Bank, but perhaps they could be put on the record.

Q. I think perhaps they should go in under the Industrial Development Bank.—A. They are available.

Q. It would be more relevant then, and they will be handed in and taken in your statement of the other day, whether you are here or not.—A. My absence, I may say, is due as much to monetary conference as it is to a rest.

Q. You do not want a secretary to go for a rest with you?—A. On the second part of the question, it seems to me that I am not the appropriate person to give an answer. It seems to me that it is so much a matter of government policy and parliamentary decision that, as I say, I am not the person to answer it. In either circumstance, the banking system would continue to function.

Q. I beg your pardon?—A. In either case the banking system would continue to function.

Q. Yes, exactly. In England the charters are perpetual, are they not?—A. So I believe.

Q. Is there any other jurisdiction in the world where they are not perpetual?

Mr. GRAHAM: What was that question, Mr. Hanson?

Hon. Mr. HANSON: I say that in England the charters are perpetual.

The WITNESS: Of course, in those other jurisdictions charters are always subject to amendment by the sovereign power.

By Hon. Mr. Hanson:

Q. Exactly. We all agree with that. So you decline to give an opinion. That is the answer?—A. Yes. I think it would be only a personal opinion and that as such it would not be worth while.

Q. Do you happen to know the historical background for the ten-year period? I have been unable to find it.—A. No, I do not.

Q. All right. I am not going to press you if you do not wish to answer my question.—A. Mr. Chairman, there were certain questions asked earlier to which we never had the opportunity of putting in replies. One related to the advances made by the Bank of Canada to the chartered banks and banks incorporated under the Quebec Savings Bank, and the amount of interest payments thereon. The other was for the names of directors of the Bank of Canada and names of firms of which they are partners or directors. Perhaps I might have the permission of the committee to table the replies.

Hon. Mr. HANSON: Yes.

The CHAIRMAN: Is it the pleasure of the committee.

Some Hon. MEMBERS: Carried.

Mr. GRAHAM: Mr. Chairman, I am a little puzzled by the purpose of the committee this morning; but I assume, with the Governor of the Bank of Canada as a witness, that the desire is to use the occasion for any purpose that we wish information upon. That being the case, Mr. Towers, there are one or two questions with regard to our chartered bank system that I should like to have your opinion on, because I think they do come within your field, to-day, when I remember that the chief purpose of the Bank of Canada is to govern the control of currency and credit. We all desire that the chartered banks, within the field allotted to them under the Bank Act, should discharge the quasi public duty of taking care of that field with as great efficiency as possible. On looking back over the last fifteen years, particularly that moment of contraction that occurred at the end of the boom period, 1929, I was much struck with this. The banks quite properly, seeing the handwriting upon the wall, realized that they must put their individual banking houses into shape to go through what obviously would be a very stormy period. Personally, recognizing that they are the trustees and the holders of the people's money on deposit, I think that any human concern would do just that. But I was much struck with this, and it is one of the criticisms that I have of the banking system as it actually operates. In the period of expansion or boom —if we care to call it that—in the twenties, there are, of course, numerous examples of loans to corporations; I should like to refer to one, the lending of substantial sums by one or more of the chartered banks to the Beauharnois corporation. If my information is correct, the extent of that loan was somewhere in the neighbourhood of $50,000,000. Faced with the necessity of getting the banks in a liquid shape to meet the inevitable demands to come because of the depression, I can see where the banks had to say to themselves, "This $50,000,000 loan to such a corporation as Beauharnois cannot possibly be called in. We must face the necessity of permitting that loan to be continued as such because it is too large an amount to call in, as it would jeopardize the concern to which it was lent and therefore jeopardize the safety of the loan itself." Faced with that situation, the banks obviously turned to the small individual borrower, particularly in western Canada, and applied pressure to the extent that it was necessary to induce that small individual to pay his loan in order that the banks' position might be made safe. I consider that the banks, in lending large sums of money for purposes such as that of Beauharnois, which was quite legitimate and proper in its way in the development of Canada's resources, departed from that chief duty which devolves upon it of financing the current business of this nation, the business of the merchant, the manufacturer, the farmer and all of those individuals who comprise the business men of this country. I should like to have you discuss with us in what way we can improve the Bank Act so that such a condition might not repeat itself, where the banks have their loans locked up in large amounts to large corporate enterprises. If such were the case, if a depression came again, history would repeat itself and they would have to again apply the screws, as it were, to the small person in whom we are all vitally interested, with a view to seeing that he will be able to carry on his farming and his fishing, if it be farming and fishing, and his merchandising and manufacturing. I should like you to discuss that question which I have raised in a concrete form, and which is one of the general problems I am very much concerned with.

The WITNESS: I am not aware of how much the banks, in fact, lent to Beauharnois. But, speaking of the general principle involved, I do not think that in the future at least we need to fear that situation where, because of the existence of very substantial advances to certain borrowers, it is necessary to follow a policy of curtailment in so far as other borrowers are concerned; because I think our machinery is such that all legitimate and sound demands for credit can be met, whether the demands come from small borrowers or large. I think that during a depression, as indeed at any other time, the chartered banks' policy in regard to the making of loans or collecting them should be based solely on the question of risk. In other words, if a loan looks too risky from the start, it should not be made; or if during the course of a loan it appears as if the borrower's affairs were getting in bad condition and he should reduce his commitments, then that is the only criterion which should apply, whether the borrower is small or large. In the depression there were a great many cases, of course, where because of difficulty in maintaining turnover, lack of markets and falling prices, the position of many borrowers was becoming unsatisfactory. In the majority of those cases, the borrowers themselves wanted to get nearer shore, so to speak. They wanted to reduce their commitments and reduce or repay their loans. In some cases it was probably the view of the banks that the borrowers were not sufficiently aware of the dangers of the situation, and in those cases the banks would themselves urge the reduction of borrowings. I do not believe that there was very much of a curtailment of borrowing during the depression simply to get loans in, irrespective of whether they were good or bad, but there may have been some. There undoubtedly may have been some of that, because the machinery which we had at that time was definitely of a most unsatisfactory type. The banks, by 1929, were borrowing very large amounts under the Finance Act. They had been borrowing pretty steadily, too steadily in my opinion, and had built up a structure which was over-expanded. When the depression came, there was a desire on the part of the banks in general to reduce those borrowings under the Finance Act which had been somewhat too large, I believe, and certainly somewhat too permanent. In that process, at times at least, the amount of legal tender cash reserve available to the banks was smaller than what should have been available for the banking system as a whole. That exerted pressure towards curtailment. The difficulty of maintaining a satisfactory cash reserve at a time when the public and others were watching the situation most carefully, undoubtedly led to some degree of a scramble for pulling in, in an endeavour to keep the position of each individual bank satisfactory from a cash point of view. I think that was a most unfortunate situation. It arose from our legislation, our machinery and our system at that time. It could not be repeated.

Mr. Graham: There is one other point, Mr. Towers. As I have said, the banks' primary purpose, in my opinion, is to finance current business transactions. I think you would agree with that.

The Witness: Yes.

Mr. Graham: That word "current is often interpreted, because of our traditional belief that we sow in the spring and reap in the fall, to mean the annual turnover of business. Bank loans, roughly, are intended to take care of credit requirements during a year; and when the period of payment comes in the fall, the loans are supposed to be paid off and again repeated when necessary. But in western Canada we have discovered, by experience and many tribulations, that a year does not constitute a safe period upon which to base our economic structure. Obviously we must make up our minds—and we in western Canada have done it—that basically the agricultural economy of that country, under proper conditions can be profitable and support a given number of people, a number which we hope will be even larger as we improve our knowledge of the conditions under which we work. But it strikes me that the banks must realize that as well as governments. Provincial governments have long since recognized it, and I think the dominion government is becoming more and more convinced that legislation dealing with western Canada—particularly with my own province of Saskatchewan perhaps, and still more particularly with the southern portion of that particular province—must be based on the assumption that agriculture means a period of perhaps ten years; because with the inevitable climatic disasters that periodically visit that country, the farmers' economy is not determined by any one year. If it is a good year, you cannot be certain that it is an omen that all future years are going to be good. If it is a bad year, we have to assume that it will be followed by better crop years. So you have to take a reasonable period of time—we say ten years, in the light of the experience of the thirties—to determine whether a person has been successful, not only in agriculture but in business. You will note this. If there be a crop failure in Saskatchewan this year a farmer must, of necessity, if he wishes to gain the average, over whatever period would be thought wise to determine the final result, probably enlarge his acreage in order to reap the benefits of the good years that do come, in order to take care of the bad and to maintain himself in that whole period. It strikes me that the banks fell drastically short of recognizing that peculiarity of western business conditions. It is true, of course, that our whole economy is based on agriculture. It inevitably reflects on any business in this area—on the merchant and the business man of every description. His economy, too, has to be based, of course, on the farmers' capacity to pay. Do you not agree with me that the banks must take a larger view of credit facilities in a country such as that, so that they will not suddenly contract credit if Providence visits that country with a disaster general in its scope, but must be prepared to make up their minds whether the country as a whole justifies reasonable credit to good men who are experienced in their business; and that the banks must be prepared to carry the loans for a sufficient period to give them an opportunity of the credit system working out well for the borrower and well for the lender. Will you agree or disagree with that?

Hon. Mr. HANSON: What about the depositors' money? Are you going to suggest that the banks should advance the loans and take the risk on the depositors' money?

Mr. GRAHAM: No.

Hon. Mr. HANSON: It is another kind of institution that you want.

Mr. GRAHAM: You missed my point.

Hon. Mr. HANSON: No, I did not miss your point. You gave only one side of the picture.

Mr. GRAHAM: Suppose the banks have made a loan to me. They base that loan on my then existing financial statement, and my character, of course, plus my likely earning capacity in order to retire the loan. My point is this. Having made the loan, the banks should recognize that there are certain factors that I cannot govern, if I am in the farming business particularly; and that, if disaster comes the next succeeding fall, and no crop is reaped, it is a bad time for the bank, in my opinion, to insist on calling that loan or to insist on added security.

Mr. BLACKMORE: Hear, hear!

Mr. GRAHAM: I think the banks should have, before they made the loan, considered the possibility of the period being longer than a year; and if the man is carrying on his business in an efficient manner and is likely over a period of say five or more years, to come out of it in good shape, I think the banks should have been prepared, in their own interest, as well as the nation's, and certainly of the farmer who is a very important individual in our economy, before they made the loan, to carry the loan over a reasonable period, so long as the farmer's character remains good, so long as his efficiency in conducting his business is sound and so long as the country justifies the hope that in the long run, the agricultural economy can be self-supporting and pay off any indebtedness incurred. That is the point I should like to have discussion on.

The WITNESS: The type of credit you are speaking of, credit to farmers, is not initially thought to be long-term credit. It is not the type of loan for farm improvements, which is visualized in the amendment being proposed in the present Act. It is thought to be, at the beginning, a loan for current operations; and if the current operations work out successfully the loan will, of course, be repaid some time after the harvest. You are thinking of a situation where, in such cases, a bad harvest, low prices, drought or whatever it is, make it impossible for the farmer to repay that loan in full or in part. In such cases the loans are carried on. There is no point in calling them because the farmer is unable to pay; and hundreds of thousands of such loans were carried on after the onset of the depression. But the really difficult feature arises when the farmer comes back and asks for an additional loan for the operations of the succeeding year. I believe that, in the great majority of cases, he got that loan. Perhaps he was asked to keep down his requirements to the absolute minimum because of the fact that he was already in debt. Then comes the second failure, and the second loan is not repaid and piles up on the first one. Then we come to the third year. At that point the outlook is so dark for the farmer concerned that the bank quite naturally wonders whether it should carry on, whether it is in the interests of the borrower or of the bank to have the further debt pile up. In any event, it looks like an extraordinarily risky loan at that stage. In all probability there is a mortgage in the background over and above the current bank debt. In a situation as extreme as the depression of the thirties, I find it very hard to say that, irrespective of the degree of risk involved, banks should continue lending on the assumption that at some time or another the situation would improve so much that not only current loans but all the back ones could be paid up. It is a very difficult situation for an individual bank, because carrying on indefinitely in that way, with new loans every year, the old ones not being repaid, it does appear at that time as though the bank were actually, practically speaking, giving away the funds because the prospects of repayment are so very uncertain.

Mr. GRAHAM: I realize that the picture is not all black or all white. But if the picture were as you say, Mr. Towers, I could largely agree with you. I know what a difficult thing it is for bank managers and banks generally to decide, having regard to the interests of the depositors, their shareholders, the public and the safety of the institution, what is or is not a wise and proper extension of credit. But I would disagree with you in the light of my own experience in my own district. There the banks facing the thirties, before the disaster had more than suggested itself, showed a marked inclination not only not to extend added credit, as you suggest, but to call in and to apply pressure to the already existing loans.

Mr. BLACKMORE: Hear, hear!

Mr. GRAHAM: That being the case, this is my point. I would agree with your interpretation of the banks' attitude being forced by continued existence of those conditions of crop failure; but looking back over the history of those years, in my opinion, it was against the best interests of the banks as part of our credit system in Canada, and it was against the interests, of course, of agriculture in which those farmers were engaged, and as a result governments had, in a large measure, to come to their assistance. I think it contributed to the necessity of debt adjustment, which is a bad thing for the banks and every other credit institution, and in the long run is a bad thing for the borrower. What I am attempting to do is to try to find a remedy. I think it is associated with my first question. I am trying to find out about the necessity of contracting credit to productive enterprise including agriculture in order to take care of other needs; because while you point out that contraction was made necessary in order that the banks could reduce their borrowings from the Minister of Finance, and they would particularly have to see to it that unwise loans were reduced or paid off, yet I suggest to you that Beauharnois at that time was in a bad loan position, and that under ordinary circumstances the banks would have liked very much, I would think, to have been able to call in that whole $50,000,000, if it were $50,000,000. But then in the light of my own experience, and with a certain degree of knowledge, I noted the inclination of the banks to call in loans to producers at the start of the depression, and thus add to the velocity of the depression, and almost in geometrical progression join with other forces in making the depression more intense and more disastrous. I think that in that field the banks must take a larger view and become an instrument of decreasing undue expansion in periods of prosperity, and on the other hand in moments of trial, of decreasing the intensity of the forces that lead to depression and disaster. It is all wrapped up in that. Frankly, I do not think that, in that regard, the banks have fulfilled the function we expect them to fulfill, from the national standpoint; perhaps they did from their own individual banking standpoint.

Mr. BLACKMORE: Hear, hear!

Mr. GRAHAM: But from the national standpoint I doubt very much if, in that period of disaster the banks did fully discharge the duty we expect them to discharge in the field of credit which we have allotted to them under the Bank Act.

Mr. BLACKMORE: Hear, hear!

Hon. Mr. HANSON: On this Beauharnois matter, I want to ask a question. We all know that the Beauharnois Corporation was conceived in iniquity and born in sin; and I wonder at a Liberal member of parliament bringing it before this or any other committee, after its history. However, that is only a remark in passing. The Beauharnois Corporation had a loan guaranteed by the government against ultimate loss. Is it the suggestion here that, because the government of this country guaranteed a loan from the banks for a very temporary tenure, it had the effect of drawing in loans in western Canada? I should like to have the position made clear. Is that the interpretation that my honourable friend puts on the action of the banks, and did it have that effect? I suggest there is no relation between the two.

The WITNESS: As I said at the beginning, I cannot remember the circumstances of that Beauharnois transaction or what the bank loans were. But, I would not think that the existence of any loan like that made any material difference in regard to the attitude towards other loans.

Mr. BLACKMORE: Hear, hear!

Hon. Mr. HANSON: That has nothing to do with it.

Mr. GRAHAM: Mr. Chairman, may I say that Mr. Hanson's question—while I do not object to it—is typical of the difficulty of carrying on a discussion of the underlying principles. I did not bring Beauharnois up except as an example to illustrate the principle that I wished to have discussed by Mr. Towers. There is no sense of our going into the history of Beauharnois. We are discussing banking and the banking system at the present time. But I would disagree with you, Mr. Towers. Suppose I were a Canadian bank and, let us say, the holder of that loan to Beauharnois of $50,000,000. Remembering the discussion and the bad repute of the Beauharnois Corporation of that time I would think I would be largely concerned with the preservation of that particular asset in the hope that the future might result in that loan being repaid. I certainly would never apply pressure to that particular concern, unless I had collateral security that would enable me to feel quite safe in applying that pressure.

The WITNESS: I do not think there would have been any use in applying pressure, because I do not think they had any money.

Mr. GRAHAM: No. That is my point. Therefore they turned to the individual borrowers.

The WITNESS: But I agree with the principle that you have set forth. We
causes curtailment of good credit as well as bad.
should not have a situation in which inability to maintain satisfactory reserves

Mr. GRAHAM: Exactly.

The WITNESS: And we will not have that in the future.

By Mr. Mayhew:

Q. Why do you say we will not have that in the future?—A. Because of the existence of the Central Bank. It was lack of the Central Bank which caused that situation in 1930-1934.

Mr. McGEER: We had those conditions continuing up until 1939. We had the bank from 1935 until 1939.

Mr. BLACKMORE: Hear, hear!

The WITNESS: The situation of curtailment due to lack of cash?

Mr. McGEER: Absolutely.

The WITNESS: Not due to lack of cash.

Mr. BLACKMORE: Curtailment, though.

The WITNESS: I divide the problem into two parts. Involuntary curtailment due to lack of cash is one part. That applied to a certain extent in the depression days, pre-Bank of Canada. It will not apply again. The other part is the question of whether the banks are sufficiently liberal in the extension of credit in the first instance, and sufficiently liberal in the continuation of it in the second. That is a question of judgment on the part of the banks, judgment in regard to how liberal they can afford to be in the first instance, judgment and to a certain extent courage in respect of the continuation of credit under apparently adverse conditions. Nothing replaces judgment there. You cannot say that it was all black or all white. To continue loans or perhaps advance more in the face of adverse conditions, courage is required. I do not say that courage should extend to being completely oblivious to losses or completely rash or imprudent. It is a question of the reasonable degree of courage which is required for a reasonable course of action. That courage can be affected by the general earning position of the bank as a whole. The committee may think that I am venturing into heresy, but I would say this: Unless you have a banking system which is earning sufficient money to be able to afford losses, the banking system is no good.

Mr. GRAHAM: Hear hear!

Mr. McGEER: Hear, hear!

Hon. Mr. HANSON: It cannot go on.

The WITNESS: And if their situation is such that they can afford losses, then they should have the courage to take quite fair risks in that respect.

Mr. McGEER: And to disclose them.

The WITNESS: I understand there has been a long discussion on that.

By Mr. Graham:

Q. May I ask one more question? Mr. Towers, I have had the discussion I wanted, but I want to bring it down now to a concrete question. In my mind it is doubtful if the banks were discharging the duty alloted to them under the Bank Act of financing current business transactions when they loaned, if they did loan, Beauharnois or any other corporation anything like $50,000,000, because it has the same weakness as mortgage loans; and we have always recognized that a bank's assets should not be frozen, and in my opinion loans by banks to such corporations as Beauharnois for a project of development is against the spirit of the Bank Act and the purpose we have created the chartered banks for. What would you say as to that?—A. Again, as I say, I have not any recollection of the amount involved, but there were many loans made to paper companies and to others in 1926, 1927 and 1928. A part of those loans was for purposes of expansion, to buy new machinery or what not. It was expected, at the time the loans were made, that when the machinery was installed, when the thing got going, so to speak, it would be possible for those companies to finance by selling their obligations in the open market.

By Hon. Mr. Hanson:

Q. It was to bridge a gap?—A. To bridge a gap.

Q. That is right.—A. Had the expectations been realized, then the banking part of it would have been perfectly all right. The loans would have been fairly short-term loans to enable machinery to be installed, and then to be liquidated by the sale of additional common stock or some other obligation of the company. But along came 1929, and it became impossible to sell such obligations to the public, so that in a great many cases the banks were carrying the loans for a considerable number of years. If every one had realized in 1926 or 1927 what was going to happen in 1930, then the bank loans would not have been made for two reasons: (1) because the borrowers would not have asked for them, and (2) because the banks would not have made the loans. But the actions taken at that time were taken in ignorance of the world-wide catastrophe which was to develop in 1930 and the following years. There were not sufficiently accurate prophets. It is easy now to look back and say that the full extent of the catastrophe should have been foreseen, but it was not.

The CHAIRMAN: Mr. Slaght has asked for the floor.

By Mr. Slaght:

Q. Mr. Towers, just a question or two on behalf of my friends the bankers, this time. Turning to the years 1928 and 1929 and part of 1930, is it not correct to say that the Canadian public—business men, professional men, industrial workers, farmers and all classes of the Canadian public—had in a spiral, growing manner become engaged in what I call stock market speculation?—A. Yes.

Q. That being so, a merchant who might have had six months before, securities lodged with the banks, and been a perfectly solvent merchant, during six months of speculation might have become bankrupt. The general public nearly always loses; we know the debacle of the brokers who went to jail and were playing the market short. It might quite well be that a man who had a loan with a bank six months before, after six months of speculation had become hopelessly bankrupt because of becoming involved in a racket or a game that he did not understand?—A. There were some cases of that, undoubtedly.

Q. And I suggest a very large number of cases of that kind across all Canada, which finally resulted in catastrophe.—A. A large number of cases of individuals. I think there were comparatively few cases of company funds being used for the purpose.

Q. I agree with you there. But the figures of the extent to which individuals engaged in that speculation, I suggest, were astronomical. The whole of Canada got involved in it, practically. If that be so, might that not account for the necessity of bankers having to very properly curtail loans and even call loans from men who had in speculation at that time made themselves, at least on paper, into bankrupts?—A. I am not quite sure that I understand the sense of the question; but there were undoubtedly a number of cases of individuals who were getting along all right in so far as the conduct of their own business was concerned, who got themselves into a mess in stock market speculation; and that naturally affected the credit available for their business, because they lost a lot of money in speculation.

Q. Then there was a point that I had in mind, of the earnings of the bank. I am not discussing or offering any criticism of the loans, or why they were obtained or what was the effect on the country—whether they should have been greater or less. The principle is there. You agree with that?—A. Yes.

Q. Then if you will leave that, there are two or three matters that I want to have placed on the record by you having regard to points I shall discuss later on in the committee. I want to find out if you have by any chance copies of your Bank of Canada statistical summary for April-May, 1944, with you?

Mr. CLEAVER: I have a copy.

Mr. SLAGHT: If you will permit the governor to use yours, Mr. Cleaver, it will oblige me. I want to place, as of this statement, on record before the committee a few total figures, if I may; but before doing so will it inconvenience your statistical department to send us over in the morning say 52 copies of this April-May report?

The WITNESS: I think we have that number available.

By Mr. Slaght:

Q. It is very awkward to ask that this should be printed in our proceedings and there are only a few items, as I say, on it which will be of particular interest; but there are some items that are very important in my view for our future discussion. Will you tell me what the chartered banks held as of this date? And by the way, this is dated April-May. May I take April 30 as the date that this is up to?—A. Yes.

Q. That is, we are speaking of these figures as of April 30 of this year, 1944?—A. Yes.

Q. That being so, will you tell me the dollar value of dominion-provincial securities held by the ten chartered banks as of April 30 this year on which interest was accruing? I suggest that it was $3,029,000,000?—A. That is right.

Q. That is right.

Hon. Mr. HANSON: What page are you on?

Mr. SLAGHT: I am referring to page 35. Under 2 are the securities of the bank, $1,996,000,000; over 2 are securities of $1,033,000,000; a total of $3,029,000,000 dominion-provincial securities held by the chartered banks on that date?

The WITNESS: Yes.

By Mr. Slaght:

Q. We heard yesterday or heretofore—I do not know whether you were here or not—from Mr. Tompkins who told us—as we have not had any breakdown by the banks in this committee to show how much is provincial and how much is dominion—as I recall it, that the provincial part of it would represent 10 per cent, or 12 per cent. So I am going to ask you, if you will, to take 11 per cent as provincial out of this $3,029,000,000. That would be $333,000,000 that we might call provincial, if that be good arithmetic, leaving $2,696,000,000 as Dominion of Canada securities in the hands of the banks?—A. Yes.

Q. That is right. And, using round figures for convenience, I am going to suggest that is approximately $2,700,000,000 in round figures.—A. Yes.

Q. That being so, you were good enough to tell me at a previous sitting, when I was asking that figure as of the 1st of October, 1933, that the dominion securities as worked out by the banks were nearly $2,250,000,000, if you will recall.

Mr. MCGEER: Did you not mean October, 1943?

Mr. SLAGHT: Yes, 1943.

Mr. MCGEER: You said 1933.

Mr. SLAGHT: 1943, October-November. Dominion securities were estimated at the same price, amounting to $2,250,000,000. I asked you what would be the approximate interest that the Dominion of Canada would have to pay the banks on that, and you told me between $35,000,000 and $40,000,000 approximately.

The WITNESS: That interest figure was on the total Dominion-provincial holdings and I believe the interest on the pure dominion would be somewhere between $30,000,000 and $35,000,000 a year.

By Mr. Slaght:

Q. Well then, $35,000,000.—A. Yes.

Q. Perhaps you could give me the approximate figure of how much Canada is paying annually on $2,700,000,000 to the chartered banks, which I am going to later suggest ought to be done away with entirely and ought to have been taken from the Bank of Canada. If you can, give me an aproximate figure. I suggest between $45,000,000 and $50,000,000.—A. I suggest $40,000,000.

Q. I suggest that $40,000,000 is not fair; it is too low.—A. I would say it is too high.

Q. I will take your figure for it.

Mr. TOMPKINS: You want to know the interest, the revenue received, from the various securities held in that year, 1943?

Mr. SLAGHT: No, the debt load the Domiinon would be paying the chartered banks and what it was in October of 1943. I think he told us between $35,000,000 and $40,000,000. That is being reduced. I do not care so much about that if you would give me an approximately fair figure with regard to what the country is paying annually on the $2,700,000,000 that we now owe. I should like to have that.

The WITNESS: I said that $40,000,000 a year would be a good working figure.

By Mr. Slaght:

Q. That is only a difference in amount of $5,000,000. I think it does not matter in this proposal. Now will you look at the loans to the public as well, as of April 30, 1944. The loans which the chartered banks had made to the public are divided into two types. $42,000,000 are call loans, are they not? —A. Yes.

Q. And they have $867,000,000 in current public loans making a total of— —A. Then there is a third category, other current loans.

Q. May I leave that out for a moment please, and then I will be pleased if you will tell us what they are. Under the call loans and the current public loans, the amount indicated as being loaned under these categories totalled $909,000,000?—A. That is correct.

Q. Which is approximately, just by chance, one-third of the amount which the banks have loaned to the public; one-third as much money as they had loaned to the Dominion of Canada?—A. Yes.

Q. In other words, the country was borrowing three times more than the public was borrowing from the chartered banks?—A. Yes.

Q. And to that extent we were the best customers of the chartered banks? —A. Yes.

Mr. CLEAVER: May I interject a question? Would you mind?

Mr. SLAGHT: No.

By Mr. Cleaver:

Q. Would the governor tell us what the approximate interest return would be on public loans?—A. Between $40,000,000 and $45,000,000.

Q. So the interest return from the public on public loans would be very close to the interest return on three times the amount on the Dominion of Canada loans?—A. That is right.

By Mr. Slaght:

Q. Now I suggest that you add to the $909,000,000 this $53,000,000 of current other loans. What are they called?—A. Provincial and municipal.

Q. Provincial and municipal loans in addition to the industrial and individual loans?—A. Yes.

Q. Then if you add those, that makes $962,000,000 so far there?—A. Yes.

Q. So that varies our one-third a little bit. There is one more matter that the committee perhaps should have. Our banks were doing business lending money outside of Canada on the 30th of April last; there is an item of loans abroad, in the next column?—A. Yes.

Q. So I take it that they had loans abroad, call loans, $80,000,000 and current loans $117,000,000, a total of loans abroad of $197,000,000. Is that correct?—A. That is correct. These loans are made from the foreign deposits, you understand.

Q. Quite so, yes. Down in Bermuda, Nassau, perhaps British colonies, places where the Royal and other banks have agencies?—A. In New York, the West Indies, London and so on.

Q. And I presume the call loans would be practically all on the New York stock exchange or in connection with the Chicago grain pit.

Mr. TOMPKINS: And in London too.

The WITNESS: Yes, London too.

By Mr. Slaght:

Q. All right, that gives us a perspective of the business the banks are doing, with the dominion of Canada, with other people, in the loaning of money; that tells us that, does it not?—A. Yes, except for this item, other securities, $361,000,000.

Q. Other securities, $361,000,000, yes; perhaps it would be interesting for you to tell us the general character of those.—A. Those would include such industrial securities as they might hold, industrial bonds; they would include foreign government securities and municipal securities.

Mr. SLAGHT: Thank you, now then—

Hon. Mr. HANSON: Are these foreign currencies?

The WITNESS: Foreign government securities.

Hon. Mr. HANSON: Not currencies?

The WITNESS: No.

Mr. MAYBANK: Would it help, Mr. Slaght, to keep the record straight if you were to add to that $40,000,000 which is interest on the $909,000,000, the amount earned on these loans abroad, $197,000,000—I think it is—and also add the interest earned on the $53,000,000 which you mentioned a few minutes ago, and thus get the total of interest earned from non-government money?

Mr. SLAGHT: That is a good suggestion. I see what you mean. Mr. Maybank has suggested that to our $909,000,000 on to which we have added $53,000,000, making it $962,000,000 we should have $197,000,000 on the money loaned abroad making a total of—I haven't got it yet—about $1,200,000,000 approximately. What would be the interest accruing to the banks from that figure as opposed to the $40,000,000 that they get from the government, approximately?

Mr. MCNEVIN: Pardon me, but did you include that $361,000,000?

Mr. SLAGHT: No, we will put that in in a moment. Put in that $361,000,000 of other securities, Mr. Towers, if you like; and I am glad Mr. McNevin reminded me of that.

The WITNESS: You realize, Mr. Slaght, that this requires a little figuring in order not to have the statement too wide of its mark.

Mr. SLAGHT: Quite so.

The WITNESS: In the statement for 1943, which is on file, the banks showed as interest and discount on loans, $60,000,000.

Mr. SLAGHT: I am coming to that.

The WITNESS: That would include all the loans which we have mentioned. We are, however, trying to get what it might be based on the figures of April 30, which are somewhat different from the earlier ones.

Mr. SLAGHT: Yes.

The WITNESS: You will recall it is suggested that on the two categories of Canadian loans here I stated that the gross earnings might be of the order of $40,000,000 or $45,000,000.

Mr. SLAGHT: Yes.

The WITNESS: If we include foreign loans, both call and current, and the interest on provincial loans—in other words on the various kinds of loans—it would raise that somewhat to something of the order of $55,000,000.

By Mr. Slaght:

Q. Yes. Let us take $45,000,000 and $55,000,000, if I may. That is the total revenue to the banks as of the 30th of April. That is $110,000,000 from outstanding loans.—A. $55,000,000.

Q. I thought you said $55,000,000 and $45,000,000.—A. Oh, no; I meant $40,000,000 to $45,000,000 on the Canadian.

Q. In the Dominion of Canada?—A. The $40,000,000 to $45,000,000 on the current public loans and call loans in Canada.

Q. Yes.—A. But including other loans in Canada, and with the various types of foreign loans, I thought that the gross revenue might be in the neighbourhood of $55,000,000 a year.

Q. I understood that, sir.—A. Canada, foreign and everything.

Q. I understand that, sir. —A. Yes.

Q. Then I wanted to have the committee see what kind of revenue the banks got from the moneys they lend in toto. I suggest that we add the $45,000,000 that they are getting from the Dominion of Canada to the $55,000,000 they are getting from other sources and that makes a total revenue of $100,000,000.—A. Well, I am inclined to think that Dominion of Canada is $40,000,000.

Q. Take it at $40,000,000.—A. Add that to $55,000,000 and you will get $95,000,000.

By Mr. McGeer:

Q. Then you have another $361,000,000 for securities?—A. Yes.

By Mr. Slaght:

Q. Well, put that on; Mr. McNevin wants that on too.—A. That might be another ten; say $105,000,000.

Q. $105,000,000 is an approximate figure indicating the revenue the banks were receiving at the 30th of April on outstanding loans of all kinds that we have discussed.—A. And securities.

Q. And securities.—A. That includes all their securities.

Q. Oh, yes; that includes all their securities.—A. And we arrive at the banks' earnings of $105,000,000, which is admittedly mere guesswork only.

Q. Quite so.—A. But I might mention that the banks on their 1943 statements show these earnings as $109,000,000 from all types of loans and securities, Canadian and foreign.

Q. So the banks are running along on fairly well the same basis as last year.—A. Probably.

Q. Probably; and will you agree that last year's business for the chartered banks was the best they have ever had since confederation as far as you know?—A. I do not think so, no; not if you compare it with 1927, 1928 and 1929, which was a good deal better.

Q. It was better?—A. Yes. I should perhaps add there that one of the main reasons why 1927, 1928 and 1929 were a good deal better was that the foreign end of the business in New York and even in London was very remunerative.

Mr. CLEAVER: If you would like to have the 15-year average, I may say that average was presented by the Minister of Finance in his statement to the House. It is 112·5 million dollars annually.

Mr. SLAGHT: That is a useful observation to add just to these closing figures.

By Mr. Slaght:

Q. Well, Mr. Towers, is this point clear? If I should have my way later with the committee in bringing about a state of affairs where every dominion government borrowing should be done through using the credit of the nation through the Bank of Canada and eliminating debt by way of interest to the chartered banks, on the basis of the 30th of April the country would save, in that respect alone, some $45,000,000—A. No; you would not save it.

Q. I suggest that the taxpayer would save it.—A. He would be paying out the money; in other words, possbily not the same taxpayer or for the same amount.

Q. That is just what I am getting at; possibly not the same taxpayer and possibly not the same amount, because you are thinking of the service charges he would have to pay.—A. I am thinking of the effect it would have on the persons who have money on deposit, that they would not receive any interest on their savings, and that the people conducting deposit accounts would have to pay for that service.

Q. But aside from these special considerations, my figure of $45,000,000 would be right?—A. Say $40,000,000.

The CHAIRMAN: Mr. Blackmore, you have the floor.

Mr. BLACKMORE: I will tell you what we can do. This is all very interesting. I am quite satisfied to give up my time now if I can go on to-morrow morning.

The CHAIRMAN: Go ahead, Mr. Blackmore; proceed.

Mr. SLAGHT: Mr. Chairman, if the hon. member will permit me, I would point out that we have a summary for the period April-May, 1944, from which we have been talking. May I ask that it be entered in the records as an exhibit? I think you will agree that we should not try to put in all its detail, and Mr. Towers may be kind enough to let us have copies of it to-morrow so that we will be able to have it in front of us.

Mr. McNEVIN: May I say, Mr. Chairman, that I have a copy of it here, and I presume that other members of the committee have it. If we were to be given it again, it would only be a duplication.

Mr. CLEAVER: Mr. Chairman, I realize that I am interrupting Mr. Blackmore, but I will only take a moment. I had a few questions arising out of the same report which I had intended to ask the governor following Mr. Slaght.

The CHAIRMAN: I undestand that Mr. Slaght has given notice that he is returning to the matter later on.

Mr. SLAGHT: Yes; by way of my submission to the committee of two amendments, one on section 5 and one on section 59.

The CHAIRMAN: Mr. Blackmore.

Mr. BLACKMORE: Mr. Chairman, when Mr. Towers was on the witness stand on June 1 and I was questioning him, he suggested several times—in fact he himself asked once or twice—that I give him a cure for our ills.

Hon. Mr. HANSON: You might take the witness stand then.

Mr. BLACKMORE: I do wish the hon. member for York-Sunbury would permit me to conduct this in my own way.

Hon. Mr. HANSON: I object to your making speeches. Why do you not go on the witness stand and submit yourself to cross-examination?

Mr. BLACKMORE: If the hon. member will permit me to conduct this in my own way he will have no occasion for regret, and neither will I.

Now, Mr. Chairman, may I suggest to the committee, and to the Governor of the Bank of Canada, and to the other financial authorities in Canada, that there must be a change in the Canadian financial system, and that change must involve at least two or three important elements. In the first place, we must abolish our debt-creating system so that debt will not accumulate from year to year and render it impossible to carry on the Canadian economy. We must find a technique for spending money into circulation rather than lending all our money into circulation as we at present do. If the Canadian government were in a position to embark on a policy of spending into circulation debt-free money, it might accomplish some most desirable objectives which are vitally necessary at the present time in world economy. First, it could establish a stable and equitable price structure within Canada; second, it could stabilize the Canadian dollar; third, it could put into the consumer's hand enough money to enable him at any given time and at all times to buy all the goods which Canadian industry was in a position to produce; in other words, to equate effective demand with supply or production.

Mr. CLEAVER: Do you suggest that that should be in the form of a gift to the Canadian people?

Mr. BLACKMORE: I am just giving general principles; I can go into detail later on.

Mr. CLEAVER: That is a very general question. I thought you might at least try to be frank.

Mr. BLACKMORE: That is right. Four, to carry on a mutual aid scheme to dispose of our unusable surpluses without additional debt or increasing taxation. I suggest these proposals for the serious consideration of all members of this committee and the country at large at the present time. Now, may I continue—

Mr. CLEAVER: Before you continue that proposal, Mr. Blackmore, do you not think you ought to acquaint the committee with your views at least of the principles? How are we going to get this spending power into the hands of the general public? Is it to be by general direct gift?

Mr. BLACKMORE: Will you just allow me to conduct this examination according to my own method?

An Hon. MEMBER: It is not an examination.

Mr. BLACKMORE: I surely have the right to ask—

Mr. CLEAVER: You asked the committee to listen to your principles. I am examining your proposal.

Mr. BLACKMORE: I am submitting these principles to the consideration of the committee. I am not a witness here on the stand and I am not subject to questions in the way a witness would be. I have certain matters which I want to bring to the attention of the Governor of the Bank of Canada now that he is here. I have some questions I want to ask Mr. Towers. But before I did that I wanted to recall to him certain highlights of the points in his report of the Bank of Canada this year. When I was questioning Mr. Towers on June 1 I pointed out the debt anxiety which he wisely warned the people concerning. I recalled that he had pointed out that we need a high level of employment and income, and that we need an active policy on the part of government to solve the problem. I believe I read from his supplementary statement. It appears at page 84 of the proceedings of the committee. May I read those words again. This is Mr. Towers speaking, at page 84:—

> It seems to me that there is a tendency to talk too glibly about full employment and that too much reliance is placed on the hope that this desirable objective will be reached automatically through the release of pent-up demands after the war. It is often said that because it has been possible to attain full employment during the war, it should be just as possible and just as easy to do the same in peace time. This overlooks the fact that when we are at war our people are united in the pursuit of one objective and there is no question but that it is up to the federal government to produce the necessary war program. In peace time we find we have a number of objectives and that the initiative is divided between governments, labour, farm and business organizations as well as the general public. There is not the same over-riding impetus present in peace time. There is a much greater risk that because of divergent views as to what should be done, nothing is done. These factors obviously make it much more difficult to decide upon and execute a post-war program successfully.

May I suggest, as a comment upon that quotation, that there is a unified objective in the Dominion of Canada at the present time (even when peace comes). All of the people in the Dominion of Canada want to be able to give everybody a chance to have a good standard of living. Everybody wants that. Everybody wants a job for the boys when they come home. Everybody wants good wages. Everybody wants prices that are equitable and stable.

Mr. FRASER *(Northumberland, Ont.)*: Does everybody want to work?

Mr. BLACKMORE: No one has refused to work during the war. Even the so-called "spineless yaps on the street corners" went to work when the war came along.

Mr. FRASER *(Northumberland, Ont.)*: Oh yeah?

Mr. BLACKMORE: Yeah. Many of them went to die. You will have no trouble getting them to work, if you give them a chance.

Mr. FRASER *(Northumberland, Ont.)*: Did you ever try?

Mr. BLACKMORE: I suggested or recalled to the governor what he pointed out in his report, and I suggested that employment during the war was due not so much to this unified objective of winning the war as to the fact that the government was buying the product of industry, assuring a market; that the government was seeing to it that the prices were remunerative so that everybody could produce; that the government is giving the goods away, if need be during the war, and the government is distributing a considerable amount of purchasing power directly through the soldiers, the soldiers' dependants and through other means. I am merely reviewing what we developed before. Then we turned to the question of the creation of money for a time, and I read a quotation from *The Canadian Banking System* by James Halliday, Ph.D., at page 140. That quotation showed that the Canadian banking system can take a one dollar Canadian Bank of Canada bill and create and lend upon it $80 of the proceeds of deposits; that all money in Canada is created by the banks and is lent into circulation. From that I draw the conclusion that Canada, because her money is all created, should be able to create the money with which to accomplish any other objective she may desire, that she should have no difficulty in obtaining money not only to produce but to consume. I think Mr. Towers and I agreed in a general way—and he will check me if I am wrong—that the standard of living in Canada should depend upon Canada's capacity to produce food, clothing, shelter and other essentials of life.

The WITNESS: And to sell abroad.

Mr. BLACKMORE: That is right. But it should depend upon Canada's ability to produce, regardless of foreign trade.

Hon. Mr. HANSON: Oh, no.

Mr. BLACKMORE: We were not entirely agreed on this matter. But I endeavoured to point out that, regardless of foreign trade, Canada should be able to provide her citizens with plenty of all she can produce, such as milk and milk products, meat and all that sort of thing. Then it was developed that the distribution of those products to the Canadian people is a matter of finance; that is, if money can be put into the hands of the people with which to buy the goods, then automatically the goods will be distributed.

Mr. FRASER *(Northumberland, Ont.)*: Just what is money?

Mr. BLACKMORE: You can put any definition you wish on it.

Mr. FRASER *(Northumberland, Ont.)*: That is what you are doing, Mr. Blackmore.

Mr. BLACKMORE: I pointed out that, with plenty of money, Canadian governments could increase the incomes of the Canadian people to enable them to consume sufficient of all the products which Canada was able to produce to maintain a high standard of living.

Mr. CLEAVER: How would you suggest that the Canadian government would distribute this income you are talking about?

Mr. BLACKMORE: I am questioning Mr. Towers and merely reviewing what has been covered.

The CHAIRMAN: Oh, no.

Mr. BLACKMORE: I am merely reviewing what we covered last time, so as to have more continuity.

The CHAIRMAN: Order, please, for a moment. May I suggest that you proceed to question Mr. Towers.

Some Hon. MEMBERS: Hear, hear!

Mr. FRASER *(Northumberland, Ont.)*: He is telling Mr. Towers.

Mr. BLACKMORE: I will do that in half a minute. I am merely seeking continuity from the last time I was asking Mr. Towers questions. There were plenty of goods during the depression. Why was there not plenty of money? And I asked, "Is it not one of the important tasks of this committee to find what the cures of the ills are at this stage of the world's program?" Mr. Towers courageously answered, "Yes", an answer with which I completely agree. Now I propose to ask several questions.

Some Hon. MEMBERS: Hear, hear!

Mr. BLACKMORE: The answers to which might suggest the possible solution. As a basis upon which to ask the questions I wish to read two excerpts from the Report of the London Chamber of Commerce on "General Principles of a Post-War Economy" issued on May 12, 1942. I am going to send this up to you, Mr. Towers.

The WITNESS: Oh, I do not think that is a report of the London Chamber of Commerce but is rather a report of Mr. Leigh.

Mr. FRASER *(Northumberland, Ont.)*: Will you give the author of the report, then?

Mr. BLACKMORE: Paragraph No. 21 of this report consists of the following words:—

> When, however, it is remembered that even wealthy nations have a large percentage of their population underfed, ill-clothed and ill-housed. it is clear that these would be the best recipients of this alleged surplus of wealth.

I wonder if Mr. Towers would disagree with that statement or would agree with it?

The WITNESS: What page is that?

Mr. BLACKMORE: I have just forgotten the page. It is paragraph No. 21. I will have it for you in just a minute. It is page 9, No. 21, the first sentence. Would Mr. Towers agree with that statement or disagree with it?

The WITNESS: That statement reads, "When, however, it is remembered that even wealthy nations have a large percentage of their population under-fed, ill-clothed and ill-housed, it is clear that these would be the best recipients of this alleged surplus wealth." I do not know what he means by "alleged surplus wealth". That perhaps comes in earlier, does it?

Mr. BLACKMORE: No. It is wealth of goods and services which they do not know what to do with and which they try to sell on the world markets.

The WITNESS: In other words, he is suggesting that there are possibilities for achieving a higher standard of living, and it would be desirable to do so.

Mr. BLACKMORE: Within the country producing the goods.

The WITNESS: Anyone would agree that that was desirable.

Mr. BLACKMORE: All right.

Mr. FRASER (*Northumberland, Ont.*): If you want to take it off the other fellow, that is the way you can get it.

The WITNESS: I do not know whether that is his suggestion. But just based on this, it is a desire for a higher standard of living, which we all share.

Mr. FRASER (*Northumberland, Ont.*): That is the way you would obtain it.

Mr. CLEAVER: It does not suggest a gift to these underprivileged people.

Mr. BLACKMORE: Just simply as an illustration, if Canada has a surplus of cheese, then so long as there are people in Canada who have not all the cheese they want, it would be best for Canada to get her own people to be able to use the cheese rather than to endeavour to sell that cheese in the British market to the displacement of New Zealand cheese, for example.

The WITNESS: Is the case you mention one where certain of the Canadian people would like to have more cheese?

Mr. BLACKMORE: Unquestionably.

The WITNESS: One would like, then, to see those people doing productive work so that they would be thus enabled to buy it.

Mr. BLACKMORE: Exactly; or it may be by reducing the price of cheese, as the Wartime Prices and Trade Board have done on other commodities, through which they could more easily buy cheese.

The WITNESS: I think, with regard to that question, that the chairman of the Wartime Prices and Trade Board would be a better one to sketch the difficulties involved than I am.

Mr. BLACKMORE: Likely.

The WITNESS: But if one gets into a situation of that kind, it is possible to follow the course of action mentioned in respect of certain commodities. If you get into the field of doing it for all commodities, that is quite a different matter.

Mr. BLACKMORE: What would be the difficulty in the way of doing it for all commodities?

The WITNESS: That is an effort to hoist yourself by your own boot straps. That means that the government buys everything at 50 cents, sells everything at 25 cents and finances the difference by the issue of currency. There could be, if you liked, a statement sketching some of the results; but I think they are sufficiently apparent.

Mr. BLACKMORE: Would it not be equally true to say that the government buys at 50 cents in terms of Canadian goods?

The WITNESS: I do not understand the question.

Mr. BLACKMORE: You see, the point is this. You are thinking of money.

The WITNESS: No.

Mr. BLACKMORE: If the government undertakes to buy these goods in terms of Canadian goods rather than in terms of money, money taken merely to represent the goods available, the situation might be entirely different. I offer that merely as a suggestion. Now may I go on?

Mr. FRASER (*Peterborough West*): Would you explain your suggestion?

Mr. BLACKMORE: Gladly, at the proper time. Now may we continue with the quotation. Mr. Towers will read this. It is a continuation of paragraph 21 and reads:—

> What is necessary is to improve the technique for the internal provision of money, so as to convert this human demand into effective demand.

Hon. Mr. HANSON: Turn on the printing press and give it to them in the form of the dole. That is your answer.

Mr. BLACKMORE: Put the boys in box cars and riding the rods. That is what you did.

Hon. Mr. HANSON: I did not do it. It started before we got there.

Mr. BLACKMORE: Would Mr. Towers agree with that statement or disagree with it?

The WITNESS: If someone asked me to answer the question, "How high is up?" I would find it just as difficult to answer as I do this, because I do not know the meaning of it. In the course of his remarks today and earlier, Mr. Blackmore has mentioned several times that there would be a much greater demand for the production of various things if only people had the money with which to buy them; and when reference is made to money, I assume that Mr. Blackmore means currency and bank deposits. I would be the first to admit that a scarcity of money might very well exercise a depressing effect on both production and consumption; to some extent such a situation was responsible for exaggerating the depression that took place in the thirties, in the early thirties particularly. But that condition has been corrected, and for some years there has been no shortage of money; in fact, the contrary has been the case. But even with plenty of money in existence, it is quite possible that the effective demand for goods and services might not equal the potential or actual production of such things. The reason for such a state of affairs might be that our export trade was not large enough or that the level of public and private investment was not high enough. But even if those factors were not the explanation, basically the cure for such a situation is not to create more money but to alter the distribution of income, an approach which I mentioned in my earlier statement starting on page 84 of the minutes.

Mr. MCGEER: Take from the rich and give to the poor.

The WITNESS: This, of course, is a matter for government policy. We are now and have been for many years transferring income from one group to another in the country by means of taxation, subsidies, social services and so forth.

Mr. BLACKMORE: Socialism.

The WITNESS: If the public believes that the objectives are necessary and desirable, there is no reason of which I am aware why we cannot effect a further redistribution of the national income.

Mr. BLACKMORE: By taxation?

The WITNESS: In part, but I will come to that in a minute. If in the course of such a redistribution of income it was found that to make the whole financial transfer through taxation and public borrowing would exercise a depressing influence on economic activity, I would not be afraid to recommend that some part should be met by monetary expansion.

Mr. BLACKMORE: Debt free?

The WITNESS: By definition. You mean currency?

Mr. BLACKMORE: Yes.

The WITNESS: Yes. In this situation one might increase the volume of money not because there was any shortage of it but because the other instruments of fiscal policy were not fine enough to do the whole job; that is what we have been doing during the war. I come back again to the thought I have expressed on other occasions. The main thing is that our objectives should be sound and have general public support. With such a background there is no need for us to worry about not having enough money.

Mr. SLAGHT: Hear, hear!

Mr. BLACKMORE: Very good.

By Mr. Slaght:

Q. May I ask this question? Have we not had an increase during the war or in the past few years of that type of money to the extent of one billion dollars, approximately?—A. Yes. As I said earlier, it is a question of degree.

Q. Quite so.

By Mr. McGeer:

Q. That is, the issue of Bank of Canada notes?—A. Yes.

By Mr. Blackmore:

Q. You could even issue notes from some source outside of the Bank of Canada if the Bank of Canada felt it could not afford to issue enough notes for fear of destroying its stability?—A. You mean that we would sooner have somebody else take responsibility for that?

Q. No, some external agency like the treasury board, for example.—A. A rose by any other name would smell as sweet.

Q. I am just desirous of finding this out, because at one time we suggested in the House of Commons that the Bank of Canada should be used extensively; and the Prime Minister made a rather scornful remark about the undertaking of these big things by that little institution down on Wellington street. I thought at the time that he lacked sufficient respect for your institution.—A. Surely not. Besides, see how large we have grown.

Q. That is fine. You say, "See how large we have grown." These statements are very valuable. I believe you have done a service to your country in the pronouncements you have made to-day. Now may I go on to paragraph No. 22 of this report of the London Chamber of Commerce, which reads as follows:—

> The Chamber considers that it is a perversion of export trade to employ it for the purpose of exporting domestic unemployment and dumping it on other nations which already have their own problem to solve. These surplus exports might confer a benefit on some countries if they were sent as a gift; and the recipient country had—

For example, mutual aid.

> —an internal financial mechanism capable of distributing enough purchasing power to its people to enable them to buy excess imports of consumers' goods in addition to, instead of in competition with, the goods already there. They are, on the contrary, used for the purpose of getting other nations into unpayable debt; and moreover, the recipient nations have not the mechanism for distributing additional purchasing power to buy them so that they do, in fact, displace goods already in the market, and cause distress selling and a slump in prices.

I think you would find no objection to that statement, would you?—A. Oh yes, indeed; many objections. Export trade should be considered as an exchange of goods—the sale of goods and services to another country for the purpose of enabling the selling country to buy other goods and services, not necessarily just from the country to whom the sales have been made but, one would hope, in a multi-lateral system, from any other country in the world. Perhaps I should add there that the purchases of goods and services in exchange need not take place on the day or the month or the year in which the sale is made. There is such a thing as a lending of goods, a lending of machinery, which will enable other countries to increase their productive capacity and make them better able to repay in goods and services in due course. If it is the case that a country is continuously and perpetually exporting such substantial quantities of goods and services that it has a so-called favourable balance, and is unwilling to receive in exchange goods and services from the rest of the world, then you do tend to develop that unpayable debt situation mentioned here. Those are circumstances of international stupidity which I think are somewhat less likely to occur in the future than they have been in the past.

Q. That is well answered, Mr. Towers. May I put the question this way? Suppose that a given nation requires such a quantity of goods coming in from outside that it is unable to produce enough goods to pay for those goods. It then falls into the condition of unrepayable debts, does it not?—A. It may be unable to offer other goods and services in exchange at the moment, and I am sure there will be countries of that kind in Europe after the war. The question would be this: Will it be able to repay in goods and services when it has re-established its productive capacity? The United States and Canada, of course, are classic examples of countries which borrowed enormously from Europe in the early stages of their development; and which did, in fact, so develop their productive capacities that they have been able to repay.

Q. But they had tremendous resources and widely varied resources.—A. If the question relates to a poor country, with a low level of potential resources, which is being enabled by the extension of credit to buy great quantities of things, then by definition that country is a poor borrower, it will never repay and the lender will lose his money.

Q. Suppose the country must have the goods in order to support its people. Take England, for example, after the war; it will probably have 46,000,000 people with inadequate resources.—A. I am not referring to the United Kingdom. I am referring to the imaginary poor country to which you referred. You say, "Suppose it has to have the goods and services to support its people, and it has not the resources itself." Then it is a candidate for charity which it may or may not receive.

Q. In other words, it can starve to death, as far as our present system is concerned?—A. Fortunately, it is an imaginary country, so that the starvation is imaginary also.

Q. Exactly. But it is a very, very real thing in the case of a nation with a large population and relatively small production.

Mr. SLAGHT: We are doing that through U.N.R.A. now.

Mr. BLACKMORE: Exactly. Only we are endeavouring to pay for that with taxed money, debt money. We are doing it through mutual aid to-day, but we must do it with this taxed money, debt money, which aspect of the thing is unsound, I say.

The WITNESS: It would be possible to finance all government expenditures by the issue of currency without imposing any taxation at all.

Mr. GRAHAM: U.N.R.A. is enlightened self-interest, is it not?

The WITNESS: I would certainly say so, yes. But Mr. Blackmore, as to the solution which you are seeking—it would be very helpful to me, although I cannot ask you to give it—to know the solution. It does relate to the issue of currency but it is very important to know to what extent. I have said that the whole thing is a question of degree; that, during the war not deliberately but rather involuntarily, war expenses have been financed to the tune of about

6 or 7 per cent of the total by the issue of Bank of Canada currency. I say right now it would be physically possible to finance all our war expenditures in that way without collecting a dollar of taxation, but I think the results would be disastrous. But unless one knows whether your proposals involve 100 per cent, 50 per cent or 6 per cent, it is not possible to give or try to give intelligent answers to the questions. If it is 6 per cent, then that is the actual situation.

By Mr. Slaght:

Q. Would you pass on 16 per cent, a figure I am going to return to later on?—A. I have just said that the 6 per cent was involuntary.

Q. Quite so.—A. In other words, I think that our situation would have been better if we had not had to do any such financing at all; because we know that the supply of purchasing power is such, in relation to the supply of goods, that we have to ask for voluntary savings to the greatest extent possible. If those savings had been somewhat greater and lent to the government in the ordinary form, then we would have found that the expansion of 6 per cent was entirely or largely unnecessary.

Mr. BLACKMORE: That is well answered.

By Mr. Slaght:

Q. If my honourable friend will excuse me for a minute, I should like to propound another question. Do you not think that, after the war, we are going to relax this policy which our people have patriotically supported during the war, of taxing them until it hurts, of taking it out of the pocket of the working man before he gets it? Do you not think that after the war we are going to relax that policy by using the nation's credit through the Bank of Canada to a greater extent rather than putting bankers' debt money out for the purpose?—A. I think that the situation in regard to monetary expansion after the war necessarily depends on the business situation in the country as a whole.

Mr. BLACKMORE: Hear, hear!

The WITNESS: To say that after the war we could have widespread social security without the necessity for any taxation would be something which I think you would not care to suggest.

By Mr. Slaght:

Q. I agree with you. I would not suggest that.—A. Your question relates to the level of taxation?

Q. Quite so; reducing it.—A. I do not think it is possible at this stage for anyone—certainly not for myself—to become definite along those lines and say that a certain scale of income taxation would be proper under circumstances of which we are all unaware as yet.

Mr. BLACKMORE: Very good, Mr. Chairman; well answered, Mr. Towers.

An Hon. MEMBER: Hear, hear!

By Mr. Blackmore:

Q. You pointed out in your report that there will be tremendous increase in the goods-producing capacity after the war because there will be a large number of people who are now engaged in war production who will be returned into the production of consumer goods. You pointed out the fact that there will have to be an enormous increase in the consumptive capacity. I suggest, and I believe you would agree, that a very considerable proportion of that increase in consumptive capacity can be achieved through the use of debt-free money issued and spent into circulation rather than lent?—A. Spent by the government?

Q. Conceivably.—A. But that is important, Mr. Blackmore.

Q. Suppose we say by the government.—A. In other words, that the government should spend large sums of money.

Q. Just say "sums of money" because "large" is so indefinite. Suppose we say "sums of money" in the interests of caution and moderation.

Mr. McGEER: Well, reduce it to the amount required to sustain employment.

Mr. BLACKMORE: Right.

Mr. McGEER: Sufficient to sustain employment. Put it on that basis.

Mr. BLACKMORE: That is it.

The WITNESS: Would your thought be that all the government expenditures should consist of debt-free money?

Mr. BLACKMORE: No, not by any means.

The WITNESS: They would tax to a certain extent?

Mr. SLAGHT: In addition.

Mr. BLACKMORE: Exactly; in so far as it was necessary.

The WITNESS: So we come back again to the question of degree.

Mr. BLACKMORE: Exactly.

The WITNESS: And of course the things on which the money is spent would be important also. You would expect that it should be spent on productive and useful things.

Mr. McGEER: Not necessarily.

The WITNESS: I am not speaking of productive in the commercially profitable sense.

Mr. SLAGHT: Enduring assets, if you like.

Mr. BLACKMORE: Or consumption goods.

Hon. Mr. ILSLEY: Mr. Blackmore, may I ask you a question?

Mr. BLACKMORE: Yes.

Hon. Mr. ILSLEY: Why would you tax at all? If I can get a system by which I do not have to recommend any taxation, I should be very pleased.

An Hon. MEMBER: You would be the most popular Minister of Finance we have ever had.

Mr. BLACKMORE: While it is asking for detail beyond the scope of what we are aiming at just at this stage, I would say it might be found necessary to withdraw from circulation surplus purchasing power which might, under the circumstances, constitute a threat to the stability of the dollar or the price structure.

Hon. Mr. ILSLEY: That is well answered, I would say.

Mr. McGEER: That, again, is a question of degree.

Mr. SLAGHT: Mr. Chairman, before this particular discussion closes, in order to complete the record, may I answer a question which Mr. Cleaver put to Mr. Blackmore in the way that I would have answered it had he put it to me. He asked Mr. Blackmore whether, in the use of the nation's credit through the Bank of Canada issuing Bank of Canada currency to meet the requirements of the day, he would suggest that the government give it away through the Bank of Canada. The answer is, "no." But they would put it into circulation through the Bank of Canada, without having an interest-bearing debt hung on it for life, in this way: housing plans to replace slums in our Canadian cities right across Canada; build highways, trans-continental and also as networks into areas still getting along on the old gravel roads; proper schools and proper hospitals; electrify our railroads; build new merchant ships; create many new parks for the less fortunate workers who have no yards or playgrounds; beautify our existing parks; create water works which are needed; create sewerage systems, which are much needed; develop our untold millions of water power (1) for our own needs and (2) export the surplus power to the United States who are short of power and willing to purchase from Canada millions of horsepower; and last but not least, contribute through U.N.R.A. to the impoverished and hungry nations of Europe such as Greece and Holland. That is the way to put this money into circulation according to the needs of the people, and do away with doles and depression.

Mr. CLEAVER: If I may, I should like to ask a further question based on that answer.

Mr. BLACKMORE: Remember that time is going fast.

Hon. Mr. HANSON: You have had your share.

Mr. CLEAVER: Having had the Bank of Canada issue this immense amount of money—

The CHAIRMAN: Order, please.

Mr. BLACKMORE: No immense amount. Leave "immense" out.

Mr. CLEAVER: All right. This amount.

Mr. BLACKMORE: All right. Talk sense.

The CHAIRMAN: Order, please.

Mr. BLACKMORE: Be fair.

Mr. CLEAVER: How would you accomplish the transfer of the desired amount of this debt-free money to the under-privileged classes referred to by Mr. Blackmore? I might say that I do not know of any way of putting money into the pockets of citizens except by way of paying it to them in wages.

Mr. BLACKMORE: Or wage bonuses.

Mr. CLEAVER: For services or goods.

The CHAIRMAN: Order, order, please Mr. Blackmore.

Mr. CLEAVER: How would you effect that transfer and raise the level of these under-privileged classes of which Mr. Blackmore speaks?

Mr. BLACKMORE: Mr. Chairman, I suggest he knows—

Mr. SLAGHT: That is very easily answered. In every activity that I just recited to you, you will pay wages and you are purchasing raw materials produced by the producers of the raw materials. You are not giving a dollar away, and you are receiving in return more or less permanent assets, something added to the wealth of Canada in the nature of permanent assets.

Mr. CLEAVER: I understand the permanent asset feature. I understand your answer now to be that these under-privileged classes would receive the money in the form of wages. Does that not bring you back to the statement by the Governor of the Bank of Canada that the entire problem is a problem of distribution of the national income?

Mr. SLAGHT: Oh, no. Think of these men who live in slums having decent houses with plumbing in them. It is not the wages of these particular men that I refer to, but the wages going out through the community as well, creating increased buying power. The farmer can go out and sell more wheat. Then he is able to buy more. That ought to be easy to understand.

Mr. BLACKMORE: Have I the floor?

The CHAIRMAN: Yes.

Mr. BLACKMORE: May I suggest to Mr. Cleaver also that, as part of the technique, wage bonuses can be used, family allowances can be used and price reductions can be used, every one of which I think Mr. Cleaver knows something about even at the present time.

Mr. CLEAVER: Mr. Chairman, may I now ask three questions that I wanted to ask following Mr. Slaght's examination of the Governor of the Bank of Canada: on the April-May statistical statement?

The WITNESS: May I make a statement?

The CHAIRMAN: You can do that tomorrow, Mr. Cleaver. Let us have a statement from the Governor.

The WITNESS: If it is possible to sum up the discussion, I should like to suggest that the objectives which we all have are the same—the objectives mentioned by Mr. Slaght and those mentioned by Mr. Blackmore—namely, an improvement in our standard of living and the amenities of life for all of our people. No one seems to suggest that taxation should be done away with entirely. No one suggests that all government expenditures should be financed 100 per cent by the issue of currency. Mr. Blackmore has said that there might be circumstances where the issue of currency was over-done, that you had to try to call some of it back. I am not surprised that no one has suggested the 100 per cent method and the elimination of taxation; because any one who lives and breathes and has seen what has been going on in other countries, knows the disastrous social results that procedure has produced. So no one nowadays could possibly suggest such a thing. A number of years ago they did, but they have seen some of the things which have happened in the course of the last twenty-five years; so they said, "There must be taxation; we cannot rely 100 per cent on the issue of currency." Well then, it comes back to a question of degree. There seems to be a difference of opinion as to the degree, without either side being able to define the exact degree of currency expansion which would be appropriate. It is not surprising that one cannot define it exactly, because the circumstances are unknown. I have said this morning that if, in the post-war period, the situation were difficult, I would not be afraid to recommend that some part of the problem should be solved by monetary expansion.

Mr. BLACKMORE: Debt-free?

The WITNESS: By definition; debt-free in the sense that it is non-interest bearing, but nevertheless represents currency which has to be held by the people.

Mr. BLACKMORE: But does not add to the debt of the nation.

Mr. GRAHAM: It would.

The WITNESS: It does add to the debt of the nation in the sense that the government is responsible for seeing that the currency maintains its purchasing power. I think that, considered as debt-free in the sense of complete irresponsibility, it is not what we want.

Mr. BLACKMORE: No one has advocated anything like that.

The WITNESS: I think if you said "interest-free", it would be better. "Debt-free" implies a degree of irresponsibility which I do not like at all.

By Mr. Slaght:

Q. You would agree that "interest-free" is the proper term?—A. That the currency is interest-free, yes. The extent to which government financing should be provided in that manner is to me a question of circumstances and the state of the nation at the time. But I know it cannot be 100 per cent. I am perfectly sure that, as a continuing thing, judging from the experience of other countries, it cannot be a continuing large percentage.

By Mr. Blackmore:

Q. It is to be regretted that the Governor of the Bank of Canada did not mention this in his annual report as a possible way out rather than placing all his stress on international trade.—A. Oh no, the stress was not all on international trade. It was solidly on domestic policy.

Mr. CLEAVER: Mr. Towers, what reduction in the interest rate, in the over-all interest rate, would result from another thousand million dollars of additional currency?

Mr. BLACKMORE: May we go on with this tomorrow?

The WITNESS: The average at the present moment is about 2·69 per cent. That further amount that you mentioned would probably bring that average down to 2·44 per cent.

By Mr. Cleaver:

Q. Yes. So that the point involved is that we should decide as to how low we should permit interest rates to go in our present economy.—A. Not so much that, because there are ways and means of bringing about a reduction in interest rates, as we have done in the past by reducing the rate paid on the interest-bearing debt.

Q. Of course, you do that by market operations of the Bank of Canada, do you not, or the issue of new currency and the purchase of securities?—A. Yes. But a small amount there can have a large effect on the whole situation.

Mr. BLACKMORE: Mr. Chairman, shall we go on with this examination tomorrow at 12?

The CHAIRMAN: Is it the decision of the committee to adjourn until tomorrow at 11 o'clock.

Some Hon. MEMBERS: Agreed.

Hon. Mr. ILSLEY: At 11 o'clock.

Mr. BLACKMORE: I will be prepared at 11 o'clock.

The committee adjourned at 1.05 p.m. to meet again on Thursday, June 22, at 11 a.m.

June 22, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Blackmore, you have the floor.

Mr. GRAHAM F. TOWERS, *Governor of the Bank of Canada, recalled:*

By Mr. Blackmore:

Q. Yesterday the Governor of the Bank of Canada conveyed to the committee that he would favour, under suitable circumstances, an expansion of money after the war to meet the conditions in the Canadian economy. He recalled to the committee the fact that we are at the present time involuntarily, if I remember the word aright — A. Yes.

Q. — — using an expansion of money to the extent of about 6 or 7 per cent of our needs during the present war. He pointed out that he, of course, was utterly unable to forecast with any degree of accuracy how large a percentage of the money needs of Canada could be issued by an expansion of money.—A. Should be issued.

Q. Should be issued. But he indicated that he was in favour of a wise use of the method of expanding money in Canada to improve conditions in the country.—A. If the need arose; if that seemed to be the appropriate action to take.

Q. That is right. I just wish to recall —

Mr. GRAHAM: Mr. Chairman, I want the record to be correct. I do not think Mr. Blackmore's statement is correct, that the Governor of the Bank of Canada favoured the expansion of the currency after the war under favourable circumstances. I do not think that was your statement, Mr. Towers. I think you said if necessity demanded it, it might be necessary to have an expansion.

The WITNESS: Yes. I did not recall the phrase, "favourable circumstances."

By Mr. Blackmore:

Q. I was not endeavouring to use Mr. Towers' words, because unfortunately I have not been able to get access to the exact records until just now, and I have not had a chance to read his words. But I was endeavouring to be very careful so as to convey accurately just what Mr. Towers had said, and was relying upon him to correct me in case I fell into error.—A. Yes.

Q. I was desirous of having Mr. Towers tell whether or not he would favour debt-free money. He seems to be unwilling to use the expression "debt-free money," preferring to use the expression "interest-free money."—A. I prefer to use the expression "currency," Mr. Chairman.

Q. What is that expression?—A. I prefer to use the word "currency."

Q. Currency. Very good.—A. People seem to have other phrases which they prefer to use to denote currency, but I think that "currency" is the accepted word.

Q. I have no objection to the use of "currency." I was merely desirous of using a general word which might be accepted.

By Mr McGeer:

Q. And I suggest that "national currency" would be the proper term.—A. Yes.

By Mr. Blackmore:

Q. I preferred, as I said, to use the expression "debt-free," but Mr. Towers rather showed a predisposition to "interest-free" rather than "debt-free." My reason for suggesting debt-free money could be explained, I think, by reference to one thing that happened in the last war. I believe the experience has already been referred to in the committee. Canada, through the treasury board of the Department of Finance, during the last war, issued $26,000,000 and used that money for governmental purposes. The money was not added in any sense to the indebtedness of Canada. We have paid no interest on that money since its issue and use.

Hon. Mr. HANSON: There is the outstanding liability on that issue.

By Mr. Blackmore:

Q. Mr. Hanson's suggestion is well founded. But if it is borne in mind that on April 10, 1933, the gold redemption clause was suspended and that never since has the Dominion of Canada committed itself to the requirement of redeeming that money in gold, we might say that the money has not constituted a liability on the Dominion of Canada which needed to be met in any financial form other than by giving new Canadian one-dollar bills.—A. The responsibility there, of course, is to try to maintain the purchasing power of that paper money. It is perfectly true that a government, directly or working through the Central Bank, can issue unlimited quantities of fiat paper money which it might never be called upon to redeem. It might force its people to accept unlimited quantities of that currency, except that at a certain stage the forcing becomes almost impossible.

Hon. Mr. HANSON: Hear, hear!

The WITNESS: That is a stage which has been reached in various countries today. To regard that paper money as money for which the government is not responsible, simply because by legislation it is not called upon to redeem it, seems to me to be a mistake. The government is very definitely responsible for the preservation of its purchasing value, responsible to the people whom it forces to accept that paper.

By Mr. Slaght:

Q. But only for the principal money, there being no interest attached to it at all?—A. The government does not pay interest; but of course the people who are forced to accept it, are forced to hold it as a non-earning asset. To the extent that there is reasonable need for the currency, the people are willing to do so and to use it as a medium of exchange. If the thing is pressed too far, then people are unwilling to hold currency as a non-interest earning piece of paper, and endeavour to get rid of it. Then we have an inflationary movement.

Hon. Mr. HANSON: Hear, hear!

By Mr. Blackmore:

Q. It could be safely said that, in the case of the $26,000,000, the government did not force the people to accept any of that?—A. The government always, in a sense, forces, because it is legal tender. But there is a willingness to accept until the thing reaches almost a crisis stage. Incidentally, do not let us feel too happy about the financing of the last war. I think that the $26,000,000 you mentioned was a mere flea bite; but, in the financing of the last war, you will recall that the cost of living rose to a very high level.

Q. There was no Wartime Prices and Trade Board at that time?—A. The Wartime Prices and Trade Board alone could not control a situation in which an inflationary form of financing government needs had gone to such an extent that the pressure was extremely heavy. The Wartime Prices and Trade Board can resist a certain amount of pressure. They will crack if the pressure is too hard. For that I do not rely on theory, but on the experiences of other countries today.

Q. Quite correct. During the last war something else must also be borne in mind. I am going to ask questions about inflation later on, so suppose we defer further questions regarding inflation until that time. But I fully recognize the truth of what Mr. Towers has said, and no Social Crediter or monetary reformer in Canada, so far as I know, has advocated at any time that the issue of money should go beyond the point at which the use of it would be safe.—A. Yes; and the question is to decide how much is safe.

Q. Exactly so.—A. I quite realize that; and I think it is very beneficial to emphasize that, Mr. Blackmore, as you have. In other words, in thinking of the proposals to finance government expenditures by issues of currency, we all agree that there is nothing in the slightest degree new about them.

Q. Exactly.—A. That has been happening all over the world for generations. In fact, financing government expenditures by the issue of currency is what you might call the second oldest profession in the world. It has been done everywhere. And in deciding how far one can go, it is well to remember that a government or a central bank is dealing with a very sharp tool there, and a very dangerous one. It is very hard for the people to tell just what dangers they are being exposed to in the early stages. It has been the method most often used by governments to swindle their peoples. One needs to be pretty careful.

By Mr. McGeer:

Q. You also have to be careful about creating a condition of unemployment and stagnation in business and an over-burden of debt and taxes?—A. That is quite so.

Q. Because you will get revolution from the people.—A. We all agree with that.

Q. Which is even more dangerous than anything else you can have.—A. And we want neither unemployment, revolution or swindle.

SOME HON. MEMBERS: Hear, hear!

Mr. BLACKMORE: That is exactly right.

By Hon. Mr. Hanson:

Q. May I ask you this question? In essence, in your opinion Mr. Blackmore's proposals are purely inflationary?—A. It depends on how far he wishes to go.

Q. It is a matter of degree.

Mr. BLACKMORE: Let Mr. Hanson learn about them.

Hon. Mr. HANSON: I learned that before I heard about you.

Mr. BLACKMORE: It is not inflation. I may say that Mr. Hanson's pronouncements in parliament and outside do not indicate that he ever learned anything about them, whether he has heard them or not. The important fact is that the creation and use of money does not constitute inflation until it causes more money to be in circulation than there are goods and services in the country to buy.

The WITNESS: Oh, no. I could not agree with that, Mr. Blackmore.

By Mr. Blackmore:

Q. How would you define it, then?—A. That is a question which requires a careful answer and I would prefer to put it down in black and white.

Q. I should be glad to leave that as a notice of motion.—A. All right.

Q. Because it is extremely important. Meanwhile, as I said a moment ago, I am going to ask a few questions on inflation. Meanwhile I merely wanted to make clear that we have known in Canada the use of debt-free money, genuinely debt-free in the sense that the use, for example, of the $26,000,000 did not add to the public debt of Canada and has not cost the people of Canada a cent of extra interest, as has the money which we used that increased our debt during the last war.—A. Referring to the money as currency rather than debt-free money, the issue that you mentioned as well as subsequent issues which have been made by the Bank of Canada, do stand as a liability of the government and the Central Bank to the people. They have not involved the payment of interest to the holders of the currency. They have involved certain costs for printing and circulation, but not the payment of interest. That means that the holders, for reasons of their own, involuntarily made an interest-free loan to the government.

Q. It is true, is it not, that if anyone had brought a one-dollar bill of the $26,000,000 to the dominion government, asking that it be redeemed—in other words, that the dominion government discharge its liability—all the dominion government would have had to do was give the holder one more dollar?—A. That is right. The holder is helpless.

Q. Well, it would have done the holder no harm. His money would have been completely redeemed by another one-dollar bill.—A. That is not redemption. The currency is irredeemable.

By Mr. Cleaver:

Q. But you can, can you not, Mr. Towers, anticipate that the time might arrive when this additional money, this additional currency of approximately $900,000,000 which has been issued since the outbreak of the war, might create a situation where we had too much money in circulation for our economic stability, and where the Bank of Canada might have to call in and redeem by the purchase of securities or otherwise, a large part of that $900,000,000 which has been issued during the war?—A. That could be the case, under certain circumstances, yes.

Q. And under those circumstances it would cost the Bank of Canada and the Dominion of Canada real wealth to redeem the surplus money. That is, you would have to buy securities?—A. Have to sell securities in order to redeem it.

Q. Yes.

Mr. BLACKMORE: In that case, Mr. Cleaver, you will notice that it would not cost the Dominion of Canada any money.

Mr. CLEAVER: It would.

The WITNESS: Yes, because we would lose an earning asset in the form of the dominion government security.

Mr. BLACKMORE: If it is well understood that is all the cost involved, it is not a very serious matter.

By Mr. McGeer:

Q. There is a much simpler way of withdrawing currency from circulation than that, is there not?—A. Not that I know of.

Q. Did you not tell us in the Banking and Commerce Committee of 1939 that, if the government deposited cheques for taxes in the Bank of Canada, that action would force the chartered banks to pay in cash and it could be even carried to the point of forcing the chartered banks to exchange with the Bank of Canada the public securities held by them to get cash which they would have to have to meet those cheque liabilities?—A. Yes. That involves building up a very large government account with the Bank of Canada, and the government not using those funds for expenditures.

Q. But do you not see we are talking about a hypothetical situation in which, to preserve the stability of the economy of the nation, it is necessary to withdraw from circulation and use the cash which the Bank of Canada has put into circulation? In that hypothetical situation, you either withdraw from circulation the currency which is endangering the stability of the economy of the nation or you allow it to remain in circulation and you have the economy of the nation destroyed. As between the two alternatives presented in that hypothetical case, would it not be the part of those responsible for the management of the currency to withdraw the surplus issue from circulation?—A. Yes.

Q. And by the most effective means available to the government. There would be two ways of doing it. One is by selling securities which would be sold for Bank of Canada cash?—A. Yes.

Q. You have no power at the present time to force the banks to buy your securities?—A. Or the public.

Q. Well, you have no power to force the public to buy them either?—A. That is right.

Q. You have to go on the open market and offer them; and if they refuse to buy your securities, then you would have no alternative but to take the course that you outlined in the 1939 hearings of the committee?—A. Of building up a government account.

Q. And that could be done?—A. That could be done; although only if the dominion government had a surplus in its budget at that time.

Q. Of course; I appreciate that. But you are assuming again a hypothetical case where there is far more money in circulation than the economy can sustain without having a spiral of inflation?—A. Yes.

Q. And that would wreck the whole value of the accumulated wealth of the people?—A. Yes.

Q. If you allowed it to go on?—A. We would hope that the government at such a time had such revenues and was pursuing such a tax policy that it did, in fact, have a surplus.

Q. Of course. I mean to say, you would assume that?—A. Yes.

Q. If there was an enormous amount of money in circulation?—A. Yes.

Q. And if there was a dangerous inflationary condition which would be spiralling into disastrous destruction. I mean, there could not be any other assumption but what, out of that huge surplus of money, the government taxing powers would be employed to put it in a condition of surplus revenue?—A. Yes.

By Mr. Blackmore:

Q. Which, briefly put, means that the government could tax the money back in case it needed to, to avoid inflation.—A. Yes. But of course it would be foolish for the government to follow a policy which, first of all, got us well down the inflationary path, simply with the idea that it could then retrace its steps. That would be an unnecessary upset. Incidentally, retracing the steps is not an easy matter.

Q. Well, as a matter of fact our banking system in 1927, 1928 and 1929 followed the path that led us into inflation and then exactly reversed its policy and drew money in by a method which was far more injurious to the Canadian economy than would be a scientific method of taxation.—A. We were not led into inflation in 1927, 1928 and 1929. If you look at the figures of commodity prices in North America, in the United Kingdom and indeed around the world, you will see that there was no significant measure of inflation.

Q. Outside of in stock speculation?—A. Right; but not in commodities.

Q. Well, there was in the stock market, which was all towards profit.

By Mr. Blackmore:

Q. The bankers gave the danger of inflation as a reason for the curtailment of loans, a reversal of their policy in 1929 and 1930.—A. I do not recall that; but there was not, in fact, inflation in that period.

By Mr. McGeer:

Q. No. There was a stock market boom and the public were taken to the shearing.—A. The main trouble during those years was that a very unhappy, unbalanced international situation was being concealed temporarily by enormous loans from the United States to other countries, loans to the extent of billions and billions of dollars.

By Mr. Blackmore:

Q. Would you mind giving us the names of the countries, or two or three of them?—A. Most to South American countries and certain European countries, in particular Germany.

Q. What was the effect of those loans?—A. The effect of those loans was to provide purchasing power, in the United States and elsewhere, to the countries which received the loans. As I say, they were made to the tune of billions and billions of dollars. Then by 1928 they started to taper off, and in 1929 they practically ceased. A world which had become accustomed to getting along with billions and billions of credit a year from the United States and a little bit from the United Kingdom, suddenly found the door slammed in its face, and completely cut off. Then came the crash. The crash fed on itself and produced results of which we are all aware.

Q. Going back to the main thread of the line of the reasoning we are following at the present time, under certain circumstances it is safe for a government to issue currency, debt-free or interest-free, whichever you prefer to call it, and to spend that money into circulation?—A. I hope it is because, as I say, it has been done by all countries for hundreds of years.

Q. The difficulty with the countries in the past was that they did not understand the principles of money sufficiently to enable them to be wise in the use of the device?—A. Some got along all right and were reasonable on the thing. Many others did not.

Q. Some of them lacked the power to use the measures which were necessary to use the device with safety. We had an example of that perhaps— —A. Very few.

Q. We had an example of that probably in the case of the assignats in France where a revolutionary movement lacked the power politically to enforce measures which would render the device safe?—A. I would not agree with that. The assignats' experience was rather typical of what has happened in other countries since, just a different name.

Q. The statement you made just a moment ago to the effect it has been used with success by some countries is sufficient.—A. If they had been reasonable.

Q. That is right, and Social Creditors do not advocate that we be unreasonable. They simply advocate that while the tool is sharp—and we recognize that the tool is sharp—we do not say, as the very cautious father says to the little boy, "You must not touch this plane" or "this draw-knife. You must not touch this razor. Do not use it at all because you will get cut." We simply advocate that we learn how to use this sharp tool because a sharp tool is very necessary under the circumstances.—A. I should think it would be very wise for those who profess that faith to cite examples of the experiences in other countries, something which I have not yet seen them do.

Q. I think they are thoroughly familiar with those examples, whether they cite them or not. It becomes their task to cite examples such as I will refer to for a moment. I am going to read into the record an excerpt from the report of the Royal Commission on Banking and Currency in Canada in 1933, page 22, paragraph 47, in which is set forth the experience of the $26,000,000.

> In the war session of August, 1914, parliament raised the partially covered issue to $50,000,000. Subsequently an issue of $16,000,000 was made against a deposit of railway securities guaranteed by the dominion government, as well as an uncovered issue of $10,000,000 for governmental purposes. In 1917 an emergency issue of $50,000,000 of dominion notes was made to finance war purchases in Canada, by the British government. The notes were secured by Imperial treasury bills. In due course, this indebtedness was liquidated by payments from the British Treasury and all of this issue had been redeemed by 1927. No changes have since been made in the Dominion Notes Act except that by a statute passed on 30th March, 1933, the Governor in Council was empowered to suspend the redemption in gold of dominion notes, and an Order in Council to this effect was made on 10th April, 1933.

I have read all the words in the section so that there could be no possibility of suspecting that I had not given all the words or had taken anything from its context. I will turn this over to Mr. Towers so that he can read it. It is page 22, paragraph 47.—A. I have a copy.

Q. Very well. As an indication that this device had been considered wise might I quote another excerpt from the report of the Royal Commission on Banking and Currency in Canada, 1933?—A. If I may be allowed, Mr. Blackmore, the 26 or 36 or whatever millions it may be of the twenty-seven years ago rather pales into insignificance beside the billion dollars this time.

Q. Exactly so; we are very desirous that the experience should not be forgotten, that it be known there is this sharp tool which, where it is needed, can be used. It stands ready to be used by any wise administrator who knows how to use it and knows it should be used. I am reading from pages 22 and 23. Mr. Towers will be able to find this quotation.

> But extensive use continued to be made of the power to issue dominion notes to the banks against approved securities with the result that it was decided in 1923 to make this part of the Finance Act mechanism a feature of the normal Canadian financial system. In introducing the new legislation, Mr. Fielding, the Minister of Finance, made the following brief explanation of its purpose:—
>
> > The Act (Finance Act) was adopted as a war measure, and no doubt was exceedingly useful in the financial operations during the war. It may be said that the war being over we no longer have any need for the Act, but experience has shown that the Act is still required; indeed, I am inclined to think that something of the kind will have to become almost a permanent part of our financial system.

[Mr. G. F. Towers.]

I should say if our finance ministers, including the Hon. C. A. Dunning, J. L. Ilsley and J. L. Ralston, had been wise enough to recall this they would have avoided a lot of trouble during serious times. The Hon. E. N. Rhodes would have avoided a lot of trouble if he had recalled and used this device of Mr. Fielding wisely. They apparently forgot it.

Hon. Mr. HANSON: No.

The WITNESS: I know there was not any question there, Mr. Blackmore, but just for my own information I wonder can you tell me what you mean? The Finance Act was in operation right up to the time the Bank of Canada commenced.

By Mr. Blackmore:

Q. It means simply this, that this device of creating debt-free money or interest-free money, if you choose to call it so, could have been used to have aided us in the dark depression years, and if it had been used with sufficient wisdom and sufficiently extensively probably it could have obviated the necessity of putting the choicest boys we had on the rods to ride, and giving them bigger and better box cars all the time.—A. I think you exaggerate. In fact, I am sure you exaggerate, power of currency creation to avoid these things which we deplore. Much more is required of a government and people than simply the creation of currency. I am sure you will say you agree with that, but I do not feel in my own mind that agreement is there. The Finance Act was available for use right up until the time the Bank of Canada commenced operations. There was a time in November, 1932, when government persuasion insisted it should be used. I think we would have been better off if we had had a central bank in those years because instead of the decision as to whether or not the Finance Act should be used resting with the banks a central bank can take positive action to expand the monetary base. So that I would say that we would have been somewhat better off if we had had the necessary machinery in the depression years, but I certainly could not say that we would have avoided the depression.

By Mr. McGeer:

Q. Mr. Towers, we have some realities to deal with in the record of the last ten years. One of them was specifically our defence program. We were facing and were threatened with war, and our national defence authorities year after year recommended the development of our air force, our navy and our army and the production of the modern machinery of war. I think they proposed an expenditure of $200,000,000 a year, roughly speaking. I myself in 1936 advocated a national expenditure of approximately $450,000,000 a year on national defence.

Hon. Mr. HANSON: Where was the C.C.F. then?

Mr. McGEER: That has got nothing to do with the point I have in mind.

Mr. BLACKMORE: The C.C.F. never advocated that sort of thing.

Mr. McGEER: I want to tell my friend that referring to the C.C.F. to-day is something that cannot be done lightly. Apparently the C.C.F. have much more of the confidence of the people than either of the old parties if the last record of voting of the Canadian people is any criterion.

Hon. Mr. HANSON: You may feel that way. I do not.

Mr. McGEER: I only read the records of the times, but that has nothing to do with the point that is under discussion now. We had the men, idle. We had materials in Canada and we were told that we could not afford to expand our currency to develop a national defence program.

The WITNESS: Not by me.

By Mr. McGeer:

Q. But you did tell me in the Banking and Commerce committee that if the government wanted to carry on that type of program that there was an abundance of money available. I think at that time we discussed it and there was something like 7 to 9 billion dollars of bank deposit credit available in the reserves we possessed then on partial gold standard basis.—A. Government policy, public support, that is what would have counted.

Q. But your treasury officials were the people who bluepencilled the defence program out, and it was largely because we were told that the limit of taxation had been reached, and that we could not expand our debts any further. If we had had a national currency program available and used debt-free currency we could have stimulated our economy then and it would not only have given employment to the unemployed in Canada, but had it been uniform throughout the British Empire it would probably have avoided this war.—A. It did not depend on the use of the so-called debt-free currency. A government program along the lines you have mentioned, provided it carried public support, provided it carried also the appropriate level of taxation and the other fiscal measures which have been associated, in fact, with the war, could, of course, have been accomplished. It might under certain circumstances have created sufficient uneasiness so that one would have had to resort to exchange control in those days. That is a question, but, of course, it was possible to do something along those lines although I would point out this, that to engage on a tremendous program before the war might also have necessitated some reciprocity from other countries in order to enable us to get the supplies which we required from abroad.

Q. There was plenty of reciprocity. The Soviet Union, Germany, Italy and Japan were arming, and if you take the records of the Chancellor of the British Exchequer from 1926 to 1929 and then follow his condemnation of the experts in England on monetary policy as he spoke in the British House of Commons pleading for an armament program in 1933, 1935 and 1936 you will then see that the whole debacle of the impotency of the British Empire came through bad advice of the empire fiscal officers?—A. I disagree with that completely.

Q. Then you disagree with Mr. Winston Churchill; I tell you that, because he stated so in the British House of Commons.—A. If he was ever so foolish as to make such a statement I disagree with him, but I do not think he was so foolish.

Mr. SLAGHT: He did state so.

The WITNESS: Then he was wrong.

Mr. McGEER: Everyone today knows it to be right.

Mr. BLACKMORE: It is a matter of money.

The WITNESS: The program followed at that time was a matter of government policy. Some one else can reply to any remarks which relate to government policy at that time, whether it is in Canada or some other country, but to say it was blocked or stopped for financial reasons is, to my mind, completely misreading the facts.

By Mr. McGeer:

Q. Were we not told that Mussolini could not carry on his program because he did not have the money? Were we not told that Japan would go broke on their expedition into the monetary field? Were we not told that the Soviet Union could not survive because it had not the financial means? Were we not told that Germany could not carry on their colossal program of armament without going broke? The whole thing turned out to be nonsense.—A. You say were we not told. By whom?

[Mr. G. F. Towers.]

Q. By the financial experts upon whom we were depending and upon whom we are still depending. —A. Which ones?

Mr. JAQUES: The London School of Economics.

The WITNESS: I think, of course, we cannot get very far this way. I think it would be more concrete if reports of the statements to which you refer were before us, because I do not recall them. I recall various people vaguely, although I cannot myself name them, expressing views that Germany could not make the grade. They turned out to be wrong. They were unaware of the degree of sacrifice which the German people were willing to impose on themselves for rearmament purposes, or rather were willing to have imposed on them.

Mr. BLACKMORE: And how little depended on gold.

The WITNESS: No one suggested they depended completely on gold.

By Mr. Noseworthy:

Q. Not before the gold standard was withdrawn?—A. Not since they decided they would be willing to impose exchange control and make some of their very shrewd bartering arrangements with other countries.

By Mr. Blackmore:

Q. The next question to ask ourselves is what dictated government policy? When the Liberal government was in power in 1935, 1936 and 1937 what dictated the policy that they pursued which prevented them from expanding Canada's defence mechanism?—A. That is a question which you will have to address to someone else.

Q. That is the point. If their policy was not dictated by the financial advisers who stood behind them then we all want to know what it was dictated it.—A. It certainly was not dictated by any financial adviser I knew.

By Mr. Cleaver:

Q. Notwithstanding Mr. McGeer's remarks a few moments ago regarding the C.C.F. party you do recall that in 1938 instead of supporting Mr. McGeer's suggestion that we should have a large defence program the entire C.C.F. party opposed the very meagre defence program which the government brought forward in that year?—A. As soon as the names of political parties are mentioned my mind becomes an absolute blank.

Mr. CLEAVER: I am sure Mr. Noseworthy will recall that.

By Mr. Blackmore:

Q. Meanwhile, the line of questioning which we are pursuing is first of all the possibility of using national money, debt-free, and secondly to what extent that national money can be used safely. The contention which I have made, and which I believe is supported by what we have developed thus far, is that national money, debt-free, or interest-free, can be used, and that the extent to which it can be used is a matter which would need to be decided by reference to all the conditions existing at the given time?—A. Yes.

Q. We just want to round this thing up so that we can go on. I should like to ask Mr. Towers whether or not a dollar bill printed by the Dominion of Canada either in the Bank of Canada or by the Treasury Board would have a greater inflationary effect on the Canadian economy if spent, we will say, as part of a soldier's pay than would a dollar bill printed by the Bank of Montreal? May I repeat that? Suppose the Bank of Montreal prints a one dollar bill and the dominion government borrows it from the Bank of Montreal and spends it as part of a soldier's pay. That is one set-up. Suppose the dominion government prints a one dollar bill and does not borrow it but spends it on a soldier's pay. Does the dominion government one dollar bill have a greater inflationary tendency in the Canadian economy than the dollar bill which was borrowed from the Bank of Montreal?—A. Yes.

Q. Why?—A. While I do not want to be technical they could not issue one dollar bills, but we will say a five dollar bill. A five dollar bill issued by a chartered bank is not legal tender so that if it is not needed in the pockets of the public it comes back to the issuing bank, and coming back to the issuing bank it is extinguished whereas the five dollar bill printed by the Bank of Canada, if not needed by the public to hold in their pockets, comes back to the chartered banks and, lacking any offsetting action on the part of the Bank of Canada, that five dollar bill becomes part of their legal tender cash reserves.

Q. Under the set-up as at present constituted in Canada—

Mr. SLAGHT: May I ask a question before we leave this?

Mr. BLACKMORE: Yes.

By Mr. Slaght:

Q. If we amend section 59 of this bill and destroy the right to issue $19 in loans which they do not possess against a reserve of $1, or taking your $5, against a reserve of $5, then, if we amend that and require them to hold 100 per cent cash reserves we destroy the inflationary effect of what you have indicated?—A. The secondary inflationary effect; the original effect caused by the issue of the bill in the first place is there. The secondary effect of possible bank expansion is taken away. Incidentally—and again not wishing to be too technical—as to that part of your remark where you said they lend money they do not have, the section in the Bank Act, as I mentioned before, is a restrictive one, not a permissive one, restrictive in the sense that the banks must keep at least 5 per cent, and in practice keep 10 per cent, legal tender cash reserves against their deposit liabilities. When they have adequate reserves, and assuming that the public are willing to leave the deposits with them, it is possible for the banks to enlarge their business, enlarge their assets and liabilities.

By Mr. Cleaver:

Q. Mr. Towers, should we amend section 95 as Mr. Slaght suggests—

Mr. MCGEER: Section 59.

By Mr. Cleaver:

Q. Section 59, and provide by section 59 that the banks must at all times hold 100 per cent reserve against deposits then in that event the banks would not be able to lend any depositors' money, or any money as a result of receiving deposits?—A. They would not. As I have commented before that proposition is really a tax measure. It is not a monetary measure.

By Mr. McGeer:

Q. Mr. Towers, when you said that the 5 per cent provision for reserve was restrictive that is theoretical, is it not? It never has been used as a restrictive force in the issuing of bank loans in Canada?—A. You mean even if there was not a legal provision the banks would keep that much?

Q. Did you not tell me in 1939 that while parliament had allowed the banks to use a 5 per cent reserve by law— A. Yes.

Q. —banking practice had refused to accept that and maintained on their own theory of what was necessary and safe a 10 per cent reserve?—A. Yes.

[Mr. G. F. Towers.]

Q. So that as far as the 5 per cent restriction is concerned it has never been a restrictive force since it went into the Act?—A. We might put it this way, that the practice of banks has been to restrict themselves. The law then made sure that restriction would be continued.

Q. I mean there was nothing of a restrictive influence in going below the level of practice by 100 per cent or 50 per cent?—A. If the banks had cared to take a chance they might have run along on a 2, 3 or 4 per cent reserve.

Q. There is no danger of that.

By Mr. Blackmore:

Q. May I revert to this question of the five dollar bill, the one issued by the Bank of Montreal and the one issued by the Bank of Canada. If anyone obtained a Bank of Montreal bill and took it into the Bank of Montreal and asked that it be redeemed he would get a Bank of Canada five dollar bill?—A. Yes.

Q. In other words, the Bank of Montreal extinguished its own bill and it brought into circulation a Bank of Canada five dollar bill at the same time?—A. Not necessarily; that five dollar Bank of Canada bill could have come from the reserves of the Bank of Montreal thereby reducing those reserves, but not adding to the total amount of Bank of Canada currency.

Q. Under the present set-up as it is constituted at the present time if the Bank of Montreal did deplete its reserve in that respect and asked the Bank of Canada to advance another five-dollar bill to restore the reserve the Bank of Canada would do it?—A. It would not advance it; it would sell it.

Q. In exchange for some sort of security?—A. Dominion government securities.

Q. Exactly so.—A. If we thought that the bank situation, the cash situation generally, made it desirable for us to do that.

By Mr. McGeer:

Q. The Bank of Canada bill would be just as good if it was merely stated to be $5 without any wordage of "Promise to pay" on it?—A. Yes. If I may interject there I remember when the Bank of Canada opened its doors on March 11, 1935 we had the first and only press conference of our career. One of the reporters, looking at one of the new dollar bills, said "The Bank of Canada promises to pay—What?" I found it rather difficult to answer that. I simply had to say, "It is irredeemable paper currency, whose worth depends on what it can purchase in commodities, and that in turn depends on wise management."

Q. In considering the information we have asked for and obtained in answer form in the last few minutes, the net effect of the whole situation is this. There is no more inflationary effect, in the last analysis, resulting from a five-dollar bill issued by the Bank of Canada and used without debt than there is from a five-dollar bill of the Bank of Montreal issued as a debt?—A. We have just said, I think, that there was greater inflation.

Q. But we have not proved it; because as I pointed out a few minutes ago, if the Bank of Montreal issues a five-dollar bill, and that is borrowed into circulation, and then the five-dollar bill is taken back to the Bank of Montreal, the Bank of Montreal is obliged to issue a five-dollar bill of the Bank of Canada in exchange for it, if called upon so to do; which means that even when the Bank of Montreal issues a five-dollar bill of the Bank of Montreal, it automatically guarantees that there will come into circulation a five-dollar bill of the Bank of Canada.—A. Not necessarily; because that depends upon whether the person who brings that bill back to the Bank of Montreal does want a Bank of Canada bill or simply wants to leave the money on deposit.

Q. Exactly. If he keeps the Bank of Montreal bill in good standing and with full confidence on deposit, the effect is exactly the same as that of a five-dollar bill of the Bank of Canada.—A. No, it is not. Let us think first of the issue of the five-dollar bill of the Bank of Montreal. Suppose that bill becomes redundant.

Q. I could not catch what you said there.—A. Suppose that bill becomes redundant so far as currency circulation is concerned. The individual brings it back and deposits it to his account. Then the situation comes back to its starting point, and nothing else happens; whereas if the issue has been by the Bank of Canada and the individual brings it into a bank, that increases the legal tender cash reserve of the bank and that in turn has an influence on the whole banking situation.

Mr. SLAGHT: Unless we amend the Act.

Mr. BLACKMORE: Yes, unless we amend the Act.

By Mr. Blackmore:

Q. Suppose the Bank of Canada issues a five-dollar bill and advances it to the Bank of Montreal.—A. Sells it.

Q. All right. Then the Bank of Montreal lends it into circulation and it comes into the dominion treasury. That is one process.—A. Comes into the treasury in payment of taxes?

Q. We will say in payment of taxes or probably in return for selling a victory bond or through some other means.—A. Yes.

Q. Then the Dominion of Canada spends that. That five-dollar bill is now a debt owed to the Bank of Montreal.—A. Oh, I cannot follow that, Mr. Blackmore.

Q. Explain why it is not so.—A. Some individual —

Q. May I put it more clearly before you answer.—A. Yes; please do.

Q. Suppose now the Bank of Montreal buys the five-dollar bill from the Bank of Canada.—A. Yes; and the Bank of Montreal is the owner of it.

Q. All right. And then suppose it lends five-dollar bill.—A. Yes.

Q. And as a result of the loan, we will say, the person who borrows the five-dollar bill spends it for a victory bond and it comes, through that means, into the hands of the dominion government and the dominion government sends the five-dollar bill into circulation again in payment, we will say, of war costs.—A. Yes.

Q. That is one procedure. The five-dollar bill is now attached to a debt of $5 to the Bank of Montreal. Is that not so?—A. The debtor apparently owns a dominion government bond, and we will say it is a $5 dominion government bond, for the sake of clarity. The debtor owns that bond but owes the Bank of Montreal $5.

Q. Exactly, and must pay interest on the $5.—A. And receive interest on the bond.

Q. Right.—A. So far, he has not got very far ahead.

Q. If the Bank of Canada issued a five dollar bill and advanced it to the dominion government, interest free—and I say it could be debt-free—and the dominion government spends that five-dollar bill, is there any difference in the inflationary effect of the two processes?—A. Not on the basis of the five-dollar bill transaction at that moment. Perhaps we should assume that the individual in due course, from income, would repay his $5 debt to the Bank of Montreal, thereby cancelling the credit expansion. If we assume that the dominion government also repays its $5 debt to the Bank of Canada, then the effect would be the same. On the other hand, if we assume that this advancing of cash by the Bank of Canada to the dominion government is a continuing process on an unduly large scale, then we get into a different field.

[Mr. G. F. Towers.]

Q. We will grant that the minute you use the word "unduly" all that is true.—A. Yes.

Mr. BLACKMORE: As I understood it, Mr. Chairman, I had the use of the floor till 12 o'clock.

The CHAIRMAN: Go ahead.

Mr. BLACKMORE: I do not wish to monopolize the time.

Mr. PERLEY: I wonder if Mr. Blackmore would permit me to ask a question of Mr. Towers?

The CHAIRMAN: Just a minute, please. Mr. Blackmore, have you finished your examination of Mr. Towers?

Mr. BLACKMORE: No, I have not. But I did not wish to use more of the time if others wished to ask questions.

The CHAIRMAN: If you are going to go on later on, it is the same thing. I think you may as well continue, unless Mr. Perley wishes to ask some questions.

Mr. BLACKMORE: Very well, if the committee is agreeable.

Mr. PERLEY: I will just take a minute or two. My questions are on this matter of currency issue.

By Mr. Perley:

Q. I should like to ask a few questions, Mr. Towers. You will recall, before the coming into operation of the Bank of Canada prior to 1935, what the situation was. Was it not the custom that the chartered banks found it necessary, in order to finance the marketing of the western crop, to issue a new currency to take care of the marketing, which sometimes amounted to $100,000,000 and in some cases to over $200,000,000? When they issued this currency under the charter—they had the privilege and right under their charter to do that—it went into circulation. The grain companies took it and paid the farmer, and it went into circulation. The farmer paid his taxes, and then it eventually went back to the banks. Was that not really an issue of currency that was debt-free as far as the banks were concerned? Did they not also collect and add their interest on it, because when they lent it to the grain company, the grain company had to pay interest on it. Then what was the effect of an issue of that kind? I think I am right in what I have stated. Was there any inflationary effect? Then would you explain the system now in vogue of financing the western crop through the Bank of Canada as we have it, and how it operates; and is there an issue of currency necessary, because it takes in the neighbourhood of $200,000,000? Would you explain that?—A. Yes. Under the old system the chartered banks were authorized to issue notes, authorized to have an amount of their notes outstanding not in excess of the amount of their paid-up capital. Assuming the paid-up capital was $145,000,000, they could have notes outstanding for that amount.

Q. In addition to what they already had?—A. No, all told. That is the original basic authority. Then at some stage in our history — I forget just when — there was a provision in the Bank Act that, during the crop-moving period in the west, that authority to issue notes which ordinarily was limited to an amount equal to 100 per cent of their capital, could be increased by 15 per cent. I think I am right in saying 15 per cent, Mr. Tompkins.

Mr. TOMPKINS: 15 per cent on the combined paid-up capital and reserve.

The WITNESS: Then the absolute amount of that authority must have been of the order of $40,000,000 or $50,000,000. So that during that crop-moving period the banks, in those past times, were authorized to increase their own note issues by $40,000,000 or $50,000,000.

Mr. TOMPKINS: And had to pay 5 per cent interest on that particular excess.

The WITNESS: And had to pay 5 per cent interest to the government on that excess.

By Hon. Mr. Hanson:

Q. As a tax?—A. As a tax, yes. There was a temporary need for currency for the purpose in mind, harvesting. I would not call that inflationary, no. Whether it was profitable or not would depend on whether the loans which were made — if the movement of the grain was accompanied by loans, as it usually was — brought any more than the 5 per cent which the bank had to pay the government, after allowing for operating expenses and so forth. I should think it was a useful facility at that time, so far as the banks and the public were concerned. I think it may have been moderately profitable too. Right now currency, of course, is still required in increased quantities at the time of the moving of the crop. The chartered banks now obtain that currency from the Bank of Canada by selling us dominion government securities and getting the currency in exchange.

Br. Mr. McGeer:

Q. Well, not solely in that way. I mean, when you purchase from the government a bond and give the government a deposit on the Bank of Canada and the government sells that, then that money can go into circulation and be deposited in the chartered banks and become a part of the assets of the chartered banks, without any purchase on the part of the chartered banks at all.—A. The chartered banks then purchase those notes from their customers.

Q. Well, if a contractor with the government receives a cheque from the government, which is drawn on the Bank of Canada and deposits it in the chartered bank, he becomes a depositor of the chartered bank?—A. Yes.

Q. And the chartered bank automatically comes into possession of the Bank of Canada notes?—A. Yes.

Q. And there is no purchase or sale there.—A. I think that the acceptance of a liability to the depositor is there.

Q. Well, the liability to the depositor. That is certainly not a purchase and sale. I mean, we are dealing with the terms "purchase" and "sale," I take it, in the legal sense in which they are used in Canada.—A. Oh, all I meant by that, Mr. McGeer, was this.

Q. I understand what you meant.—A. All that I meant was that the bank did not get it "for free."

Mr. ABBOTT: I think even legally you could argue that the bank was purchasing a claim against the government.

Mr. MCGEER: You would not get any court to listen to you.

Mr. PERLEY: You said they obtain this new currency by selling government securities. Does not the interest on the one offset the interest they pay to the Bank of Canada? Then do they not get interest from the grain companies to whom they loan this money?

Mr. MCGEER: It was a straight tax on the farmers of the west.

Mr. PERLEY: I am thinking it comes indirectly around that way. But I think interest on the security is interest that they have to pay for the new currency. Then they loan this new currency to the grain companies and charge interest.

The WITNESS: The banks, of course, do get interest on all their loans. That is one of their means of earning a livelihood. They will get interest on loans to the grain companies or whoever it is. Part of their cost of doing business is that which relates to the holding of legal tender cash reserves. Their other costs are shown in that statement which is on record with the committee.

[Mr. G. F. Towers.]

By Mr. Cleaver:

Q. And the increase in cost with respect to those grain transactions now, as compared with the financing of the grain in the old days, is an increase in cost borne by the banks?—A. Yes.

Q. And is not an increase in cost borne by the farmers of the west?—A. No.

By Mr. Perley:

Q. Mr. Towers, what rate of interest does the Bank of Canada charge the chartered banks, and what rate do the banks charge the grain companies?—A. The Bank of Canada has had very few occasions to lend money to the chartered banks. There is a statement now on the records of the committee showing the extent of our loans since the bank started.

By Mr. McGeer:

Q. What is the reference to that?—A. It just went into the record yesterday.

Q. I was waiting for that. We will get that in about ten days, I suppose. Could we have a copy of it now?—A. I gave my only copy in yesterday.

Q. There was only one copy prepared.

By Mr. Perley:

Q. What is the interest the chartered banks charge the grain companies?—A. That I do not recollect. But there is probably somebody else here who could answer that.

By Mr. Graham:

Q. But in getting the dominion currency the banks would, as you say, surrender a dominion security that would be drawing interest?—A. Yes.

Q. And they would be losing that revenue?—A. Yes.

Q. In dealing with currency, Mr. Towers, Mr. Blackmore makes the point that currency is not interest-bearing. But is it not true—

The CHAIRMAN: Pardon me, Mr. Graham, but would you speak a little louder?

By Mr. Graham:

Q. Is it not true that one of the reasons why the Canadian public readily accept Bank of Canada notes is that they can be, if so desired, deposited in the post office savings bank, in which case the amount will draw interest; or dominion securities can be purchased in the open market with those Bank of Canada notes; or they can be deposited in the chartered banks and through that method can be made interest-bearing. Is that not a necessary corollary to keeping the confidence of the public in the matter of the dominion and the Bank of Canada notes?—A. Plus their purchasing power over commodities, yes.

Q. Yes. That is the great reason for their ready acceptance; their ability to purchase commodities. But is it not also true that non-interest bearing currency, up to date at least, can be readily exchanged by the holder into interest-bearing securities?—A. Yes.

Q. There is one other point that strikes me, and I want to ask you about it while I am on my feet. Mr. Slaght made a point in regard to the average interest paid on the dominion securities held by the chartered banks, and Mr. Cleaver elicited the point that the banks are receiving, roughly, the same amount on one-third lent to the public as they would have on the two-thirds lent to the government.—A. The multiplier is not quite right. It was $2,700,000,000, dominion government and $900,000,000 loans to the public. In other words, the same amount on a quarter in the form of public loans, as on the three-quarters in loans to the dominion government.

Q. Yes. It struck me that this matter of cheap money to the dominion government is a two-edged sword. Mr. Ilsley placed on Hansard a statement to the effect that the Canadian banks in 1943, including their inner reserves, earned on the shareholders' equity a return of 6 point some per cent.—A. Yes

Q. Assuming that is a fair and reasonable over-all result of all banking transactions covered by the chartered banks, does it not follow that, receiving from the dominion government a much less rate of interest on the government's borrowings than on the borrowings made by the public, the cheapness with which the chartered banks lent to the government makes the banks charge a higher rate than would otherwise be necessary to attain that 6 point something per cent result?—A. Other things being equal, that is quite right.

Q. That is quite right?—A. Yes.

Q. If we assume that this 6 point something per cent is a reasonable return—I am not saying it is, but let us assume that it is—then it seems quite apparent to me that the over-all profits from all transactions must be maintained to achieve that result, and to the extent that any one service is granted to any customer at a lower rate than to others, the others must be kept at a higher level in order to maintain the net result?—A. Yes.

Mr. McGeer: But they have both been coming down together.

Mr. Graham: Yes, I understand that.

Mr. McNevin: Because the volume of business is greater.

By Mr. Graham:

Q. I want to make the point that if we take all individual borrowers to be persons who legitimately need to borrow money to keep the whole economy of the nation running, if we are interested in them, it is not wholly a thing to be proud of that we give the preference to the Dominion of Canada as a borrowing agent.—A. Well, as some one just observed, they have both been coming down.

Q. I know that.—A. And some relief has been afforded in so far as the lower return on the dominion government securities is concerned, by a slightly lower average cost of operations due to increased volume of business.

Mr. McGeer: And the economic conference in Ottawa in 1932 recommended it.

By Mr. Cleaver:

Q. Mr. Blackmore asked some questions of Mr. Towers as to whether or not there was any difference in the amount of expansion of credit as between issues of Bank of Canada currency and the issue of notes by the commercial banks. I should now like to ask Mr. Towers as to whether he has noticed any tendency on the part of either the public or the banks to place any different value on a Bank of Canada note as against a bank note issued by the commercial banks?—A. No. They are glad to have either.

Q. Then, that being so, so long as there is sufficient Bank of Canada currency to provide the banks with their necessary reserve against deposists and so long as the commercial banks have created sufficient confidence in the public to maintain their bank notes on par with the federal notes, I do not see why there will be any difference in the expansionist effect of the issue of the private bank notes as against the Bank of Canada.—A. Well, there is this. Suppose there is an increase in Bank of Canada notes in circulation,—and let us take as an example the increase which in fact took place during the war. Speaking from memory there is some $600,000,000 or $700,000,000 more in the hands of the public. The public needs that now, apparently, to keep in their pockets or in their tills. They want to do it anyway. If after the war there were reasons which induced the public to bring into the banks and to deposit, we will say, $200,000,000 of Bank of Canada note issue saying, "We no longer need to keep this in our pockets," then the cash reserves of the chartered banks would increase by $200,000,000, which would in normal circumstances produce an expansion of bank assets and liabilities as they endeavoured to use that excess cash.

Q. Quite true.—A. But on the other hand, the Bank of Canada could take steps at that time to neutralize the situation by selling securities and absorbing the $200,000,000 of excess notes.

Q. Yes. But Mr. Towers, with regard to the bank notes, if the public today do not differentiate or hold any different value with respect to the notes issued by the private banks as opposed to the notes issued by the Dominion of Canada, I take it that the public are quite willing to hide in their mattresses or keep in their tills one note quite as freely as the other?—A. Oh, yes. But it is when they bring it back that you see the difference.

Q. I take it that your answer applies to the future and not to the present. —A. Any time it is brought back, whether that is future or present. Perhaps I should, if I may, explain that a bit more. There is an automatic redemption provided for chartered bank notes, but there is no automatic redemption for Bank of Canada notes.

Q. Would it be fair to put it this way: so long as public confidence is maintained in the value of the notes issued by our commercial banks to the point that they do exchange at a par with the others, there will be no difference in the expansionist effect of credit as between one and the other? If I may just argue for a moment, may I say this. All of the notes issued by the Bank of Canada as not used now as a reserve against deposits. They are flying around all over the place.—A. The vast bulk of them are, yes.

Q. Yes, quite; and so long as that practice is going on, and so long as the value of the notes issued by the commercial banks is maintained at par, I cannot see that there will be any difference in the expansionist effect of one as against the other.—A. Well, this becomes a little more complicated, but it works both ways. When a customer withdraws a five-dollar Bank of Canada note from the bank with which he does his business, other things being equal, that would have a deflationary effect because it would reduce the chartered bank's cash reserves.

Q. If there were any shortage of Bank of Canada notes for chartered banks' reserves, but there is not a shortage.

Mr. Blackmore: Hear, hear!

The Witness: Well, when he takes the five-dollar Bank of Canada note out, he reduces the chartered bank's cash reserves. The Bank of Canada may then step into the picture and by buying additional securities restore those reserves to where they were before.

Mr. Cleaver: I concede at once that if the time should ever arrive when the Bank of Canada would withdraw its notes from general circulation down to the point where every Bank of Canada note would be needed to maintain the banks' reserves, the situation would be different. I concede that at once. But I say that condition does not now exist.

Mr. Blackmore: And is not likely to exist.

Mr. Cleaver: No. There is one other point which I should like to clear up, if I may. A great deal of stress has been laid in this committee upon the fact that, since the outbreak of war, there has been an addition to the currency issue of something like $900,000,000.

Mr. Slaght: No; since 1936.

Mr. Cleaver: Well, since the outbreak what has been the amount?

Mr. Slaght: About $650,000,000.

Mr. CLEAVER: $650,000,000. Is that correct?

By Mr. McGeer:

Q. What are the correct figures, Mr. Towers?—A. The increase in the amount of Bank of Canada notes in the hands of the public since the start of the war is about $677,000,000.

By Mr. Blackmore:

Q. Does that include the banks too?—A. No. Just the Bank of Canada.

By Mr. McGeer:

Q. What is the increase, including bank deposits and bank holdings?—A. What is the increase?

Q. Yes, the total increase.—A. You mean of deposits and notes?

Q. Yes.—A. I can give you that in just a moment.

Q. Roughly, it is a billion dollars, is it not?—A. Oh, you mean of Bank of Canada deposits and notes?

Q. Yes.—A. Yes.

By Mr. Cleaver:

Q. Roughly a billion dollars?—A. Yes. If I may, I should like to make that clear. That is the increase in note issues and deposit liabilities of the Bank of Canada alone.

Q. Yes.—A. If you come to the increased deposits and notes owned by the public, then in the case of the notes it is, we will say, net, $620,000,000; and of deposits, about 2 billion dollars. Therefore there is a total of $2,600,000,000 odd increase in the notes and deposits owned by the public.

Q. We now come into the field of bank deposits by customers, but I wanted to deal exclusively with the increase in currency. Having regard to the increase of currency since the outbreak of war, that has been $600,000,000?—A. $677,000,000 in our notes, partly offset by a decrease in the chartered banks' note issue.

Q. I am just coming to that in a minute. That is $677,000,000. If we had had no increase in the holdings of the public of cash and currency, that would have eventuated in an expansion of credit to the tune of something over 6 billion dollars?—A. It could have, yes.

Q. Right.—A. Assuming that the Bank of Canada policy has been in that direction.

Q. But that did not happen. There has not been that expansion?—A. No, because—

Q. No. I am coming to that, and I want the reason. Having reference to the money which we are all carrying around in our pocket and which business firms are keeping in their tills and which people are hiding away in their mattresses and the like, what is the difference in that amount between the outbreak of the war and now?—A. Allowing for reduction in chartered bank notes, they hold $620,000,000 more.

Q. Yes. So that as to the $620,000,000 of the $677,000,000 increase, it is absolutely sterile as far as credit expansion is concerned?—A. By the banks, yes.

Q. Thank you.

The CHAIRMAN: Mr. Noseworthy has asked for the floor.

Mr. SLAGHT: May I ask this as a matter of procedure, Mr. Chairman? A day or two ago the committee decided that we would devote an hour to evidence and an hour to getting on with the bill, section 5. Have we abandoned that notion of getting on with the bill? I suggest that we adhere to that division procedure. Mr. Towers is to be here next week, I believe, and also tomorrow. Of course, it is up to the committee, but it seems to me that was a pretty fair division of our labours. I think we ought to get on with the bill for half of our meeting.

Mr. McGeer: How can we get on with the bill without evidence?

The Chairman: I think the question is as to how long the committee would want the attendance of Mr. Towers. That is the point. We did abandon our practice, you will remember, to turn to a discussion of inner reserves, and I think discussed that matter for about four or five days, if not a week.

Mr. Slaght: More than that.

The Chairman: I think we should proceed with our examination of Mr. Towers to-day.

Mr. Graham: On this point raised by Mr. Slaght I was going to ask at the appropriate moment before we adjourned to-day if we are not all agreed that we are not proceeding as quickly as we would like? That is putting it mildly. Therefore, would it not be wise to do two things, first of all have the subcommittee meet and consider and bring in a report for the approval or disapproval of the main committee, and then to devote the whole period of one sitting of this committee to discussing how best it should proceed to complete the task it has undertaken? I for one feel frustrated when I am absent from this committee for some time and come back and find discussion on the very same point that the committee was discussing when I left. I think an hour spent on consideration of where this committee stands and how best we can accomplish the work of the committee would be well spent.

Mr. Noseworthy: I just wanted to ask one question of Mr. Towers. Before asking that question I think I should explain to the committee the reason for my refusal to be drawn into a debate on the question which was raised a few moments ago. In the first place I did not consider that it came within the terms of reference of this committee to debate in this committee the relative positions of different political parties on the question of rearmament in the 1930's. In the second place I consider that the whole question of the stand of the C.C.F. party on the rearmament question has been thoroughly threshed out at various elections and by-elections. I understand that the point of view set forth by Mr. Hanson in this committee was thoroughly set before the people of Saskatchewan quite recently, and I am quite content to leave the decision regarding the position of the C.C.F. versus the position of Mr. Hanson and his party in the hands of the electors.

Hon. Mr. Hanson: You believe one swallow makes a summer though.

Mr. Jaques: I suggest we get on with the bank bill.

Mr. Noseworthy: This question was interjected. I did not invite it. I am quite prepared to take the judgment of the several hundred thousand people who voted in Saskatchewan for the C.C.F. as against the comparatively few thousand — — —

Mr. Fraser (*Northumberland*): We are having another political speech.

Mr. Noseworthy: — — who voted for the Conservative Party and in preference to Mr. Hanson's judgment on that question.

Mr. Fraser (*Peterborough*): That was only a protest vote against the Liberal government.

The Chairman: Please, gentlemen; I think Mr. Noseworthy is talking about a matter which should not be discussed in the committee. I agree with you, but the matter was raised, and I think it is quite proper that Mr. Noseworthy should be able to make a reply, and I trust he has made his reply.

By Mr. Noseworthy:

Q. I want now to get back to the question raised by Mr. Blackmore and by Mr. Slaght, that is, the question of the Bank of Canada financing government expenditures. That has been before this committee. It was before parliament. The objection raised both by the Minister of Finance and Mr. Towers to the suggestion put forth by Mr. Blackmore, Mr. Slaght and Mr. McGeer that the Bank of Canada finance public undertakings and public expenditure was that it would eventually increase bank reserves, that the money issued by the Bank of Canada would eventually get back into the hands of private banks and increase bank reserves, would put increased pressure on the banks to lend that money in order — — —

Mr. McGEER: To lend ten times that money.

By Mr. Noseworthy:

Q. — — in order to secure income to offset the charges which they would have to pay on savings accounts and the cost of handling, and that the whole process would lead to an increase of credit and to inflation?—A. That was one of the objections, yes.

Q. I take it that was the major objection?—A. Not necessarily, because even on the 100 per cent reserve basis which has been suggested if the government went far enough in financing its expenditures through the issue of currency that in itself could produce a great increase in the cost of living and lowering of the value of the paper currency.

Mr. McGEER: In other words, if a man jumps out of a fourteen storey building window instead of taking the elevator he would probably get killed.

By Mr. Noseworthy:

Q. Let us assume that the government in office to-day, being the Liberal government, has sufficient good judgment to keep that process within reasonable and sound limits.—A. Yes.

Q. With the advice of the Governor of the Bank of Canada.—A. Or his successor.

Q. Or his successor, and with the expert advice that the officials of the Bank of Canada could give. Granting that the government would keep within sound and reasonable limits that remains your major objection to that process? —A. Yes.

Q. Then, the objection raised to Mr. Slaght's suggestion of a 100 per cent reserve as brought out by the Minister of Finance and by yourself is that in the first place the banks would not be able to earn interest on these government securities?—A. Yes.

Q. In the second place, government securities constitute about two-thirds of the total assets of the banks to-day, roughly speaking?—A. Not quite but close to it.

Q. Almost two-thirds, and that revenue from those government securities constitutes somewhere between one-third and one-half of the banks' income?—A. I have the figures here, a little more than one-third; I should think about 40 per cent.

Q. Between one-third and one-half, and in addition to that the banks would be under obligation to pay the costs of handling these deposits that would eventually find their way back into the banking system?—A. And the interest on them.

Q. And the interest on savings accounts?—A. Yes.

Q. That part of the deposit which went into savings accounts?—A. Yes.

Q. So that apparently your objection to this suggested measure is that it would be impossible for the banks, operated as they are to-day, to carry on?—A. Oh, no, it would not be impossible, but they would have to make very major adjustments in their charges to depositors and in the interest which they pay.

Q. In other words, the losses which would be incurred by the banks through this process would have to be shifted to the depositors and borrowers?

Mr. SLAGHT: Or they might make less money, surely.

The WITNESS: That is possible, too. The maximum there, of course would only deal with part of the problem.

By Mr. Noseworthy:

Q. The question I want to ask you, Mr. Towers, if you choose to answer it, is just what would be the position both with regard to the Bank of Canada financing government undertakings and on the question of 100 per cent reserve if the banks instead of being private banks were branches of the Bank of Canada? I am not asking you to discuss the relative merits of a publicly-owned bank but I want to follow through in this particular business just what effect or difference this would have upon a system of banks that were branches of the Bank of Canada, government-owned, as compared with the system of banking which we have to-day?—A. The situation would be exactly the same as it is now except this, that it would then be the government which decided whether it wanted to reduce the expenditure and increase the earnings of its banking system by (*a*) eliminating payment of interest on savings deposits, and/or, (*b*) increasing service charges for operating deposit accounts.

Q. In other words, it would be a question of whether the government is prepared to take a loss through its banking system which would be absorbed from some other source or whether it would insist on those who were dealing with the banks, the borrowers and the depositors, bearing that loss?—A. I think if I understand it that is correct. If it were a government-owned banking system it could say, "We have decided not to pay any interest on the government securities held by this banking system". If the government stopped there then its banking system would operate at a heavy loss. I think that is what you have in mind. The government could either bear that loss through its general revenues, through the taxpayers, or it could decide to make the banking organization stand on its own feet. To do the latter in the circumstances we are discussing it would have to cut out interest on savings accounts and increase operating charges.

Q. In other words, the government alone would then be in a position to decide which of these courses was best to follow in the national interest?—A. I think that parliament is in a position to decide right now.

Q. Suppose parliament decides that within the private banking system the Bank of Canada is to finance government undertakings and to prevent inflation and they put Mr. Slaght's suggestion into effect and forced the banks to maintain 100 per cent reserve? You think that is possible now? Do you think that can be done without wrecking the private banking system?—A. Theoretically, yes, because the government would then have to recognize that the banks would cut out interest on savings accounts. The savings depositors might not feel very happy about that. Nevertheless it would not be the fault of the banks. The banks would say that was a government decision. Secondly, the banks would have to make very heavy charges for operating accounts. What the reaction to that would be I am not quite sure. I know, of course, that to a much greater extent people, to avoid paying these heavy charges, would decide to take out cash and pay their own bills. They would lose a certain service. They would not be very happy about it. Business concerns, both small and large, would probably have to continue using checking accounts and pay the really heavy charges which would then be involved. That, of course, would come into their cost of production and into the prices at which they sold their goods to the consumer, so what you would have then would be a reduction in the income of the savings depositor and an increase in living costs due to these extra business charges I mentioned. In other words, you would have two forms of indirect taxation not based on ability to pay.

Mr. SLAGHT: May I have permission to ask a question?

Mr. NOSEWORTHY: I just have one more question and it is right along this line.

By Mr. Noseworthy:

Q. Could you indicate what proportion of revenue the banks would lose if the Bank of Canada were financing government expenditures? There would be a loss of revenue. In addition to what you have already said there would be a loss of revenue to the banks?—A. There would be a loss of revenue to the banks based on their present holdings of government securities. Assuming all these holdings to be non-interest bearing and, using their 1943 position rather than the present one, it would be about $32,000,000 a year. The loss in revenue in 1944 would, of course, be more than that, and as the government continued on a course of financing through the Bank of Canada the loss would become increasingly large. Speaking only of 1943 the banks would have to search for ways and means of replacing $32,000,000 lost revenue except to the extent, as Mr. Slaght suggests, that their profits were reduced or disappeared.

Q. I do not know whether this is a fair question or not, whether in your opinion the adoption of this method whereby the government could through the Bank of Canada finance government expenditure would or would not be simplified, easier, if the banks were branches of the Bank of Canada than under the present situation?—A. No, I think the situation is the same either way, that it is in the final essence of government decision as to whether they wish to impose certain of their present interest costs on the people in a different way than they now do. The costs for the community would be the same either way, but the distribution of those costs would be different. At the present moment the costs in question are met through government fiscal measures.

Q. There would be a difference in point of revenue loss, would there not, whereas you say that the banks in 1943 stood to lose—— —A. $32,000,000.

Q. And each year that amount would increase, and that in the case of a government bank it is a question of which pocket the money is put in, is it not?—A. No. It still remains true that the government bank would have certain costs to meet if it continued to pay interest to savings depositors and if it continued not to charge more than is presently charged for operating deposit accounts.

Q. I am thinking of that revenue loss. Let us assume that under a publicly-owned system that revenue would be eventually government income from the government bank just as any profits that are made today through the operation of the Bank of Canada become government revenue?—A. Oh, we mentioned the $32,000,000 as the revenue in 1943, and you were referring to the increasing amounts I have mentioned.

Q. Yes.—A. What you have in mind there would be true if these increasing amounts were translated into increased profits, but I am assuming that the interest bill to depositors and the cost of operations might increase more or less *pari passu* with the increasing revenues from government securities and that the profits do not, in fact, increase.

By Mr. McGeer:

Q. Is that a safe assumption? The records do not justify that assumption, do they? In the banking business like everything else the greater the volume of business done the greater the volume of profits, and I do not know of any business to which that principle applies more than it does to the banking business?—A. Perhaps you have noticed, Mr. McGeer, that the interest rate being paid on government securities held by the banks has been going steadily down as the volume of securities has been going up. There is a connection between those two things.

By Mr. Noseworthy:

Q. But the sum total of profits increases year by year? In other words —
—A. In other words, 1943 was a better year than the average of the fifteen.

Q. But you have stated in the event of parliament determining to accept Mr. Slaght's or Mr. McGeer's suggestion that the Bank of Canada finance government undertakings that the banks would stand to lose in interest revenue in 1943 $32,000,000.—A. Yes.

Q. And I think you stated in 1944 they would stand to lose more?—A. Yes.

Q. And in 1945 more?—A. Yes.

Q. My point is that under a publicly-owned banking system it simply means that whereas now it is a private banking concern that loses that money in the case of a government-owned concern it would be a question of whether the government gains on the one hand and the government banking system loses on the other? Is that not so?—A. If I understand you right, your suggestion is that whereas the private banking system could not operate at a $20,000,000 loss without going bust a government system could do so provided the losses were made up through the treasury.

Q. And the government would be in a position to do so if it felt that it was in the national interest to do so?—A. The government is in a position to do so now.

Q. But by doing so it would be inflicting a considerable burden upon the private banking system?—A. No, upon the savings depositors and the current accounts depositors.

Q. Which might make it more difficult for the banking system to carry on and to operate?—A. I do not think so. I mean the savings depositors would have to take their medicine, so to speak, and the current account depositors would have to take theirs. It would mean that people would try to avoid using banking services which would be inconvenient for the public but it would not put an end to the banking system.

Q. The effect of that government financing through the Bank of Canada upon government-owned banks would be to reduce their earnings, their profits?—A. Take effect—

Q. On a government-owned banking system?—A. The effect of the proposal would not only reduce; it would involve a substantial deficit for either a publicly-owned system or a privately-owned system.

Q. Which would have to be made up in other ways?—A. Which would have to be made up in other ways, either from the public treasury or from the customers of the banks.

Mr. SLAGHT: May I ask a question now?

Mr. NOSEWORTHY: Yes.

The CHAIRMAN: Have you finished, Mr. Noseworthy?

Mr. NOSEWORTHY: Yes.

By Mr. Slaght:

Q. As I understand from your discussion with Mr. Noseworthy, taking last year, 1943, it means this, that last year the government representing the taxpayers paid the banks on loans to the government some $32,000,000?—A. Yes.

Q. And that if we change that and borrow that money from the Bank of Canada, or rather have it issued into existence, then your objection to the 100 per cent reserve is they would have to drop their interest rate possibly or stop paying interest on savings, and in addition impose, as you put it, heavy service charges on the customers of the banks?—A. Yes.

Q. Now then, you agree that 6,500,000 people of Canada have no bank accounts, have no services from the banks and never had any, out of 11,500,000?—A. That includes all the one-month old babies and everything else.

Q. You cannot get away from babies no matter how you look at it.

Mr. Noseworthy: There are a lot of one-month old babies who have bank accounts.

Mr. Slaght: Mr. Noseworthy undoubtedly opens accounts for his children.

By Mr. Slaght:

Q. I want to see who is paying the piper and whether we ought to continue keeping it that way. Out of 11,500,000 people 6,500,000 do not get any service from the banks at all, but the $32,000,000 that we pay—— —A. They get it indirectly because all commercial concerns and other concerns keep accounts, and if they have to pay service charges, as I say, they will have to increase the price of their goods to the public, and then everyone pays.

Q. Leave out the indirect.—A. Mr. Slaght, we cannot without missing the point completely.

Q. Perhaps you have not quite heard the point yet. Out of 11,500,000 people we assume that 5,000,000 have bank accounts and are getting service, and 6,500,000 are not. You can put the babies in either place. Perhaps they ought to go in the 6,500,000. The $32,000,000 that was paid to the banks last year to cover, as you put it, service charges for customers small and large, was paid by all the taxpayers of Canada whether they used the services of the banks or not.—A. Well, the government does pay interest on amounts it borrows from the public. It would be a very long story and one which we probably cannot embark on in the committee as to whether no interest should be paid by the government to anyone on any loans.

Q. I have not asked you anything about that.

The Chairman: Please, Mr. Slaght.

The Witness: That is a relevant point, Mr. Slaght. The government really pays interest as matters now stand in large measure to the savings depositors who decide that for various reasons — I am sure many of them very good — it is useful for them to have a portion of their funds in a savings account in a bank. You will notice from the statement which is on the record that the interest payments made by the banks on savings accounts in 1943 were $24,500,000. In other words, three-quarters of the interest received from the government went to pay interest on savings accounts.

By Mr. Slaght:

Q. Then, if the cost of servicing that you say is expensive was borne by the people who receive the services, such as large firms that I do not need to name who issue thousands and thousands of cheques, instead of the little fellow who pays a heavier pro rata service charge than people who are getting the service, I put it to you that is not bad economy?—A. I think you would find in the extreme case which we have mentioned namely that the banks are unable to earn any interest on amounts loaned to the government, the effect would be that savings depositors would be involved in lending their money interest-free to the government and the current account depositors would not only lend their money free but would have to pay a privilege for the service of keeping an account even if they did not issue any cheques at all.

Q. Well, why not? If you get a service rendered to you by the grocer or the doctor you expect to pay for it?—A. In other words—

Q. If you will allow me, my suggestion is why should all the taxpayers of Canada pay service charges in the main for large firms who receive the most benefit from the service charges instead of letting the man who gets the service pay the shot?

Hon. Mr. HANSON: That is another question.

Mr. SLAGHT: It is a very important question.

Hon. Mr. HANSON: It is not the one in issue at the moment.

By Mr. Slaght:

Q. Is there any reason for perpetuating that state of affairs?—A. In other words, you would suggest that we might have in the banks is a negative interest rate; that people should be charged for the safekeeping of their money as they were in the days of the goldsmiths, some hundreds of years ago?

Q. They are being charged now. They were charged $3,200,000 last year for service charges?—A. That would be chicken feed compared to what they would have to pay under the other proposition.

Q. Let them charge those who get the service instead of all the taxpayers; the little fellows who do not use the banks pay the shot for the big fellows who are getting their service charges free according to you?—A. It would really amount to making a charge for the privilege of depositing money in a bank. To the extent that charge was made on business concerns they would have to consider it as part of their operating costs and the public would pay in the prices of the goods in the end.

Hon. Mr. HANSON: The big shots would not pay it at all.

The WITNESS: The public will suffer that cost whichever you do. As to the proposition that we should revert to the days of the goldsmiths and charge for the safekeeping of money in banks I think that would be a backward move. I think it would drive people away from the banks and take us back to the old horse and buggy days. We do not want to do that.

By Mr. Fraser (Northumberland):

Q. It would decrease deposits?—A. Yes, they would take their money out of the bank.

By Mr. Slaght:

Q. And the bank shareholders would have to take less dividends. Did you hear one bank paid 16 per cent for ten years, 16 per cent dividends out of profits and put by a reserve as well?

Mr. MCGEER: Equal to its capital.

Mr. SLAGHT: And also doubled its reserve and capital.

The WITNESS: That, of course, is not 16 per cent on capital and reserves. It is a somewhat smaller amount.

By Mr. Slaght:

Q. It is 16 per cent on the original capital.—A. Oh——

Q. Just there, Mr. Towers we see that last year the banks, ten of them, paid in all $15,000,000 in taxes. They had gross earnings of $144,500,000, they had a surplus of $29,500,000 of which they paid out $9,000,000 in dividends and had $22,000,000 left over. That is on top of the hidden reserve they have not shown us. Will you tell us how the banks only pay $15,000,000 in taxes on a business of that character?—A. Yes; I think there is a mistake in your figures, Mr. Slaght.

Q. Where is it?—A. The amount of $22,000,000 left over after paying dividends and including capital profit—is that the right figure?—was before allowing for losses, which averaged over a number of years some $14,000,000.

Q. Oh no.

Mr. TOMPKINS: Oh, yes.

Mr. SLAGHT: No.

Mr. TOMPKINS: If you take that statement of the gross earnings disclosed—

The WITNESS: Of course, no one gets taxed on gross earnings.

By Mr. Slaght:

Q. I did not suggest that they did and the operating expenses are put in there, which includes $15,000,000 for taxes, or $114,900,000.—A. But they do not include losses.

Q. We were told that they wrote off their losses actually accrued in 1943 as part of operating expenses.—A. But they are not in the figure of $114·9 millions.

Q. You suggest they are not?—A. I know they are not. It is shown here.

Q. Then, are the banks paying 100 per cent excess profits tax?—A. If there are any excess profits coming, yes.

Q. Are they; you know, surely?—A. There are some. I do not know, I am not an expert on taxation.

Mr. MCGEER: The balance sheet shows that.

Mr. SLAGHT: On gross earnings of that kind the banks pay only $15,000,000 taxes. Perhaps someone else would enlighten us on that later on.

By Mr. McGeer:

Q. May I just get some information about this statement? I do not quite understand it. It is, as I take it, the average borrowings and the interest paid by each of the nine chartered banks, or all of the chartered banks; and for the purpose of not disclosing what the banks were, I thought we agreed to designate the banks as A, B, C, D, E, F, and G respectively. The only thing I have here is for banks A, B and C. I wanted all the banks.—A. That would be all there were.

Q. A, B and C?—A. Yes.

Q. They are the only banks that are borrowing?—A. Yes.

Q. The other banks are not borrowing at all?—A. No.

Q. Only three banks borrowed?—A. Yes.

Q. And the total interest paid by the chartered banks to the Bank of Canada was $18,219.16. Was the reason that the other banks did not borrow the fact that they did not need to?—A. It was not necessary; yes.

The CHAIRMAN: Gentlemen, it is one o'clock; we will adjourn until 11 o'clock to-morrow morning.

The Committee adjourned at one o'clock to meet again to-morrow, June 23rd, 1944, at 11 o'clock a.m.

June 23, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Blackmore, you have the floor.

Mr. GRAHAM F. TOWERS, Governor of the Bank of Canada, recalled.

By Mr. Blackmore:

Q. Mr. Chairman, in our questioning the witnesses, the object which I have in mind is that of endeavouring to discover, if possible, some means of working out a solution to the ills which confront us at the present time. It is granted that we are in a very critical time in the world's history, that we have a number of serious difficulties which threaten us; and it seems to me that it is the duty of this committee to discover, if possible, what can be the solution. To-day I should like to ask questions of Mr. Towers leading to the elucidation of the vexatious question of what is inflation. I believe within the last two days it has been pretty well agreed that, under suitable circumstances, it is feasible and sound for the state to issue a certain amount of debt-free or interest-free, depending on the term you wish to use, currency and use that currency for the improvement of the economic conditions in the state. It is rather generally agreed that it is difficult to determine just what would be the conditions under which a given amount of such currency could be used, and I believe it would be rather generally agreed that—and if the witness does not agree with me he will signify his disagreement—the one anxiety which we need to have regarding the issue and use of state currency debt-free or interest-free currency, is the danger of inflation. It therefore becomes of first importance at the present time that we learn what inflation is, what causes inflation and what remedies can be applied either to control, check or prevent inflation. We can agree on those points, I think, Mr. Towers?—A. Yes.

Q. Very well. Mr. Towers declared, I believe—and he will check me if I am not accurate—that debt-free or interest-free state-created currency was a liability of the Canadian government and a liability of the Bank of Canada to the Canadian people. That is accurately stated, is it not?—A. Yes.

Q. And the reasons which he advanced, as I recall them, are the following. There is the cost of printing and circulation of the money.—A. That, of course, does not relate to the fact that it is a liability of the issuer.

Q. Yes. And also the main liability which the dominion government assumes when it issues and uses interest-free or debt-free currency is the responsibility of maintaining the purchasing power of the dollar?—A. That is right.

Q. Which, of course, obviously involves the whole question of inflation; because the one thing that destroys the purchasing power of the dollar is inflation. The other day we rather incidentally touched upon the question of inflation, and Mr. Towers felt that it would be wise for him to have time enough to prepare a considered statement on the matter of inflation. I wonder, Mr. Chairman, if Mr. Towers would be in a position to give that statement now?—A. Yes. The question which you wished me to answer, the one which stood over from yesterday, was your suggestion that it would not be inflationary to continue expanding the volume of money until the amount of money in circulation exceeded the amount of goods and services available in the country. I am sure that this would be a fallacious and dangerous policy which could only end by bringing us into very serious trouble. Obviously it is necessary to have enough money to facilitate the exchange of goods and services; but this does not mean that there need be anything like a dollar of money for each dollar of goods and services. Money does not vanish when it has been used to make one transaction, but is used over and over again in the course of a year. Within quite wide limits this velocity of circulation of money is an important factor in providing flexibility. An increase in the velocity of circulation will take care of quite appreciable increases in economic activity just as effectively as an increased volume of money.

In view of the fact that Canada and other countries have long since passed the point where additional currency was required to facilitate the exchange of goods and services, I think the onus should be on the advocates of currency expansion to show that good will result. During the war there has been a sufficient reason for continuing a policy of currency expansion beyond the level indicated by monetary requirements, because government has had to spend more than it has been feasible to raise through taxation and public borrowing. There may conceivably be occasions in the future when it would not be expedient to try to finance all of government expenditures by taxes and public borrowing. In such cases I have already indicated that I would be prepared to support further currency expansion, not because it would necessarily be desirable on monetary grounds but because it might be the best fiscal tool available at the time.

Mr. Blackmore may have in mind that the level of public spending would be increased if the government substituted the issue of currency for taxes and security issues as the source of funds to make such expenditures. It has been pointed out on several occasions to the committee that since currency does not bear interest, the direct cost to government of financing in this way would be lower; but the reduction in cost to the government would be borne by the general public. I think that the public, if it understands the situation, will be willing to pay directly the costs of government expenditures which the public believes necessary and desirable. I feel sure that the mass of the public would prefer to see post-war government expenditures financed as equitably as possible by chief reliance on a fair system of taxation graded in accordance with ability to pay. Of course, if a government felt that it did not have general public support for the expenditures it was making, there might be an incentive for it to try to conceal the real costs from the public for a time by financing through the issue of currency. That has been done in the past by governments of some countries, as their people learned later to their sorrow.

Q. And you let us know yesterday, Mr. Towers, if I recall correctly, that the device had been used with success by countries under certain circumstances?—A. I said that within moderate limits it had not caused any particular trouble, yes.

Q. What we are all seeking for is to get a conception of what would be moderate limits. By what standards do you adjudge what should be moderate limits? Obviously, if Canada for example, were a desert and you were to issue say $100,000,000 of currency, you would wreck the price structure completely, because there would be a lack of goods and services available to absorb the money. But the more highly industrialized Canada becomes and the more highly developed Canada's capacity to produce goods becomes, the more easily the new money would be absorbed and the less likelihood would there be of causing a disruption of prices. I think you agree with that?—A. One really has to know the circumstances at the time before being able to judge—and I say "judge"—within certain limits, because there is no definite rule of thumb, what type of policy would be appropriate. One needs to know what the volume of business is, what is the degree of pressure or lack of pressure on supplies, what the attitude of the public is, whether they want to hold more money in their pockets or idle in their bank accounts. There the question of velocity of circulation enters in. There are a hundred and one factors, Mr. Blackmore; and I am quite sure that there is no formula which can be given to answer the question which you have in mind. For one thing, human beings enter into it, their behaviour and their psychology.

Q. May I interrupt just there?—A. Yes.

Q. There is no formula for determining either negatively or positively on the question. There is no formula by which you can tell when you should not issue more money?—A. There is no formula for the exact policy which should be followed, but there certainly is, not a formula but a knowledge in regard to the policy which should not be followed in either direction. For example, if one proposes in the post-war period to eliminate taxation, to maintain government expenditures at a very high level and to finance them by the issue of currency, then I do not need to be in any doubt about the answer. I can guarantee, as you imagine, that a very inflationary situation would develop.

Mr. SLAGHT: May I interrupt there for a moment without disturbing you, Mr. Blackmore?

Mr. BLACKMORE: Yes.

By Mr. Slaght:

Q. Have you heard, as a banker, of anybody who has ever advocated that in Canada?—A. Not any sensible person, no.

By Mr. Blackmore:

Q. Well, anybody?—A. I think perhaps not intentionally. I suspect unintentionally they may have.

Q. Has any Social Credit leader, for example, advocated any such thing?

The CHAIRMAN: Please, please, Mr. Blackmore.

The WITNESS: My mind has become a blank again, Mr. Blackmore. I should like to finish what I was saying, if I may.

By Mr. Blackmore:

Q. Go ahead.—A. I should like to continue on the other side.

Q. Go ahead.—A. That is, that under post-war conditions, particularly if the situation in regard to employment was delicate, to try to follow the other policy of a volume of taxation which produced a heavy surplus and the retirement of currency, a reduction in bank deposits, would be equally fatal.

Q. It would be deflationary.—A. In other words, one can recognize the evils of both extremes. But to sketch in advance exactly how far one should go is, I think, impossible.

Q. I would agree with you.

Mr. WARD: Would you mind if I asked Mr. Towers a question there, Mr. Blackmore?

Mr. BLACKMORE: No.

By Mr. Ward:

Q. Are you familiar with the conditions that prevailed following the last war, along about 1919?—A. Commencing about 1920, yes; from a business point of view, you mean.

Q. I am speaking from memory, but I think that there was about $90,000,000 withdrawn from circulation within a few months. Do you agree that was sound policy at that time?—A. $90,000,000 withdrawn in what form in 1920?

Q. That is a statement that was made in parliament, that $90,000.000 was withdrawn from circulation within a few months following the last war.—A. I do not recall that.

Q. Do you agree that was sound policy in the main?—A. I would have to know how it happened and the form which the withdrawal took.

By Mr. McGeer:

Q. The banks called their loans. That is the only form it could take—A. I beg your pardon?

Q. The banks called their loans.—A. It could be due to governmental action, but I do not suppose it was at that time.

Mr. FRASER (*Northumberland*): It certainly was not.

By Mr. McGeer:

Q. It certainly was not due to governmental action. As a matter of fact, in that period of time, although the expenditures of government continued and the volume of money in circulation continued to increase, with the exception of this large withdrawal, prices automatically collapsed, themselves. There was no spiralling into this imaginary inflation at that time. Automatically prices came down and the volume of currency kept almost on a steady level from 1921 on, rising a little in 1928 and 1929. There was no inflation of prices. As a matter of fact, as you pointed out here the other day, basic consumer goods prices held on a very firm level, and agricultural prices fell. But it was only in the stock boom that any appearance of inflation came at all.—A. I think we are talking about two different periods. Prices, of course, did increase substantially during the last war and continued to rise very materially through 1919 and the early part of 1920. It was about May of 1920 that the crack came.

Q. It came automatically; there was no interference by government or price control?—A. It came automatically, yes. The inflation which had taken place in the earlier years was cracked as supplies became more plentiful.

Q. Does that not always happen?—A. Not always, no; if you go far enough then the currency just disappears from the scene.

Q. The minute you get your prices up to a certain level and induce a volume of production which exceeds the demand then you get a collapse of prices. You get it in your agricultural field. If they go and produce more of a certain commodity than is required then the market prices automatically go down. Nothing induces an excess of production so rapidly as a rising level of prices, and if the free elements of competition are allowed to operate every inflation of that kind will break automatically?—A. That has been the experience in Anglo-Saxon countries. In other words, they have not gone far enough with their currency issue and credit expansion to keep the spiral going. On the other hand, of course, they have gone far enough in the last war to create a very serious situation, in other words, a doubling of the cost of living.

Q. And it automatically cracked itself?—A. They could have kept the inflationary spiral going because a printing press can beat out supplies if you care to push it hard enough.

Q. Yes, but printing presses do not operate automatically. Printing presses have got to be ordered and run. The issue of money from printing presses under the control of a government, such as existed at the time of the Lenin inflation in Russia following the revolution and which was part of the revolutionary program to destroy the money power of the bourgeois and the aristocrat, can force the issue of currency to a valueless position. The same thing was done in Germany but it was only because of an organized power in government to create and produce for a given purpose. In Russia it was to destroy the value of the money power of the aristocrat and the burgeois. In

Germany it was to liquidate first of all the load of domestic debts and secondly to pave the way for repudiation of international debts. Then came controlled inflation which created the armament power that threatened the whole world with disaster.

Mr. Fraser (Northumberland):

Q. May I ask this question, Mr. Towers? In your opinion, did the bankers make very critical and disastrous mistakes between 1926 and 1930?—A. Speaking only of Canada or of a wider area of the world?

Q. I am speaking particularly of Canada. You can take in the greater field if you suggest we should, but stick to Canada for the moment.—A. I think that the credit extended for stock market activities was too great. It is very easy for me to say that now, for all of us to say it now, on the basis of hindsight. There was a movement of the same character, but even more extensive, going on in the United States. We, of course, tend to be very much affected by what happens there, psychologically and otherwise. Everyone would agree now it would have been much better if credit had been curtailed for speculative activities, stock market activities before the thing had reached the proportions which it did in 1929. Even if it had been I would still have expected the depression to ensue because, as I suggested the other day, a false facade had been built up, a false facade of international prosperity based on enormous American loans which I think under any circumstances were bound to be cut off in due course. But I think the degree of severity of the collapse would have been considerably less if the extension of credit in Canada, the United States and internationally had been more prudent and more modest in 1926, 1927 and 1928, and if subsequent to that time monetary action of an expansionary type had been taken much more boldly.

Q. Mr. Towers, I asked you that question more or less as a preface to this question. Do you consider that bankers have learned much about money, credit and banking since 1926?—A. Oh, that is a very hypothetical question; perhaps I am prejudiced, but I think so, yes.

Q. Because if they have not we had better go back and start our investigation based on 1926.—A. I think the world being what it is one very seldom repeats in the same generation serious mistakes which have been made. We find new mistakes to make.

Q. Psychologically people with orthodox perspectives in any line of thought are hard to pry away from the perhaps unfounded and unreasonable basis from which they originally derived their deductions. I would say frankly my experience with bankers in this country for thirty-five years would have come under that category to a large extent, and if flexibility of mental absorption has not drastically increased and there is not an abundant capability of absorbing progress and understanding of money, credit and banking then, as I said a minute ago, we should start where we left off in 1926.

Mr. SLAGHT: Would you put a course on banking in the public school books?

Mr. FRASER (*Northumberland*): I was not going into details.

The WITNESS: Certainly views much more extreme than those you have expressed are very familiar to me because in the course of having to carry on correspondence with many people who have very definite views in regard to new monetary devices I find if I reply indicating any disagreement I immediately get a letter back saying I am orthodox, stupid, blind, got my head in the sand, do not know what in the world I am talking about, and am possibly crooked.

By Mr. Fraser (Northumberland):

Q. Mr. Towers, in view of the fact you have placed that oration on the record let me say this to you, that I do not consider you are blind, stupid, orthodox or non-progressive. I consider that your deliverances and answers before this committee have been extremely clever, have indicated you have a broad perspective of banking both domestically and internationally, and that you are doing a good job.—A. Thank you, but it was a misunderstanding there. I did not intend my remarks to be what you might imagine. I did genuinely mean them to convey that I understood that those views are held and, as I said, by many people much more extremely and sweepingly than the way you have put them.

Q. You are not conveying to this committee that those views are still held in the banking fraternity?—A. Which ones?

Q. That you have just expressed a few minutes ago?—A. I do not quite understand.

Q. You made the statement that if you answered a question you would get letters saying you were stupid, orthodox, and so on.—A. That is on disagreement in relation to pretty extreme suggestions in regard to monetary reform. It is not intended to be an analogy with what you were saying but to indicate that I had been given the opportunity of understanding some of the feelings which exist in that respect.

Q. Just one more question if Mr. Blackmore will permit me; the indications and results which we have had since the Bank of Canada was formed, and particularly the expanding flexibility of our financial structure under the guidance of the governor and his advisers, are indicative of the fact that banks and bankers have learned a lot since 1926?—A. I hope so.

Q. I think as far as this committee is concerned, speaking only for myself, that the only endeavour that the members of this committee have, including my good friend, Mr. Blackmore, is to find ways and means, if such exist, to expand further the flexibility of the banking system to meet the needs and demands of the Canadian people domestically and externally up to the very limit of the point of safety? Is that not reasonable?—A. I believe that absolutely.

Q. Then, believing that, and I say this quite fearlessly in this committee, that ought to emphatically, effectively and practically permeate the perspective of the whole banking fraternity. I will venture to say that the members of this committee are extremely apprehensive whether the chartered bank organizations realize that in its entirety. I think if that premise is accepted and the whole banking fraternity realize that this committee can get on with its job and accomplish very much, but we must all have the same objective, the same purpose and same understanding. In other words, some people cannot play under the old rules and other people advocate new rules. The people on the old rule basis and the people on the new rule basis must get together on a practical basis of understanding of evolution in banking, credit and currency. Do you agree with me?—A. I would not quarrel with that.

Mr. NOSEWORTHY: Would you suggest that Mr. Towers open a school for bankers?

Mr. FRASER (*Northumberland*): That is what we have got here.

Mr. BLACKMORE: I would not quarrel with it either, Mr. Chairman. I think Mr. Fraser has put it very well. May I just go back to a statement which Mr. Towers made a few minutes ago to link up so that we can go on from there? Commenting on the situation which developed after 1920, if I recall rightly what he said, he aimed to convey to us that there was a price rise for a while during 1919, 1920 and perhaps into 1921 but by and by the supply of goods in Canada overtook the supply of money which was demanding goods, and then the break came?

The WITNESS: Yes.

By Mr. Blackmore:

Q. That was the idea conveyed by Mr. McGeer.—A. The expansion had been overdone.

Q. Or should we also say that the production of the country had not had quite time enough to overtake the expansion? The expansion might have resulted from a backed-up supply which came as a result of war bond purchases, and so forth, being liberated at the close of the war.—A. You mean that war financing had been of a character which produced that temporary but nevertheless rather severe inflationary situation?

Q. Right.—A. That is the case, I think.

Q. The result being largely a relative shortage of goods?—A. Yes. In other words, it would have been very much better if governments had found it practical to follow less inflationary methods of finance in the last war and exercise also more effective controls so that the world would have been spared that very substantial and unsound price upswing in 1919, 1920, and earlier, and then the collapse.

Q. An upswing which resulted primarily because of the relative shortage of production at that time?—A. And a very large supply of cash.

Mr. McGEER: And the ability of people to exploit an uncontrolled market.

By Mr. Slaght:

Q. Sugar went to $21 a hundred.—A. Yes, and then to $3.

Mr. McGEER: Exploitation of an uncontrolled market.

The CHAIRMAN: Transportation partially.

The WITNESS: That was a factor.

Mr. McGEER: Exploitation of an uncontrolled market played just as large a part in the unreasonable rise of prices as anything else, deliberate, exploitation of monopolistic power.

By Mr. Jaques:

Q. It resulted in increased production of wealth which finally killed inflation?—A. Yes, but I think the world would have been better off if we had not had the inflationary boom and then the drop.

Q. I suggest so far we have progressed by leaps and bounds. We do not seem to crawl along?—A. It is a case of one step forward and two steps back?

Q. Sometimes.

Mr. FRASER (Northumberland): Inflation added great impetus to production.

The WITNESS: It did. But on the other hand, that encouraged a good deal of production that later was found to be unnecessary; and when the crack came the resultant disorganization, I think, produced a definite setback from the production and supply point of view.

By Mr. Blackmore:

Q. If it could have been possible at a time when a break was imminent, when it was about to occur. If it had been possible to extend the power of the people to consume the new goods that were coming into production there need never have been a break—

Mr. JAQUES: Inflation.

The WITNESS: It would require analysis to figure out whether there was any article which was in over supply so far as the whole world was concerned. Perhaps there was not; but with the accumulation of production which you have in mind it certainly would have been necessary for such action to be taken in all countries, not only one.

By Mr. Blackmore:

Q. The main thing, I think, which we infer from these questions and answers is that inflation is the result not only of monetary activity but of productive activity as well. In order that there should not be inflation there should not be more money going into the market to buy goods than there are goods and services to buy. As long as there is a balance between production and consumption, inflation does not come about?—A. I think that is right.

Mr. NOSEWORTHY: Is there not an additional factor there?

Mr. BLACKMORE: We have mentioned the fact that money is coming into the market to buy goods. That is why I indicated a desire to spend. Money is put into the hands of the people, but it will have no effect in the hands of a person who does not want to spend it, and that will have no effect on inflationary tendencies.

Mr. GRAHAM: May I just point out my own reaction to the questions Mr. Blackmore has put and the answers which Mr. Towers has given?. I think there is possibly a different territorial scope. If I read Mr. Blackmore's questions aright he is speaking in terms of Canada, of the Canadian financial system; and I think that Mr. Towers was thinking of much wider conditions and applied to many countries; in fact, I notice you used the term "world".

The WITNESS: Yes.

Mr. GRAHAM: I think there is a very important distinction to be found between your answers, particularly in that light, and Mr. Blackmore's questions. I believe he is thinking in terms of Canadian conditions.

Mr. BLACKMORE: Of course, in order for us to get a tangible hold on the situation, so to speak, it becomes necessary for us to limit our considerations, and so I am asking questions with the Canadian economy in mind.

The WITNESS: Oh!

Mr. BLACKMORE: But perhaps they apply world-wide, just as they would in Canada.

The WITNESS: Yes, but there is a very important difference, because we might be able to do certain things in Canada to ameliorate a depression, but we could not cut ourselves off from a world-wide depression.

Mr. BLACKMORE: It should be one of our main tasks in this committee to discover to what extent we could meet a rise in world prices, and at the same time to consider what measure we might be able to take to cushion the effect of external influences upon the Canadian economy. If we grant that we have no power whatsoever to take any measures to defend ourselves against outside inflationary activity, let us say in the United States; then we must grant that we have no power to control our own economy financially or otherwise or, at least, we do not have as much power as we should have.

The WITNESS: I think we have measures which we could take to control a rise to protect ourselves against an inflationary rise of prices in other countries. But admittedly the situation would be particularly difficult if that other country were the United States.

Mr. BLACKMORE: Yes.

The WITNESS: I think it would not be impossible to isolate ourselves in part, but I would not like to suggest that we can do so in whole.

Mr. NOSEWORTHY: Have we not done that to a considerable extent?

The WITNESS: We have done that to a considerable extent during the war; but the situation there in the U.S.A. is after all not becoming at all extreme from a price point of view. If it were extreme and ran through into peacetime then I would have my doubts about what we might be able to do. I believe that it would certainly have an effect here.

Mr. Blackmore: Thus far, we have been talking in general terms and have accomplished a good deal; I suggest that now we might be a little more particular.

Mr. McGeer: Yes, what are some of the methods you suggest?

Mr. Blackmore: If I may, I should like to go a little further with what I have in mind. There is probably no man with the same amount of training that Mr. Towers possesses or who is so well acquainted with economics and financial conditions—with the economy of our country—as is Mr. Towers. I was wondering if he would care to make a statement. But, before we come to that point, Mr. Towers in his reply to me yesterday in reference to 1927, 1928 and 1929, said: "And if you look at the figures of commodity prices in North America, in the United Kingdom and all parts of the world, you will see that there was no significant measure of inflation during 1927, 1928 and 1929." From this I gather that it is in your mind that inflation is a rise in commodity prices?

The Witness: Yes; naturally it is a decrease in the value of money in terms of goods.

By Mr. Blackmore:

Q. Because there is a rise in the price of goods?—A. Yes.

Q. Mr. Chairman that is the first, the fundamental principle for all bankers and economists and people of Canada to get into their minds; inflation is a rise in the price of commodities and it is not an expansion in money; it is a rise in commodity prices.—A. It may have been caused by an expansion in money.

Q. But whether there is an expansion in money or not, if there is not a rise in commodity prices we do not say that there is an inflation?—A. That is right. In other words, if you expand the money supply very materially and people wish to sit on top of that additional supply—to leave it in the banks doing nothing—then the additional issue is neutralized, has no effect whatever.

Q. So that if the productive capacity of our country is able to rise to the occasion and produce enough goods to absorb all the money supply, well, there will be no rise in prices, no inflation?—A. It is true that if the business of the country is expanding, that is if the volume of production is going up 5 per cent a year, one could well imagine— assuming no change in people's desires to hold cash, or in the velocity of turnover—one could well imagine the amount of note issue increasing, and bank deposits increasing by 5 per cent without the slightest harm being done.

Mr. Blackmore: I look upon this as a really important pronouncement.

The Witness: What is that?

Mr. Blackmore: Mr. Towers, you remember, in his report on the Bank of Canada pointed out to us that there would be a vastly increased quantity of consumable goods available in the post-war world and consequently there would have to be an offsetting increase in consuming power; and we must consume in terms of money in the hands of the people, in order to absorb that increased production.

Mr. Fraser (*Northumberland*): May I suggest a thought there? Is it not advisable, is it not imperative that the people must be able to exchange their goods or the products of their labour, with each other; is that correct?

Mr. Blackmore: That will happen automatically if they have the money in their hands. Now, just let me give you an illustration so that you can see if what you have in mind and what I have in mind are the same. Suppose you increase the amount of money you put into the hands of the farmer for his wheat, automatically he will buy eastern apples and other products in exchange.

Mr. FRASER (*Northumberland*): He is getting money for his wheat. Therefore money is his transportation medium, and with that he buys the product of some other person or persons. It forms the medium of exchange between his product and the product of the labour of others.

Mr. BLACKMORE: It could hardly be put better, could it?

The WITNESS: What I would add there as to increasing your production by two billion dollars is this. You are not suggesting that can only be brought about by an increase of two billion dollars in new currency?

Mr. BLACKMORE: What you said a moment ago indicated quite clearly the caution with which we have to make any such assumption. We would have to assume that this money is going to be put into circulation, that it is going to be used for all the various things which enter in. We would have to say that we must have such an increase in the monetary supply of the country and the distribution of that supply as would enable the people to consume two billion dollars of extra production; and, necessarily, it would follow that there would have to be two billion dollars of extra money.

The WITNESS: No; and in fact, there might be none.

Mr. BLACKMORE: Yes?

The WITNESS: If people were using their present holdings, of the medium of exchange, to conduct their business.

Mr. BLACKMORE: Does that answer your question?

Mr. FRASER (*Northumberland*): Might I ask him this question? If we only recognize the fact that the consumption of food products is controlled by the capacity of the stomach—

Mr. JAQUES: No, by the tightness of the belt.

Mr. FRASER (*Northumberland*): You cannot let out your belt sufficiently to consume all the food products there are in Canada. I am only making my point with Mr. Blackmore on the statement he made as to consumption.

By Mr. Blackmore:

Q. The important consideration to be borne in mind is this, that the amount of money can be increased. We will say that the amount of money being spent can be increased to the extent to which the people will use that money in buying Canadian production which they wish to consume?—A. I do not think I could add anything to the statement I made earlier. We are back to the same subject.

Q. Yes. A. I cannot add anything to that, because if we pursue it in this direction, then in that direction and the other direction, I am afraid that the witness will tend to get incoherent, so to speak. I have done the best I can with the general question in the statement which I read earlier.

Mr. BLACKMORE: Mr. Chairman, I recognize the position of Mr. Towers fully, and I wish to point out that I was not asking the questions; I was merely trying to answer the questions which were asked of me and referring them to the governor of the Bank of Canada to be sure that I was correct.

Mr. GRAHAM: Let us apply this suggestion of Mr. Blackmore's in a concrete manner to Canada. Suppose we had a large wheat surplus, and suppose the markets of the world were largely closed to us. Would any degree of expansion of currency appreciably affect the consumption of domestic wheat?

The WITNESS: No.

Mr. BLACKMORE: All right. Our object would be to have a sufficient increase in effective demand, which is money in the hands of the people who will spend it, to enable consumers to consume all the wheat they want or need.

Mr. GRAHAM: For wheat?

Mr. BLACKMORE: No. I say the object would be to have sufficient money in the form of effective demand in the hands of our people to enable them to use all of our wheat that they want to. Of course, unless we can exchange some of our surplus wheat for such things as oranges, things from outside of the country, which people can use, it would not be wise to expand money with respect to surplus wheat.

The WITNESS: It would be pointless.

Mr. BLACKMORE: That answers Mr. Graham's question.

Mr. GRAHAM: I do not think it answers it.

Mr. BLACKMORE: Suppose Mr. Graham asked his question again? I wonder if he got what that was that Mr. Towers said "yes" to?

Mr. GRAHAM: My point is this. I asked the question merely to give a concrete application to Canadian economy as regards the suggestion you made that expansion of currency would be the overall solution of all of our difficulties. Now, I suggest that wheat is typical.

Mr. BLACKMORE: I have not made that suggestion, Mr. Graham.

Mr. GRAHAM: You have not?

Mr. BLACKMORE: No, I have not. I implied, in my reply to your question, that you could expand the amount of money in the hands of the people by two million dollars and the best way to do that would be to expand the effective demand, which means money in the hands of the people which they will spend on consumable goods; you can expand the effective demand to an extent which will enable them to consume all they want of any given commodity. But beyond that point, you cannot use a surplus of that commodity as a basis or justification for the expansion of the effective demand. You would have to take that surplus and exchange it for such things as bananas or oranges which the people would consume. Otherwise there would be an effective demand which would be registered not against wheat but against some other commodity of which you might have a shortage in Canada.

Mr. Jaques asked the privilege of asking a question. I wonder if he might be allowed to do that now? What I said there was accurate, substantially, I think.

The WITNESS: You are asking me to say yes? I could not follow that.

Mr. BLACKMORE: Under the circumstances I would not ask you to do that.

The WITNESS: No. I did not understand.

By Mr. Jaques:

Q. I wish to ask one question. You say that production automatically finances consumption?—A. I will have to ask that question to stand; and then perhaps later on I could ask you to explain what you have in mind.

Q. Very well.—A. Because I do not understand it right now.

The CHAIRMAN: What did you mean, Mr. Jaques? I did not understand it either.

Mr. JAQUES: I can remember asking Mr. Towers the same question in 1939. We had quite an argument about it. I asked it for the reason—

The CHAIRMAN: What is the question?

Mr. JAQUES: Whether production automatically finances consumption.

The WITNESS: The answer is so obviously "yes" that I feel that I cannot answer the question. I am sure I do not understand it, because it almost seems to me—and I know this cannot be correct—as if I should reply that the water fills the bucket because the bucket is full of water, but that cannot be the answer. There must be more to the question than that, I think; and that is why I believe I do not understand it.

Q. I do not wish to take up Mr. Blackmore's time now. I should like the opportunity next week to ask you a few questions, if you will be here.—A. Yes; I will be here.

Q. We can develop it then.

Mr. BLACKMORE: The question Mr. Jaques has asked is a fundamental question. It is ordinarily assumed that where there is increased production there is corresponding increased consumption. That assumption, I believe, constitutes one of the major fallacies of orthodox economic thought in Canada to-day.

Mr. FRASER (Northumberland): May I ask a question?

The WITNESS: That question you have just touched on, of course, is the major assumption underlying the social credit theory.

The CHAIRMAN: Order, order. Your mind is a blank, Mr. Towers.

The WITNESS: I was not referring to a party, Mr. Chairman.

Mr. FRASER (Northumberland): Your mind is a blank at that point.

The WITNESS: No, it was not a reference to a party, but rather to a theory.

Mr. JAQUES: Mr. Towers' mind is not blank on the question.

The WITNESS: Thank you, Mr. Jaques. If I may say so, a very extensive examination was given to that by an Irish commission.

Mr. JAQUES: That is right.

The WITNESS: And an Australian commission.

Mr. JAQUES: That is right.

The WITNESS: The ground was very fully covered in both cases; and I remember that in 1939 the best I could do was to say that I thought such a good and thorough job had been done by those two commissions that I could not add anything to their findings.

Mr. BLACKMORE: If I may, I should like to make one little comment.

Mr. JAQUES: Yes. I am going to leave the question until next week.

Mr. BLACKMORE: If I may make one little comment right there, it will guide Mr. Towers in the preparation of his answer. May I raise this question? If production automatically distributed among the people the money with which to consume that production, why was there a break in 1920? Why did not the consuming power expand as the productive power expanded and why was there a break in 1929?

The WITNESS: Are you speaking of the world?

By Mr. Blackmore:

Q. You should not have to answer that question. I merely raised the point.—A. Before answering it, I should know whether you are speaking of the world or of Canada.

Q. I think you would find the principle would apply to Canada just as well as to the world.—A. It could be that certain things were happening elsewhere which materially affected us.

Q. Those matters would be essential to enter into your statement.—A. Yes.

Q. I have myself examined the Irish examination and the Australian examination; and I have found them almost grotesquely deficient, because they failed to take into consideration three or four factors of great importance. Now, Mr. Chairman, I should like to ask one more question; then I shall give way. I have not used my hour yet. We have found that inflation is a rise in prices. What is the fundamental cause of inflation? I think Mr. Towers has pretty well indicated that to be a shortage of goods in relation to the amount of effective demand in circulation in the people's hands.—A. Yes.

Q. As I pointed out a while ago, it is an item of extreme importance, because it indicates the major means of overcoming and offsetting inflation

Mr. GRAHAM: Of course, Mr. Blackmore, I do not think Mr. Towers wants to leave with the committee the suggestion that a rise in prices is necessarily inflation.

Mr. BLACKMORE: No; price manipulation also may cause a rise in price.

The WITNESS: No. We were speaking of the price level as a whole, and not dignifying with the name of inflation small variations in that price level.

Mr. BLACKMORE: Yes, the price level. Deliberate price manipulation, of course, did not enter into the matter; but in so far as the natural law of supply and demand operates to produce an inflationary effect or a deflationary effect, the question and the answer present an accurate picture of the situation.

The WITNESS: A shortage of a particular commodity and a great enhancement in the price of that commodity can hardly be described as inflation.

Mr. BLACKMORE: Quite right.

The WITNESS: We were speaking of the general purchasing power of money in terms of goods.

Mr. GRAHAM: Yes.

Mr. BLACKMORE: Although a shortage of a given commodity and a rise in price does indicate the principle involved. When you have a shortage of goods, you have a tendency to a rise in price; and that applies to one commodity or one hundred commodities.

The WITNESS: It is when it applies to commodities in general.

Mr. BLACKMORE: Then you would call it inflation?

The WITNESS: Yes.

Mr. BLACKMORE: That is correct.

Mr. FRASER (*Northumberland*): May I ask my question now?

Mr. BLACKMORE: Yes.

Mr. FRASER (*Northumberland*): Do you mind?

Mr. BLACKMORE: Louder. The people back here want to hear you.

Mr. FRASER (*Northumberland*): Mr. Blackmore, the one point—

Mr. BLACKMORE: I cannot hear you.

The CHAIRMAN: Stand up so we can hear you, Mr. Fraser.

Mr. BLACKMORE: There is a little disturbance and I could not hear you.

Mr. FRASER (*Northumberland*): The one point, Mr. Blackmore, speaking only for myself, that I am always chuck-a-block on in your argument is to have a clear-cut answer from you as to how you propose to get that money into the hands of the people?

Mr. BLACKMORE: You see, Mr. Chairman, the important point that Mr. Fraser is overlooking is the fact that I am not on the witness stand, and I am not giving that. But, when the time comes, I shall be very happy to tell Mr. Fraser; and if he will call at my office this afternoon, I will go into all the details with him.

Mr. FRASER (*Northumberland*): I apologize, Mr. Chairman. I realize that Mr. Blackmore is not on the witness stand, but I thought that was a very important point.

Mr. BLACKMORE: But you see, you must get the general principles first. That is what we are doing this morning.

Mr. FRASER (*Northumberland*): I would answer that by saying that I must become mesmerized.

Mr. BLACKMORE: I think the answers to the questions thus far this morning are very specific and very clear.

Mr. FRASER (*Northumberland*): I am doing my best to follow you.

By Mr. Blackmore:

Q. We come next to the question of how to control inflation. The fundamental cause of inflation is the development of a shortage of goods in relation to the effective demand, that is the purchasing power, which is in the hands of the people, which the people are willing and able to spend. With respect to the control of inflation, the first means of controlling inflation would be, in a long-range way, to increase production, would it not, Mr. Towers?—A. And not to give encouragement to an inflationary situation before that increase in production took place.

Q. That is the next exceedingly important point. Mr. Towers, in his Bank of Canada report, pointed out that there would be a tremendous increase in production in Canada. If that increase of production can keep just a little ahead of the increase in effective demand, there would be no danger of inflation. —A. Do you associate—and I know you are not on the witness stand, Mr. Blackmore, but it would help me—the increase in effective demand solely or largely with an increase in currency?

Q. Not necessarily. The matter of distribution enters in; and of course that is a very complex situation, as Mr. Towers fully understands.—A. Yes.

Q. And it would require, I think, perhaps a considered statement which I should be given an opportunity to present. I think I have answered the question. Then the first step in the control of inflation is an increase in production, not only in quantity but in variety, of goods in the country, which fact would lead us to suppose that a country like Canada, with very extensive and varied resources and with a wide and varied industrial development should, be in a position to offset inflation, should be in a unique position to offset inflation because Canada can expand her production in so many different lines on relatively short notice.—A. I think there are many steps which can be taken along those lines. But I would certainly not suggest that the first thing to do is to greatly increase the supply of money and hope that production will catch up.

Q. What I actually said was this. I started just where Mr. Towers left us in his report on the Bank of Canada.—A. Yes?

Q. There will be a great increase in production. That must be assumed, as Mr. Towers assumes it.—A. That there should be.

Q. There will be almost certainly. You notice Mr. Towers put that first in his report. He remembers. He put that first. May I read the words again?—A Yes.

Q. I will read the words on page 12 of the report. They are: "A working force of this size, at present rates of efficiency, will be able to produce a vastly greater volume of civilian goods and services than Canada has ever known before." This is the chief cause of our anxiety. This is the cause of our main anxiety over unemployment. Mr. Towers follows logically to this statement, "By the same token a vastly increased volume of consumption and capital development will be necessary if this output is going to be fully absorbed and high employment maintained." Since social credit has been mentioned, may I suggest that social credit has the technique, we believe, by which that vastly increased consuming power can be distributed in the hands of the people to enable the consumptive power of the people to keep pace with the productive capacity.—A. How is that done?

Q. Now that is asking for details again.

Mr. EDWARDS: Please reveal the secret.

Mr. BLACKMORE: The important points have already been developed. The first fundamental is that the government has the power to increase the money supply by creating debt-free or interest-free currency, which gives it the sharp tool with which to attack the problem.

The WITNESS: And then it uses the currency for what purpose?

Mr. BLACKMORE: As is wise.

The WITNESS: For what purpose?

Mr. BLACKMORE: It will use that currency for consumption; to put people to work, to increase their wages, to increase the prices to the primary producer, to decrease the prices of manufactured goods to the consumer.

The WITNESS: By paying subsidies?

Mr. BLACKMORE: Yes, by subsidy or compensating discount.

Mr. McGEER: National dividends.

Mr. BLACKMORE: All those devices can be used. That is answering Mr. Fraser's and Mr. Edwards' question. All those devices can be used to put purchasing power into the hands of the people in such a way that that purchasing power becomes effective demand.

Mr. SLAGHT: Build highways, electrify railroads, develop great waterpowers?

The WITNESS: All with currency?

Mr. McGEER: Instead of with debts.

Mr. SLAGHT: National credit.

Mr. BLACKMORE: Mr. Chairman, Mr. McGeer would like to ask a question or two.

By Mr. McGeer:

Q. In your statement this morning, Mr. Towers, I think you said, if I gathered it correctly, there was a period of inflation following the financing of the last war?—A. Yes.

Q. Due in a measure to the increase in the volume of purchasing power that was placed in the hands of the people at that time?—A. Yes.

Q. So that we might come to an understanding of our purpose I have always felt, and I still feel, that we place too much emphasis on inflation and that we do not give enough consideration to deflation. I think you will agree with me that the thing that caused the trouble in 1921 was a marked deflation in prices?—A Yes; I should think unavoidable at that time.

Q. There was a large accumulation of certain types of goods which all of a sudden came on the market, and there was a general feeling that prices were going to fall and people started to get out from under?—A. And the sudden curtailment in buying power in Europe, for example, buying power which hitherto had been provided by substantial loans; the loans were cut off and the buying power disappeared.

Q. That did not happen in 1919, 1920 and 1921?—A. That was in 1920 because you will remember Europe was being very heavily financed in 1919 by other countries. It was rather reminiscent of the 1926-1928 situation.

By Mr. Blackmore:

Q. Suppose instead of these loans having been advanced to Europe to provide purchasing power with which to buy Canadian goods the same money had been rendered available to the Canadian people to buy Canadian goods; then there need not have been a slump?—A. It was not Canada that was extending the loans.

Q. But Canada was involved?—A. Canada benefited from the purchasing power but did not make the loans.

Q. At the present time in the state of Canadian economy to-day she could advance those loans and is contemplating making loans?—A. Yes.

By Mr. McGeer:

Q. In 1939 you filed a memorandum and tables, you will recall, at page 77, and you gave the record of the money issues in Canada. What I would like to draw your attention to is the money available as purchasing power to the

Canadian people in 1914, that is, coins, $19,000,000; dominion notes, $162,000,000; bank notes, $106,000,000, bank deposits, $1,052,000,000. The increase was marked throughout. In 1918 coins had risen from $19,000,000 to $25,000,000; dominion notes from $162,000,000 to $327,000,000; bank notes from $106,000,000 to $224,000,000; and bank deposits from $1,052,000,000 to $1,842,000,000.—A. The $1,842,000,000—it is hard to follow these lines—was 1917 or 1918?

Q. I have it 1918.—A. Oh yes, that is right.

Q. And it kept rising slightly until 1922. In those figures we see almost 100 per cent increase in the purchasing power of the people of Canada?—A. In the amount of currency and bank deposits.

Q. Medium of exchange available?—A. Yes.

Q. And that, of course, was the inflationary condition as far as the monetary factor was concerned that was responsible for the rise of prices?—A. Yes.

Q. In part; I mean in so far as the monetary effect it had. The interesting feature of that is that our deflation stabilized and we continued until we rose to the inflation of 1929.—A. Stock inflation rather than commodity.

Q. Well, there was general commercial activity as well, but if you will notice in 1929 coins had increased to $32,000,000; dominion notes had fallen from $327,000,000 to $203,000,000; bank notes had fallen from $224,000,000 to $175,000,000; and bank deposits had risen from $1,842,000,000 to $2,270,000,000. Those figures are correct?—A. Yes.

Q. You will notice we had a substantial deflation in both dominion notes and bank notes and an increase in bank deposits?—A. Yes.

Q. So that any inflationary condition which developed at that period of time, that is 1929, in so far as monetary factors were concerned was solely due to the inflation of bank deposit currency?—A. I was trying to follow these figures. I think I missed a line.

Q. I think I have taken them off correctly.—A. Yes.

Q. There is no question about that, is there?—A. I did not quite hear your remark.

Q. There was deflation of dominion notes?—A. Yes.

Q. That was our national currency at that time?—A. Yes.

Q. There was deflation or a decrease in bank notes?—A. Yes.

Q. And only an increase in bank deposits?—A. Yes.

Q. So if the cause of the inflationary condition in the stock market was due to monetary conditions it was due solely to an increase in bank deposits?—A. I think it would add to clarity if one did not refer to the stock market boom which took place during those times as inflation. I agree that the word can be used, but if one reserves it to describe a decrease in the purchasing power of money in terms of goods I think it is helpful. You see on that basis I would not agree that there was inflation during the years 1926, 1927 and 1928. In fact, what we were experiencing was what I would call only a reasonable volume of good business. Unfortunately the foundation on which it was built proved to be insecure and trouble ensued. The degree of that trouble was made more acute by the gambling which had taken place in stock markets, but that was not the fundamental trouble.

Q. I heartily agree with you in your statement that—

Mr. FRASER (*Northumberland*): Would you mind an interruption?

Mr. McGEER: Not at all.

By Mr. Fraser (Northumberland):

Q. May I refer to the statement that the Governor has just made when he said he would not consider the stock market boom as inflation? May I ask him this question? For instance, if the island of Anticosti was bought for $7,000,000 and the brokers sat in with the bankers and convinced the bankers they could resell that island to the public for $14,000,000 does the Governor consider that inflation? I am just taking one particular case.—A. I consider that an unfortunate individual transaction in that case.

Q. But there were many of them?—A. But not a decrease in the purchasing power of money in terms of goods.

Q. The point I am making is that you agree that was an unfortunate transaction. Will you go further and say that was an inflationary transaction? Is that correct?—A. To the extent these things take place on borrowed money the tendency would be inflationary but, in fact, even the quantity of loans which were made during those times did not result in such an increase in demand for goods that it outstripped productive capacity.

Q. I will follow you along on that, but take that one instance of the island of Anticosti. When the brokers went to the bankers they convinced the bankers not that there was 100 per cent increase in the value of their purchase; they convinced the bankers they could sell $7,000,000 for $14,000,000.

Mr. McGeer: That they could manipulate the market.

Mr. Fraser (*Northumberland*): And manipulate the market.

Mr. McGeer: And the bankers sat in.

By Mr. Fraser (Northumberland):

Q. You said there was no great number of these instances— A. No, I did not say that.

Q. You said it was tributary. Is that what you meant to convey?—A. That it was not a major cause of the depression.

Q. No, I will agree with you there, but what it did do was this; it not only inflated but that inflation was reflected on the goods people had to buy. Let us go one step further.

Mr. Blackmore: The Governor of the Bank says it is not so.

By Mr. Fraser (Northumberland):

Q. I will get away from the island of Anticosti. There was no conceivable business in the Dominion of Canada that lawyers, brokers and bankers could get possession of during that period and sell to the public at highly inflated values that they did not do so, and the result of that was an increase in the cost of the commodities which were sold to the people across the Dominion of Canada.

Mr. Blackmore: He has just said no.

The Witness: That that was reflected in an increase in the cost of commodities? I doubt it, but I could not be dogmatic on it.

Mr. Fraser (*Northumberland*): I am not dogmatic. I am realistic. The fact was, and we all know it, that it was the ability of the brokers, with the acquiescence of the bankers, to blow the industrial boom of Canada past any reason, I think to a ratio of about 120 at that time. If that is not inflationary, referring to the reply you made to Mr. McGeer a minute ago, then I had better get a dictionary and look up the meaning of the word "inflationary".

Mr. Blackmore: You are thinking of two meanings of it.

The Witness: I expect you to understand I am not saying developments of that kind were not extremely bad. I think they were. I think they accentuated the trouble. I was only trying to put them in their place of relative importance, so to speak, and to say that a substantial inflationary increase in the general level of commodity prices did not take place around the world during that period.

Mr. Fraser (*Northumberland*): If that is the reply, Mr. Chairman, it only accentuates the stupidity that was exhibited at that time by the controllers of finance in this country.

Mr. McGeer: Who were the bankers.

Mr. Fraser (*Northumberland*): Who were the bankers and brokers. It only accentuates that if we take your reply in its entirety because world conditions were going on. Surely the economic advisers of the bank knew that. The press reporters knew it. It was in the press. Surely the bankers knew it. So that if you say that we in Canada stepped in on top of everything that it was known was happening throughout the world and we inflated our balloon in this country the way we did then it was the worst type of stupidity.

The Witness: What people thought was going on at the time was a very substantial expansion of sound business. Times were good. Markets were active—and I am not talking about stock markets but about markets for goods. Companies were making profits. It was thought that a new era had come and that these profits would continue forever. What people neglected to observe, and again I say this is hindsight, was that so much of that prosperity was founded on tremendous international loans. When those were suddenly cut off then the trouble came, and the hope that profits would continue at a very high level and warrant in due course some of the security prices which were prevailing, that hope suddenly disappeared.

Mr. Fraser (*Northumberland*): Mr. Chairman, may I submit this to the governor that in his statement just now he has referred to an extremely important factor in this country, an extremely important factor before this committee. I did not follow him along when he said that the Canadian people believed this era of prosperity would continue. I say this to him, that the Canadian people took their leadership from the bankers and brokers and followed what was said to them by Canadian bankers and brokers. Now I say that it is important that this be known. If the Canadian financial institutions are going to continue as leaders of the Canadian people, with the confidence of the Canadian people, then we must recognize that they were in fact stupid at that time during one of the worst depressions that ever occurred.

Mr. Slaght: The brokers went to jail.

Mr. McGeer: That is partly what I had in mind in these questions.

By Mr. McGeer:

Q. Now, we did have in 1929—I agree with you that it was not an inflation because I believe if you will check the figures you will see that the price level held fairly firmly with a slight decline in agricultural prices; so that when these conditions obtained to develop a speculative mood in the stock market it was not general inflation at all?—A. No.

Q. It arose from an increase in bank deposits which were substantially used in that market; you look at your current loans and you will see— —A. I haven't the figures; undoubtedly that was quite a factor.

Q. That was quite a factor. I think we can agree on that and I do not think anybody will disagree with us.—A. No.

Q. Now another thing that took place between 1925 and 1929 was the accumulation of public securities by the banks.—A. I would have to have a look at the figures. I do not think that they increased very much during that period.

Q. I think you will find that while the dominion government decreased its debt during that period by about $280,000,000—I think that is the figure, yes—a substantial number of securities held by the public apparently were transferred to the banks?—A. I do not think so, Mr. McGeer; but perhaps Mr. Tompkins has the figures there.

Q. I am just speaking from memory.—A. I think the increase in deposits during that period related more to increass in loans than to increases in government securities held by the banks.

Q. I think you will find that they were used as security for deposits to a point which in turn steadily came into the hands of the banks.—A. Mostly I think by industrial bonds and shares.

Q. I believe if you will check up the public security line you will see it goes steadily along right up to where it is to-day. Now having agreed that there was a deflation in 1921 and an inflation from 1921 to 1929—a situation which was referred to as inflation by Mr. Fraser in the stockmarket—there came a precipitate deflation commencing in 1930?—A. Yes.

Q. And continuing very definitely, I think, until around 1934. Now, if you will look at the figures in 1933 you will find that coin increased to $33,000,000, dominion notes fell to $182,000,000, bank notes fell to $132,000,000 and bank deposits went to $1,933,000,000; so that our total volume of bank deposits was greater in 1933 than it was in 1918?—A. Approximately the same, yes.

Q. Well, almost; an increase from $1,842,000,000?—A. Right. Sorry, I read the wrong line.

Q. That is a very substantial increase. Now, if the issue of purchasing power into circulation was responsible for the inflationary condition in 1921, tell me why in the same Dominion of Canada a larger amount of purchasing power resulted in a deflation in 1933; because that was the very bottom of our depression. What I want to understand is that notwithstanding the fact that we had more purchasing power in issue in 1933 than we had in 1918—A. A decline in velocity of circulation, I would say.

Q. Well, it may be; but might it not also be distribution of buying power?—A. That would have a bearing on it.

Q. For instance, if one man who had a large sum of money decided to hold it and unemployment came on and a lot of people had no money at all, had nothing, that was a condition that was bad, wasn't it?—A. Yes.

Q. And that really was the result?—A. Yes.

Q. But again you find the people dependent upon what is a bank deposit currency the volume of which is circulation and issue and the distribution of which was under the control of the chartered banks at that time—that is in 1933?—A. I do not think the people were dependent so much on currency as they were on employment; that in turn depended on the level of public and private investment in Canada. It depended on the ability to sell a substantial portion of our production abroad. Those sales of course were greatly curtailed at the time you mentioned. The volume of private capital investment also declined—these various factors deprived the people of income.

Q. Absolutely.—A. That was the cause of the trouble.

Q. But, in so far as the exchange was concerned, the medium of exchange upon which the people were dependent was the bank deposit currency or the bank deposit credit; whatever you care to call it?—A. Yes.

Q. And that was at the time in the control of the chartered banks?—A. Oh well, only to this extent—

Q. In any event I think that the figures of 1918 and 1933 disclose that the volume of currency in issue can produce under given conditions opposite results?—A. Yes.

Q. On the one hand you had in 1918, because of the increased volume of currency, an inflationary condition, and in 1933, on the other hand, you had more currency in circulation in Canada or in issue, and you had the most disastrous depression that we have ever suffered?—A. Yes.

Q. All right; now, there was another thing that had a very definite effect upon the distribution of our spending power at that time, and that was the debt load carried by the Dominion of Canada?—A. It would have a certain bearing, yes.

Q. Yes, definitely; and our debt load rose from 1914 from something less than $500,000,000 to fairly close to $2,500,000,000 in 1933?—A. I have't checked those figures but I will assume that they are correct.

Q. And we have a proportionate increase in the debt load for our municipalities, cities and provincial governments?—A. There was an increase, I don't remember how much.

Q. As a matter of fact, you know they increased very very substantially from 1921 to 1930?—A. Yes.

Q. And our progressive prosperity which we enjoyed in Canada from 1921 to 1930 was due to the expansionary program of the provincial and civic governments throughout the dominion?—A. I would have thought that that was only a relatively small proportion of the total.

Q. It gave employment to a lot of people?—A. Oh, I should say the tremendous volume of our export trade was a much more important factor; and also the high level of domestic capital investment other than public.

Q. Yes. Well now let's come to 1938; and in 1938 if I remember the figures correctly our unemployment relief stood at something over a million people in Canada?—A. I did not remember that it was of the order of a million in 1938.

Q. I recall that we dealt with it in 1939; I think it was at page 259 or thereabouts and I think you will find it referred to about a million people at that time.—A. Including dependents?

Q. Yes, I think we had 300,000 on relief; that is employables on relief in 1939. Now, if you will take a look at the same figures you will see that our coin increased to $35,000,000, our dominion notes fell to $175,000,000, our bank notes to $88,000,000; and our bank deposits rose to $2,498,000,000—is that it?—A. In 1938?

Q. Yes.—A. $2,498,000,000, yes.

Q. That is right. Again I want you to look at the comparison of these figures in 1938 and 1916 when our medium of exchange had been increased from $1,842,000,000 to $2,498,000,000 and in 1918 a condition of inflation was caused, and despite the fact that we had more than double the volume of currency in issue we still continued in a depression or a condition of continuing deflation.—A. Not deflation in commodity prices, but insufficient employment, certainly.

Q. Well, a condition of deflation. That I think marks a true situation of deflation, unemployment in the land. Now, Mr. Towers, at that time when there was a lack of jobs to be done we were faced with a threat of war. There were hundreds of thousands idle men and women. And for some reason—and I say to you that it was due to the debt condition of the dominion government more than anything else—we could not find the means then to put men and women to work providing for what was recognized by many and proved to be a reality in a very short period of time—could not afford to put men and women to work providing for the defence of the enormous wealth of Canada, and of the Canadian people.—A. I never said that we could never afford it. You raised that question in 1939, Mr. McGeer; it is somewhere in this blue book here.

Q. Yes, you told me at that time that monetary expansion had reached the limits of its power.—A. I am trying to find the part here, but it is rather elusive. I recall the question very well; I think it was from you, Mr. McGeer; but I cannot swear to that; and that question was, substantially, this—if war came would we not at once spend hundreds of millions of dollars upon war?

Q. Yes.—A. And the answer was, yes.

Q. And we had the means to do it?—A. That is right.

Q. And now, we agree that we had the means. But we did not have the will to do it. And now, that was a very different position from that taken by the Minister of Finance of that day. **We had advocated the use of national** currency and we said you can use national currency to alleviate the debt position and to alleviate the unemployment position without increasing the burden of taxation or the burden of debt. But the point I want to recall to you is this, that we in 1938 were dependent upon a bank deposit currency which, subject to the controls you exercise through the Bank of Canada, was a currency controlled by the chartered banks?—A. No more than it is now or than it has been during the war. In other words, if government needs and policies are such that an expansion of deposits is called for, that expansion will take place.

Q. In so far as inflation is concerned, is there any difference between the methods of financing the last war and those being employed in this war?—A. Yes.

Q. What are they?—A. The proportion of government expenditures collected in taxation is very much higher than it was in the last war; the emphasis placed on savings and on a wide distribution of government bonds is very much greater.

Q. Yes.—A. True, I think that the war finance organization in the last war did a very substantial job in that field; but by the tests which we apply nowadays, it was a very much more restricted job than is now being done.

Q. Yes.—A. So that there are those differences on the taxation side, on the explanation to the people of the need for savings and the success of that explanation, and finally on the controls; those are the differences in this war as compared with the last war; and incidentally, a very much lower level of interest rates and the absence of any tax-free securities.

Q. There is another thing I should like to draw to the attention of the committee.

Mr. Perley: Mr. Chairman, it is now adjournment time and Mr. McGeer cannot possibly close to-day. Before we adjourn I should like to make a suggestion. We have a subcommittee, and I would suggest that before we meet again, which I suppose will be on Tuesday, that subcommittee meet and bring in a report as to how we might speed up the proceedings of this committee. I think we should get into the clauses of this bill, consider them and then leave say one clause open so that we can go on with this general investigation and inquiry. We know the difficulty we had to-day in getting a quorum. I think there ought to be some way developed by which we could speed up the proceedings of this committee and get cleared up.

Mr. Jaques: Mr. Chairman, before we adjourn, may I say that I have received a letter from the Alberta Farmers' Union, which represents a very large proportion of the farmers of Alberta. I should like to move that this letter be filed with the clerk, that the questions asked, and there are twelve of them, be answered by the appropriate authority, and that the questions and answers be printed in the report of the committee.

The Chairman: Mr. Perley, may I just say that there would have been a meeting of the subcommittee before this, but two members of the committee—and it is a very small committee, as you know—have not been here this week. As soon as they return, I will call a meeting of the subcommittee. Mr. Jaques has just moved that the brief filed by a certain organization be printed. What was the name?

Mr. Jaques: The Alberta Farmers' Union.

The Chairman: Yes; that it be printed?

Mr. Jaques: Be printed, and the questions answered by the appropriate authorities; and that the questions and answers be printed in the record of the committee.

The Chairman: Suppose we take it one step at a time and have it printed so that the members can read it first. Then we will proceed to the second part of your suggestion. Shall we adjourn until Tuesday?

Mr. SLAGHT: Before we adjourn, Mr. Chairman, may I ask Mr. Towers whether he expects to go as part of the delegation representing Canada to the conference at Bretton Woods?

The WITNESS: To the monetary conference?

Mr. SLAGHT: Yes, to the monetary conference.

The WITNESS: I believe so.

Mr. SLAGHT: The assistant to the Minister of Finance being here, could he, consistent with the public interest, disclose to the Banking and Commerce Committee of parliament who the other representatives of Canada will be at that conference?

Mr. ABBOTT: I am afraid I cannot to-day. I am not quite sure who they are. I know I am going to be one of them. I heard some of the names of the others. However, I think perhaps the minister or perhaps the Prime Minister would prefer to make that announcement. I have been given unofficially those who are, I understand, to be the delegation, and I am told I am one of them.

The committee adjourned at 1.05 p.m. to meet again on Tuesday, June 27, at 11 a.m.

June 27, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock, a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: The Governor of the Bank of Canada has a statement to make.

GRAHAM F. TOWERS, Governor of the Bank of Canada, recalled.

The WITNESS: During the meetings of the committee at which I have been present as a witness, the great majority of the questions addressed to me have centred around the thought that the Bank of Canada should issue more currency. Several members have broached this subject on more than one occasion—each time from a slightly different angle—with the result that I am afraid that my various attempts to supply the answers may not have given the committee a very clear picture of the situation.

The suggestion of making more extensive use of the currency-creating machinery at hand in the shape of the Bank of Canada has not come as a brand-new idea. My recollection of the proceedings of the committee in 1939 is that the same thought was uppermost in the discussion. Financing government expenditures such as public works by the issue of currency and 100 per cent cash reserves for the chartered banks were proposed then and replies were placed on the record by myself in the form of several memoranda. At that time I pointed out that the volume of Canadian money had been expanded substantially above the 1926-29 level and the commercial banks kept in a liquid cash reserve position so that they were well situated to meet demands from the public for loans or to purchase government securities. It was my considered judgment that there was not a shortage of the medium of exchange in Canada at that time and that the banking system was in a position to provide more credit to government and business when it should be requested.

Since 1939 as you all know we have had a very large amount of monetary expansion. The total amount of money in Canada at the end of last year was 90 per cent larger than at the end of 1938. This great increase in the amount of money did not come about because the Bank of Canada adopted a different attitude towards credit expansion than it held in the pre-war years. The real reason was that the government's huge war expenditure program made it necessary for it to obtain large sums from the banking system over and above the amounts raised by taxes and public loans.

If someone were to put the question about more currency expansion on a definite basis and ask me if we should not have resorted more to credit expansion during the war so far, I should have no difficulty in framing my answer —which would simply be—no!

The degree of credit expansion we have actually experienced has been an appreciable factor in making it necessary to maintain various direct controls over our economic life. But for these controls and the willingness of the public to refrain from spending their extra cash in full during the war, we would have experienced a substantial degree of inflation in Canada by now. Knowing that direct controls can only stand a certain amount of pressure and from experience of other countries that people only accumulate money willingly up to a point, I say it would have been madness to have deliberately increased the proportion of our financing provided by the issue of money.

I am sure that no member of this committee wants to see inflation. Those who have advocated more currency expansion have said that it is no part of their plans to have such a disaster occur. The real issue thus becomes one of judgment as to how far one should go. I have had to refer frequently to the dangers of inflation, i.e., a great increase in living costs. I regret having had to do so because I do not want to leave the impression that I am one of those who sees the bogey of inflation around every corner. Perhaps the actual fact of $3,000 millions monetary expansion in Canada since the Bank of Canada commenced operations will serve better than words to indicate that the bank is not unduly timorous in these matters.

When war-time and immediate post-war shortages of goods and services have been overcome the danger of inflation will be much less than it is to-day. In this connection I would like to refer to the remarks in my annual report to the Minister of Finance on the subject of interest rates after the war. I said:

"A policy aimed at higher interest rates would only become intelligible if after war shortages are over, consumers' expenditure and capital development were to proceed at a rate which would overstrain our productive capacity. I see no prospect of such a situation arising in a form which would call for a policy of raising interest rates." That was another way of saying that I see no danger of inflation in Canada after the war and immediate post-war pressures have been lifted, provided that we are reasonably sensible in the management of our financial affairs.

At the same time I should point out that I see no danger of post-war deflation brought about by a contraction in the volume of money. Unlike the situation in 1920 and 1929 which has been referred to during the proceedings of the committee the increase in the volume of bank credit in recent years is not based on speculative loans but upon government securities—and thus is on a very much firmer foundation. And in the memorandum which appears at page 84 of the record of proceedings of the committee, I have said that I would not be afraid to support further credit expansion in post-war years if the situation warranted such action.

At least one member of the committee has approached this question of issuing more Bank of Canada currency, by suggesting that all credit expansion to meet government needs should be obtained from the central bank rather than in large part from the commercial banks. Whether or not it is also envisaged that the degree of total monetary expansion would be greater, I do not know. This proposal was accompanied by the suggestion that any secondary inflationary expansion could be prevented by requiring the banks to keep 100 per cent cash reserves. In this form the scheme becomes a fiscal matter rather than a monetary problem. I have discussed what I believe to be the inequities of such a plan on several occasions this year and in the memoranda submitted in 1939. With respect to this suggestion of issuing non-earning cash to the chartered banks instead of short-term government securities it is my considered opinion that the policy followed of issuing government securities to the banks at an average interest rate of about 1 per cent and paying such interest out of general government revenues has been more equitable for the Canadian public than the alternative of forcing adjustments in deposit interest rates, service charges or other items. This view is based on certain beliefs. One is that $1\frac{1}{2}$ per cent on personal savings accounts could not be considered high in relation to the general interest rate structure. Another is that to have forced a general increase in service charges on bank customers would have brought about an increase in their cost of doing business and added to prices and the cost of living at the very time we were trying to keep it down.

Some members of the committee have suggested that there could be more monetary expansion through the Bank of Canada issuing currency, without incurring inflation. Two reasons have been put forward. First, there has been the thought that modern methods of control make inflation an extremely unlikely occurrence unless the state deliberately uses the device of issuing currency to debauch a people as in occupied Europe. Second, there is the suggestion that since I have admitted there is no absolute yardstick by which to judge exactly how far one should go, why not go on a little farther and see what happens. If no harm results, then go on a little farther still, but stop when signs of danger appear on the horizon.

I have shown, I think, that our past policy—and probably our future policy—is to go as far in currency expansion as our judgment indicates to be desirable or essential. To exceed deliberately the bounds set by careful judgment of the situation on the theory that the judgment might prove to be wrong is, in my opinion, a dangerous mental and moral attitude for any responsible person to adopt. It is exactly the line of reasoning which gets human beings into serious trouble in any field of activity. The great inflations of history did not always come about because people advocated unlimited issue of money. In the first instance when the stage was set for the disaster to come, you may find some "moderate" man arguing that while this currency expansion would be a bad thing if carried too far—that the issue of only a small amount could do no harm.

I think everyone who has advocated more currency expansion in Canada has coupled the money available to government in this way with the carrying out of certain public expenditures. Quite unintentionally, I believe, the impression is left that we are all agreed about these expenditures and that the most important issue before us is to find a way in which the financing can be obtained without cost through the banking system. In my opinion, this would be a glaring instance of the tendency of people to talk too glibly about the problem of maintaining full employment after the war. This kind of talk tends to divert attention away from the fact that the real planning and agreement on public expenditures may not have taken place. Without such detailed planning the projects would never even get to the stage of financing. It is in this field that I am convinced lie the "adjustments of unprecedented magnitude" to which I referred in my Annual Report. I think it would be a fatal mistake if we approached the problems of public works and social security, saying that this or that could be done if the cost were forthcoming by the issue of currency. Such a proposal would imply that our people would not support the proposals in question unless they were fooled into believing we were getting something for nothing. I do not suggest for a moment that anyone is intentionally suggesting that line of approach, but I think that pre-occupation with the part to be played by the issue of currency after the war does, in fact, get us dangerously close to the position which I have mentioned.

In conclusion, I should like to say that although I find myself so often in the position of trying to show why various suggestions are really not as attractive as they might seem at first glance, I hope that I shall not give the committee an impression of exaggerating the threat of inflation or of defending the status quo in financial matters. While I am quite sure that the last word has not yet been said on money and banking, and that there are improvements which can still be made, I am positive that there is no magic financial policy which would solve our problems and make it unnecessary for us to tackle the very many real difficulties we shall face in the post-war years. Our war program was not decided on the basis of how much could be paid for through currency expansion. A great deal of hard work went into that program and because it commanded the support of the Canadian people it has been possible to deal with the financial problems. I hope we will tackle our post-war problems in the same spirit. There are far more difficult things to decide than what degree of currency expansion would be appropriate to the circumstances of some future time. If our post-war policies merit public support I have no doubt that we can formulate an equitable financial policy.

The CHAIRMAN: Thank you, Mr. Towers. Are there any questions to be asked?

By Mr. Blackmore:

Q. Mr. Chairman, it is well that the Governor of the Bank of Canada opened these proceedings by giving us a discussion of inflation again. I should like to have us spend more time still on the matter of inflation, because I believe that when we fully understand the problem of inflation we shall have laid the foundation upon which we can build safely in the future. May I first of all ask two or three questions which have arisen in my mind while Mr. Towers was reading his statement. Was not the real cause of this credit expansion in Canada the fact that the dominion government was able to provide a ready and adequate market for the goods that were to be produced?—A. No. The real cause was that the full borrowing requirements of the government could not be obtained by subscriptions from the general public. A certain number of people wanted to keep their savings in other forms, either in the form of cash or in the form of bank deposits. That was their choice which they were perfectly entitled to make. The government was enabling them to exercise that choice by doing part of its borrowing through the banking system.

Q. I had the impression that, in referring to the expansion of credit, you had in mind the total expansion of credit throughout the dominion, also that which took place for productive purposes, for instance.—A. You say, "that which took place for productive purposes." Necessitating bank loans, you mean?

Q. Yes.—A. Bank loans, practically speaking, have not increased since the beginning of the war. They increased for a while, but they have gone down since.

Q. The statement which you have just made is an astonishing statement to me; because as soon as the war broke out we found that our farmers, all through my area, had very little difficulty in obtaining loans, whereas before the war broke out they experienced very great difficulty in obtaining loans. If anything of a condition similar to that obtained throughout the Canadian economy—and I think we must assume it did—then certainly there must have been a great deal more lending for production during the war than there was in 1938 and 1939, for example.—A. There was a certain increase during the early years. But that has been reversed since that time. Some types of business in the community have needed advances to a greater extent than before the war, others less. But on balance, the figures tell the story, and they show that at this time the over-all need for bank credit by business is not particularly greater than before the war.

By Hon. Mr. Hanson:

Q. They were merely normal increases?—A. Increases due to expansion for war work.

Q. Only?—A. But as time has gone on, businesses have been able to finance more and more from their own funds. In other words, it was not inability to get credit; it was the lack of the need for the credit, which gives us the figure for loans which we have on the bank books to-day.

Mr. TUCKER: Could we have the figures for that while we are at it, Mr. Chairman?

By Hon. Mr. Hanson:

Q. Mr. Towers, would it not be more accurate to say that business financed out of government finances?—A. I beg your pardon?

Q. I say would it not be more accurate to say that business financed itself from government finances, government loans. That was a mighty factor, was it not?—A. That was an appreciable factor in the early stages, yes.

By Mr. Blackmore:

Q. Will the figures which you have given include also the money which the government advanced for production?—A. No, they will not. They will be the bank loans.

Q. That would be an extremely important matter, I think, from the point of view of the honourable member for York-Sunbury.—A. It is not an enormous figure. It does not have a major bearing on the question of credit expansion in Canada.

Q. An important aspect of it would be this, however. There has been available for desirable production during the war all the money which was needed by industry to bring about that production.—A. I should inquire about the question of desirable; not only desirable, you mean, but also salable?

Q. I am very glad you mentioned that, because that is the thing I started with, salable. Suppose we fix our attention on the matter of say, hog production. It would have been extremely difficult for any man to borrow money in 1938 to produce hogs, but there was no difficulty at all in borrowing money in 1940 to produce hogs, or in 1941.—A. Would the individual concerned have wanted to borrow money in 1938 to produce hogs unless he thought he could sell them at a profitable price?

Q. That is right. That is exactly it. It was the fact that he was able to sell those hogs.—A. That he would want to get credit.

Q. Exactly so.—A. And as he could sell the hogs, he would get credit.

Q. Exactly so. That is the point that led to my question there. Actually the matter which influenced the situation was the fact that the government was prepared to buy all the hogs that the man would produce at remunerative prices which enabled the man to go and borrow the money to produce the hogs. —A. Yes. And of course he would have been just as well off if the public in general had been prepared to buy all the hogs produced at remunerative prices.

Q. Which is exactly the thing we wish to establish. So the stress in your statement, Mr. Towers, I think, or the emphasis was placed slightly on the wrong point.—A. Which statement?

Q. In your opening statement.—A. I do not think so.

Q. I am labouring under this difficulty. I have only what I can recall from reading your well-written and well-prepared statement. I shall have more to say regarding the statement when I can examine it at a little later time. But one of the major fallacies which is being promulgated throughout the country to-day, is that, somehow or other, it was the fact that the people were all interested in conducting the war and winning it, which caused us to be able to do the things we were able to do—to employ our people and so forth during the war—when, as a matter of fact, the major factor operative in the situation was that the government was prepared to buy the goods which were produced at remunerative prices, which enabled the producers to sell the goods, which enabled them to borrow credit safely and enabled the banks to lend safely. Just as soon as we concentrate on that aspect of it we will see that the thing we need to do in peace, in order to be able to bring our economy into a state of abundance or prosperity, is to concentrate on the marketing aspect or the consuming aspect of the economy.—A. The sense of the statement which I made was somewhat along those lines, because I did urge that attention should be concentrated on the physical problems. It has been stated that what is physically possible is financially possible; and with certain proper qualifications, I think that is true. Therefore I urged concentration on the physical problems rather than approaching the whole problem from the other side, that is, that by some issue of currency we could obviate the necessity of overcoming our real difficulties on the physical side.

Q. Among those physical factors or physical problems you would include the one of consuming?—A. Yes; and of providing employment, which is a companion piece.

Q. I think that is completely satisfactory now. Now let us look at this aspect of the whole question. Before the dominion government was able to buy the hogs, we will say, to ship to Britain, the dominion government in one way or another obtained the money with which to buy those hogs?—A. Not before.

Q. At the same time, then.—A. They made their plans for the buying of the hogs as well as all the other war activities, just as the Minister of Finance outlined the plans for the present fiscal year yesterday evening, and has outlined how those will be financed.

Q. Exactly. They knew that during the stress of war they would be able to obtain the money to buy the products even before they encouraged the farmers to produce.—A. As I have indicated in the statement again to-day, I believe that any sound program, whether in war or in peace, can be financed; not without cost, though.

Q. That is the matter which we must concentrate on. It is, however, in the last analysis, a matter of obtaining the money with which to buy, just as it is important that we know that the physical capacities, the resources of the country, are such that the goods can be produced.—A. A matter not of obtaining money, because the dominion government can always obtain money. It is a matter of deciding the sources—how much from taxes, how much from borrowing the savings of the people.

Q. And how much from creation?—A. How much from the creation of currency, which is an indirect means of borrowing the savings of the people.

Q. We shall examine with some care, by and by, that statement that the creation of currency is an indirect means of borrowing the savings of the people. We shall examine that, but we have not the time to examine it to-day. The contention of social crediters and monetary reformers is that if the government can obtain the money to buy the products of the country during the war—in other words, to provide adequate markets at remunerative prices—the government can do exactly the same thing in peace, if it chooses to do so.

Hon. Mr. HANSON: What about the will of the people? That is a factor.

By Mr. Blackmore:

Q. That is a fine question. Let us get the answer from Mr. Towers first.—A. Of course, you realize how it has been done during the war. It has been done by the people making the necessary contributions in the form of taxes and in the form of foregoing the use of their savings.

Q. But the people had nothing to do with the creation of that 6 per cent or 7 per cent of currency which you mentioned the other day. The people had nothing to do with the creation of that.—A. Oh, I agree that the people temporarily, so to speak, are powerless to avoid currency creation by government. But if it takes, eventually, a form which is unsatisfactory from the point of view of the people, they will take the necessary steps to change the government. But as a temporary matter, they have to receive this legal tender in exchange for their services.

Q. That is sufficiently answered, I think, at the present time. Now may I turn to the question of the member for York-Sunbury. I wonder if he would say that any farmer in Canada would not have been willing in 1938 to produce hogs and sell them at such remunerative prices as prevailed in 1943?

Hon. Mr. HANSON: Nobody but a fool would ask that question.

Mr. BLACKMORE: That is right. You entirely overlooked the foolishness when you asked the question.

Hon. Mr. HANSON: You are wasting our time.

Mr. BLACKMORE: It was a foolish question that the member for York-Sunbury asked.

Hon. Mr. HANSON: No, it was not.

Mr. BLACKMORE: It is exactly that. All I did was analyze the question of the member for York-Sunbury to show how foolish it was.

The CHAIRMAN: Order.

The WITNESS: While we are on the subject, may I say I think that one of the real problems to which I referred is just that one of what hog production we can find a market for after the war. That is not a monetary question; because it is impossible for the Canadian people to eat as many hogs as are now being produced in Canada. It is not a monetary matter.

By Mr. Blackmore:

Q. It was a monetary matter during the war, was it not?—A. During this war?

Q. Yes.—A. A monetary matter?

Q. Exactly. We could never have supplied the hogs to Britain if we had not had the money in Canada to buy the hogs with?—A. We will always have ample money for any purposes which the government decides on, for anything which the government decides to undertake. It would be possible for the government after the war to continue to tax or borrow money.

Q. Or create?—A. Or create, to buy all the hogs now being produced in Canada and kill them or give them away.

Q. May I interrupt for a moment? I want to keep the record straight.—A. If the people support the policy.

Q. It would be possible for the dominion government to obtain money in one of those three ways, or in all three of them, to buy as many Canadian hogs as every Canadian wished to eat if he had all the hog meat he wished.—A. Yes.

Q. And as to giving it away suppose the dominion government bought hogs and gave them away to the lowly who probably do not get a taste of hog meat once in six months; that could be done, too?—A. Of course, you realize that the dominion government does not operate in a vacuum, so to speak. I think that is a correct statement. If it gives them away it gives them away on behalf of the Canadian people. The Canadian people are providing food supplies, weapons of war and other things which are going to other countries, the Canadian people as a whole are providing these articles, by their taxes and their savings. They can provide things to our own people if they are willing to do so.

Q. Exactly; that is well put. During the depression, 1932, 1933 and 1934, it was the will of the Canadian people that no one should go hungry and starve to death in Canada so we taxed ourselves most painfully in order to provide relief. It would have been just as easy for the dominion government had it willed so to do, and the Canadian people would have been behind them, especially if the money used had not been taxed from them, to supply twice the relief, or three times?—A. I do not think, Mr. Blackmore, I can add anything to what I have already said to-day on another occasion. You will recall I said the same question keeps on coming up in different ways. It all leads to the thought that there is a magic way of doing these things without inflation and without any cost to any individual, without any individual foregoing anything, that it is a marvellous means of something for nothing. I have apologized to the committee already this morning for referring so often to the subject of inflation. If we run our affairs reasonably well I am not afraid of inflation, and I am not afraid of our ability to finance a program if only we can get away from the thought that the cardinal feature in every case is, "Can we do it for nothing; can we do it by currency?" If I talked myself blue in the face I know I could not do any better in the way of explanation than I have done. I think it will just create confusion if on every single angle that comes up I try to go over the same ground again, on hog production, on 1934 relief, perhaps on wheat, perhaps on this and that. It is all the same story, and I have done my best to deal with it in such fashion as I can.

Q. I think that the statements you have made, Mr. Towers, have been frank, honest and well informed. You do not need to say any more than you have said right here this morning. All that is necessary is just what you have said here this morning. As to getting something for nothing—with no imputation against yourself—I think it is a complete piece of dishonesty to talk about something for nothing, a complete piece of dishonesty. Six or seven per cent of the funds we have used to fight this war you have already told us were financed by the creation of money, by the creation of credit?—A. For this war?

Q. Yes.—A. In very small part.

Q. Six or seven per cent?—A. Six or seven per cent, and that involuntary.

Q. That portion we certainly did not get for nothing, nor does Social Credit or monetary reform propose something for nothing.—A. People, of course, are holding that in the form of cash or bank deposits.

Q. Exactly, and they are producing goods which were bought with it?—A. And, as I have suggested in the statement to-day, the expansion under war conditions, has accentuated our difficulty in controlling inflation.

Q. But it has expedited and facilitated our problem of financing our war?—A. Oh, I do not think so.

Q. If it did not why was it resorted to?—A. I would say that—

Q. You said it was involuntary?—A. —that if one had stoutly refused to go in for expansion it might have been possible by making almost a panic approach to have increased public subscriptions by the amount which was necessary. It was not in the circumstances justifiable or worthwhile to make such a panic approach. To that extent you might say it did facilitate the war program.

Q. And if you had made that panic approach you would be disturbing the productive mechanism in Canada and you would have been running the risk of defeating your own end because people might easily have loaned money for conducting the war which they needed to carry on the business of hog production, for example?—A. I would not think so.

Q. I would think so. I think you would agree very readily. I have lived right in an area where that very thing was done, where men would have produced extra hogs, milk or butter but they had loaned their money in victory loans and consequently did not produce the extra hogs or butter.—A. Mr. Blackmore, I think that is the most extraordinary statement we have heard in the committee, that these individuals lend money to the government for victory bonds and then do not produce hogs. First of all the government does not ask them to go that far. Secondly it would be readily possible for them to get loans against the bonds. To think that with the victory bonds in their possession they then do not produce something because they do not have the financial resources—I am sorry but it does not ring true to me.

Q. You will be surprised to learn that fact. That occurred and could occur, could it not?—A. I would be infinitely obliged to you if you could let me have the names of the individuals because I would certainly go to see them the next time I was in Alberta.

Q. I will give you the names of several outside the committee.—A. I will be glad to have them, and I will get our provincial committee to investigate those cases immediately.

Q. If you had a panic appeal for the loans you would have disrupted Canadian economy?—A. No, but we would have succeeded in making ourselves look a little foolish, so I agree the best thing to have done was to use the method of currency expansion for the minimum amount which we could not avoid.

Q. My point is that we are considering just now that to the extent to which we used that money, to the 6 or 7 per cent, we did not get something for nothing?—A. The people?

Q. No, the country as a whole or the Dominion of Canada?—A. Oh.

Q. We created money, we financed the war, we did not get something for nothing?—A. The country did not get something for nothing; no, it cannot.

Q. Did anybody else?—A. The government got an interest-free loan.

Q. But it was not something for nothing, was it?—A. No, indeed.

Q. That is right—A. So far as the public is concerned.

Q. Neither is the proposal of monetary reformers and social crediters a proposal to get something for nothing. It is a proposal to enable people to use goods which otherwise would be wasted.—A. People who give their goods in exchange for legal tender paper money do not give something for nothing so long as the money retains its purchasing power.

Q. Quite so.—A. But if people sell their goods and services for paper money whose value later depreciates then to that extent people have given something for nothing.

Q. Which brings us around again to the question of inflation which is the whole problem of maintaining the purchasing value of the money?—A. And again I think I will have to come back to saying that I believe everything that can be usefully said about that subject, so far as I am concerned, has been said.

Q. I think it is sufficiently said. All that a discerning man needs to do is to read the records of this committee during the last three or four days and he will see that everything that needs to be said has been said.—A. Mr. Blackmore, I am going to construe that as a promise from you not to ask me to use the word "inflation" again.

Q. Well, I am not making that promise. I am going to refer to the question of inflation you raised in your statement. You said in your statement, as I recall it, that there was a danger of inflation coming in Canada in wartime. There were various devices used to overcome inflation such, for example, as heavy taxation, borrowing and the like, the Wartime Prices and Trade Board activities in the way of controlling and subsidizing prices, and all the rest of it. All of this machinery was used to prevent inflation. I wish to ask a question now regarding the conduct of inflation in this war. Inflation in Canada, if it came during the war, would have come from a shortage of goods?—A. Or an over-supply of purchasing power in relation to the goods available.

Q. It works out to the same thing. If Canada had been able to maintain a supply of goods sufficient to absorb the purchasing power— —A. Civilian goods.

Q. That is right, consumer goods, sufficient to absorb the purchasing power there would have been no inflation and there would not have been any need of the Wartime Prices and Trade Board?—A. That is correct.

Mr. GRAHAM: I wonder if you would permit a question.

Mr. BLACKMORE: I wonder if we had not better let Mr. Towers speak first.

The WITNESS: In amplifying that answer, always provided you are assuming that the degree of credit expansion was, as it is now, but that the supply of goods was very considerably larger. There are two sides to the problem all the time.

By Mr. Blackmore:

Q. That is right, and just before you ask a question, Mr. Graham, may I make one comment? Once more let us repeat for the sake of the record that provided a goods supply can be maintained sufficient to absorb the purchasing power which goes out in the form of money there is no danger of inflation, and if there is a danger of inflation in the war that danger arises primarily from the fact that there is likely to develop in any war a shortage of consumer goods for several reasons; first of all because so much of consumer goods is sent abroad such as butter, cheese and the like; secondly, because such a large percentage of our manpower is taken away from the production of such goods to produce war munitions; thirdly, because so much of our manpower is drawn off to fight the war. Then, in addition to that a considerable amount of money is spent into circulation for which there is no consumer goods production which is a condition which is peculiar to war. Those are the four factors which make it likely that inflation will develop during war, and not one of those four factors is present in peacetime.—A. That is why I said in the statement I made this morning that after the war and the immediate post-war shortages have been overcome I am not frightened of inflation provided we operate our affairs with reasonable good sense.

Q. Neither am I.

Mr. GRAHAM: Mr. Chairman, I was going to ask Mr. Blackmore if he would assist other members in trying to follow the merits of the discussion between Mr. Blackmore and Mr. Towers by answering this question. Mr. Towers has made it clear to the committee that this government has thought it necessary and wise to finance 6 or 7 per cent of the government expenditures during the war by an expansion in Bank of Canada currency. Under those same circumstances which are now past history and under those conditions that did exist during that period would Mr. Blackmore tell this committee what percentage of the government financial program would the monetary reform party finance in that way?

Mr. BLACKMORE: Perhaps Mr. Graham was not here when that question was asked Mr. Towers recently, but it was agreed very definitely by Mr. Towers and all the monetary reformers that until one knew all the factors entering into the situation it would be impossible to forecast.

Mr. GRAHAM: But my point is that you know the circumstances of the past, Mr. Blackmore. Would you tell the committee under those circumstances that have passed during the war up to this date what the monetary reformers would have done in the matter of expansion of currency beyond that 6 or 7 per cent ?

Mr. BLACKMORE: The first thing that the monetary reformers would do—and I am not on the witness stand but I am going to answer this question—would be to create what they call a national credit account, or national account book. In that book they would list the productive capacity of the country in detail. They would list the goods which are available for consumption at any given time. Then they would also determine by means which are well known to the Bureau of Statistics the amount of those goods which was being consumed. Having discovered that a considerable portion of the goods was not being consumed they would say that the cause of that must be a shortage of purchasing power in the hands of the people. They would proceed to make up that shortage of purchasing power to the extent to which the people would be consuming their production, whatever that production was, Mr. Graham.

Mr. GRAHAM: Would it be considerably in excess of 6 or 7 per cent?

Mr. BLACKMORE: No one can tell.

Mr. GRAHAM: So that the policy adopted by the government may be in conformity with the monetary reformers?

Mr. BLACKMORE: In which case all that the monetary reformers would ask that the government do is that they resort to monetary expansion in peacetime to make up the difference.

Mr. GRAHAM: To what extent?

Mr. BLACKMORE: How can you tell until you get into peacetime?

Mr. GRAHAM: I want this committee to get something concrete.

Mr. BLACKMORE: If the Governor of the Bank of Canada does not know how am I to know? If we get a national account book you get all the details there. Then, any group of experts such as we have in our Wartime Prices and Trade Board could determine the amount by calculation.

The WITNESS: Mr. Blackmore, if I may interject there, I did not say that I did not know the amount of Bank of Canada credit expansion which would have been desirable during the war, in these past four years. I believe it should have been zero. I think if it were possible to make up an account book of the type you have mentioned your formula would have led everyone to the same conclusion, that there should have been none at all. I think that would have been right.

By Mr. Blackmore:

Q. In other words, you would leave vast quantities of productive capacity idle during a depression?—A. I am talking about the war.

Q. But you will go back to conditions in which vast quantities of productive capacity— —A. Mr. Graham's question referred to the situation during the war, and I am speaking of that.

Q. He has asked the question during peace.

Mr. GRAHAM: No, no, I am asking about a period in which we know the conditions that did exist, in which this government adopted the policy of using Bank of Canada currency to the extent of 6 or 7 per cent of the total required. The government involuntarily was put in that position, Mr. Towers says, by the pressure of circumstances. I want to know under those same conditions to what further extent the monetary reformers would have gone in the expansion of Bank of Canada currency.

Mr. BLACKMORE: The monetary reformers would have to know all the facts which I have indicated before they could tell.

Hon. Mr. HANSON: The answer is that you do not know.

Mr. BLACKMORE: Well, nobody knows.

Hon. Mr. HANSON: Well, all right.

Mr. BLACKMORE: You would simply set to work a group of experts who would have the skill and common sense. They would determine the amount which could be safely financed by the creation of currency.

Mr. GRAHAM: You will notice, Mr. Blackmore, I am not asking you about a period where you do not know the conditions. We know the conditions that have existed during the period of the war up to this date.

Mr. BLACKMORE: What do you know about the conditions? You do not know anything about the conditions. You do not know a thing about it. You could not step into the position of the Wartime Prices and Trade Board and tell us what should be done with given prices. You do not know anything about it.

The CHAIRMAN: Mr. Blackmore, please; I think you should not say that to a member.

Mr. BLACKMORE: It is perfectly true. If it is offensive to him I will withdraw it.

Mr. GRAHAM: No, it is not offensive to me to be told by you that I know nothing.

Mr. BLACKMORE: I did not say that you know nothing. I said you do not know the facts pertaining to the war economy.

Mr. GRAHAM: What on earth is the idea of this committee spending its time discussing a hypothetical question which neither you nor I nor any other member of the committee, according to you, knows anything about?

Mr. BLACKMORE: Let us proceed.

Mr. JACKMAN: I wonder if you would answer a question for me?

Mr. BLACKMORE: Remember I am not on the witness stand.

The CHAIRMAN: Why not?

Mr. BLACKMORE: I have answered questions quite freely.

The CHAIRMAN: Excuse me just a minute; when you say you are not on the witness stand, Mr. Blackmore, are we not here for the interchange of views?

Mr. BLACKMORE: Exactly.

The CHAIRMAN: We are all witnesses; we are all examiners.

Mr. BLACKMORE: There is just one thing. There is a group of people in this committee who could ask me questions consistently one after the other and prevent me from asking any questions at all.

The CHAIRMAN: I do not think—

Mr. BLACKMORE: And use up all the time; that must not be allowed.

The CHAIRMAN: Mr. Blackmore, if you look over the record you will see you have asked many questions.

Hon. Mr. HANSON: Thousands.

Mr. BLACKMORE: And I have permitted many questions. No examiner has permitted as many.

Mr. JACKMAN: You will probably agree that at the present time there is a greater volume of money spending power in the hands of the people than there are consumer goods on which to spend it at the present level of prices. Therefore, under your system during war years would you have withdrawn currency rather than expand it even to the modest degree of 6 or 7 per cent as the present administration has expanded it? In other words, there is more money in the hands of the people than they can spend at the present time because there are not goods on which to spend it, and if that money is to be spent then the prices of the goods must rise appreciably in order to absorb that amount of money. Under your system I should think you would withdraw currency. What would have been the procedure under your system during a war period?

Mr. BLACKMORE: It is probably likely that currency would have been withdrawn just as you have indicated by taxation to take off the surplus, by borrowing to take off the surplus, very likely. Social credit, the thing which I am advocating, is a scientific method of distribution. It applies particularly to a peace-time economy. That is clear enough. You do not have any trouble to speak of in distributing your goods during war. Your main difficulty is producing enough of them. That is true, is it not? That is correct, is it not? Your primary problem during war is to produce goods?

Mr. JACKMAN: That is right.

Mr. BLACKMORE: You have very little difficulty in consuming goods. You have to use rationing and various other devices to prevent too great consumption. Social Credit is a scientific method of distribution and is not designed to function in a war economy. If it had to fight a war it would do so by means which would be adequate to the situation, but the aim of Social Credit, and the aim of our discussion now, is to determine a means of dealing with the peace-time situation when, as the Governor of the Bank of Canada has ably pointed out in his report, there will be an enormous amount of increased production of consumer goods with probably an inadequate amount of purchasing power to consume them. Does that answer your question?

Mr. JACKMAN: At the present time we must take what the facts are without going into the realm of what may happen after the war. You suggested that under your system we would withdraw a certain amount of the currency which was available over and above that necessary to consume the amount of goods which are available to citizens of this country. Do you think for a moment, inasmuch as we do not operate in a vacuum, that people would be willing to have a higher rate of taxation in this country and still submit to such measures? Do you think we could have had substantially the production we are having to-day?

Mr. BLACKMORE: I am not in a position to answer that question. My own idea would be we would have greatly increased production in the country. My own idea is that the policies which have been adopted during this war have tended to mar production in the country. To the extent to which it was necessary to withdraw purchasing power to equate consumption that purchasing power would be withdrawn in a social credit economy. So in peacetime purchasing power would be expanded to the extent to which it had to be expanded in the hands of the people to equate consumption with production. That expansion would take place under a Social Credit economy.

Mr. JACKMAN: Suppose the people will not stand for it.

Mr. BLACKMORE: The people will stand for it. People who would stand for what we have done during this war will stand for almost anything. They would not find very much difficulty in standing for Social Credit for the simple reason they would find their standard of living rising.

Mr. JACKMAN: You are suggesting that if during the war period there is more spending power than we can use at the present level of prices under your system you would withdraw through taxation, and possibly other means, some of that spending power. I suggest that the Minister of Finance has already made the tax burden of this country just about as high as the people will stand. We notice that in his budget last night in order to get production he had to have some amelioration in compulsory savings. It seems to me that while your system may work out arithmetically in a text book it does not work out where you have to deal with human nature.

Mr. BLACKMORE: I hope that the member can listen to understand this. I have already said that Social Credit is a scientific method of distribution and is particularly designed to operate in a peace-time economy when the problem above all things is distribution rather than production. I think that is a sufficient answer.

Mr. CLEAVER: Would you mind—

Mr. TUCKER: I wonder if Mr. Towers would amplify his last answer because it seemed to be inconsistent with what he said at the start.

Mr. BLACKMORE: There are a lot more important things to be said by Mr. Towers than can be said by me. Let us not waste his time with a lot of talking.

Mr. TUCKER: I suggest that we have Mr. Blackmore on the stand some day and not take up the whole of our proceedings by cross-examining Mr. Towers for a while and then Mr. Blackmore. I think we should go on with the examination of Mr. Towers.

Mr. CLEAVER: I agree, Mr. Chairman.

Mr. TUCKER: I suggest that Mr. Towers explain his last answer which I took to be that an expansion of currency on the part of the Bank of Canada was really undesirable. Maybe I misunderstod his answer. That seemed inconsistent with what he said at the start of his evidence to-day.

The WITNESS: I cannot quite see the inconsistency. You had in mind that the inconsistency was—

By Mr. Tucker:

Q. You indicated, as I understood it, that it was a good thing to adopt an expansion policy in order to promote production during a war period, and then in your last answer you said that if that policy were followed in trying to equate consumption, as Mr. Blackmore said, with production, you would not have had any monetary expansion at all, or that it would not have been desirable?—A. In the first statement I did not suggest that an expansionary monetary policy had been a desirable thing during the war. I suggested that it was an inevitable thing, but not desirable.

By Mr. McGeer:

Q. Why not? Why do you say it was not good business on the part of the government and the Bank of Canada to use the amount of national currency which was used?—A. Because it has produced a situation in which we are only avoiding inflation by the skin of our teeth and by the use of multifarious controls.

By Mr. Blackmore:

Q. Because of a shortage of goods?—A. Because of a shortage of goods which cannot be overcome, and therefore must be faced.

Q. But which will be overcome as soon as peace returns?—A. I suggested that. There is one thing, too, that I should like—

By Mr. Noseworthy:

Q. There is just one question on that point, Mr. Towers. Would you explain just why that creation of money by the Bank of Canada has endangered our position?—A. Has tended to aggravate it—I think it would have been better if the voluntary savings of the people and their subscriptions to war loans had been somewhat larger, but again I am not suggesting that implies criticism. I think that the response has been extremely good in that respect. To a certain extent if people wish to keep those savings in the form of savings deposits or in cash in their pockets that is their right. I do believe, however, that there is a proportion of the cash in those pockets and in bank accounts which is keen to buy, and that if—

By Mr. Blackmore:

Q. Which is what?—A. Which is keen to buy, and that therefore if you had no price controls that money would go into the market and greatly drive up prices of goods and the cost of living. In other words, that the degree of abstention and understanding required is too great to enable us to forego price control. If one had achieved perfection, so to speak, the excess purchasing power would have been translated into voluntary savings and have rendered price control unnecessary.

By Mr. Noseworthy:

Q. In the light of our experience over the war—let us assume that the government or that the Bank of Canada had not financed that 6 or 7 per cent —where would the finances have come from?—A. You cannot quite deal with it in that way. The Bank of Canada and the chartered banks must finance any deficiency between public subscriptions for loans and governmental requirements. But if the public subscriptions or savings in other forms had been greatly in excess of what they are, and firmly fixed as savings, then there would have been no residual amount to be financed via banks. But I at once say, having in mind the magnitude of the problem and having in mind that we are dealing with human nature, that I believe that the results are certainly as good as could have been expected and certainly as good as is any other country in the world.

Q. You have not answered my question. You take it for granted, I think—

Mr. BLACKMORE: We cannot hear you, Mr. Noseworthy. Please speak louder.

By Mr. Noseworthy:

Q. I think we take it for granted, Mr. Towers, that the war finance committee have done the best job they could and have extracted as much money as they could be expected to extract from the bank accounts and the pockets of the people. Let us assume that is so. Then, in the event of the Bank of Canada not having financed this 6 or 7 per cent, there is only one other source that it could have come from, is there not?—A. There is no other source.

Q. It would not have come from the private banks?—A. Oh, well, the expansion of the Bank of Canada is only a part of the expansion of the medium of exchange. That 6 or 7 per cent is just pure Bank of Canada expansion. Over and above that, there has been chartered bank expansion, so that the extent of overall bank financing of governmental expenses is, I think, about 16 per cent.

Q. Would the expansion by the private banks have been possible without that 6 per cent or 7 per cent expansion by the Bank of Canada?—A. No.

Mr. SLAGHT: Oh, yes.

By Mr. Cleaver:

Q. I suggest that, as to the large part of the increase in Bank of Canada currency, you had no option. When the public elected to hoard or keep in its pockets or tills the additional $620,000,000 over and above what they had been hoarding or keeping in their pockets before, you were absolutely compelled to issue that much new currency; and to that extent the increase had no effect as to credit expansion?—A. Theoretically, however, that increase in Bank of Canada notes in the hands of the public could have been matched by a decline in their deposits in the banks, in which case the securities acquired by Bank of Canada as an offset to the additional active circulation would have come from the chartered banks' portfolios. In that case the chartered banks' assets in the form of dominion government securities would have gone down and their liabilities would have gone down as people withdrew those notes.

Q. Quite true. But when the public did elect to hoard $620,000,000 in dominion of Canada currency, you had no option but to issue that currency?—A. We had no option. It is the public which decides.

Q. Yes.—A. Whether that has the effect of reducing deposits in the banks or whether our offsetting action in buying securities from the public means that there is no reduction in deposits, is the second question.

Q. And the net result of that is that the public has lost the interest or the earning power of the $620,000,000 and the Bank of Canada has profited by the earning power of that $620,000,000?—A. That is correct.

Q. So that to that extent it has been what my friends across the table term "debt-free money"; that is, interest-free.—A. Subject to our operating costs, yes.

Mr. TUCKER: I should like to have that cleared up very definitely. I understood that the policy of this expansion of money on the part of the Bank of Canada was part of a deliberate policy to keep the cost of credit down, by loading, as it were, the banks up with cash reserves. Therefore we find we have been able to borrow money at very low rates of interest in this war. Surely it is not suggested now that it has not been desirable to have that done. I am astonished that such a suggestion should be thrown out at this stage. If I have misunderstood, I should like to have it made plain. I do not think we followed this policy of monetary expansion because we were obliged to. I think we followed it because we desired it as a means of enabling our financing to be done as cheaply as possible for winning the war.

The WITNESS: We followed it deliberately pre-war, but as I say, involuntarily during the war. On the other hand, there certainly is no suggestion intended in my remarks that interest rates should be higher than they are. The degree of expansion which has taken place is greater than any that would have been necessary to keep interest rates down.

Mr. CLEAVER: And should the time ever come when the general public should decide that it does not want to hoard this additional $620,000,000—

Mr. SLAGHT: They have not hoarded it.

Mr. CLEAVER: At that time, in order to prevent undue expansion of credit, it would be necessary for the Bank of Canada to recall a large part of that $620,000,000 issue.

The WITNESS: To sell securities.

Mr. CLEAVER: Yes.

The WITNESS: Yes.

By Mr. Tucker:

Q. Is not the pressure on the price structure due basically to the policy of the government in regard to carrying on the war? In other words, contracts were let on the basis of which loans were made from the banks, and those loans are paid out in the form of wages, and in payment for raw materials. The pressure on the price structure has arisen out of the actual policy of the government, and not on account of anything that you have done. What you have done has been to enable that policy to be financed at a lower rate of interest, as I understand it. The whole pressure has been due to the actual policy of the government. That is where your pressure has taken place; because millions and millions of dollars of contracts were let on the basis of which people financed in borrowing money to buy materials and pay wages. There is where you stepped up your purchasing power and the pressure on your price structure. I submit it is not on account of your monetary expansion. All that has happened is that you have made it possible, and you have made it possible at lower interest rates. Is your suggestion this morning that you have been forced into it willy-nilly therefore entirely correct?—A. I did not mean to say forced by the government, but forced by the circumstances of the case. I think that the figures indicate that the expansion of bank loans has not been a factor of any importance in the expansion of the total amount of the medium of exchange. I think the situation is really this, Mr. Tucker. The government's over-all cash expenditures, we say for the present fiscal year, are expected to be in the neighbourhood of 6 billion dollars. That is money which is going into the hands of the Canadian people. What the government takes back from the Canadian people is something of the order of $2,800,000,000. I am not talking of taxes alone but of the amounts which come in taxes and various non-tax receipts of government. That is something, I suggest, of the order of $2,800,000,000 because the Minister of Finance said last night that the borrowing requirements are in the neighbourhood of $3,200,000,000. If the voluntary. firm, fixed savings of the Canadian people in the form of purchase of victory bonds were $3,200,000,000, then there would be no need for any further bank expansion for the present fiscal year.

By Mr. Blackmore:

Q. If that money were taken away by one means or another, from the people who now hold those fixed savings, and that money were used, the tendency to inflation resulting from that process would be just as great as would the tendency be if the money had been created by the Bank of Canada?—A. I am speaking there of the events of the present fiscal year rather than the situation which has developed up to now. In other words, there is a need for public savings—I am not talking about the government there, but of the public—of at least $3,200,000,000 in respect of events of the present fiscal year. If that all took the form of subscriptions to government bonds there would be no further increase in Bank of Canada cash or in bank deposits. Frankly, I do not expect that the situation will work out that way.

By Mr. Tucker:

Q. I should like to follow that up. The reduction of the cost of money to the government is not an accident, obviously. It is not due, I suggest, to the bargaining ability of the people in charge of government financing. I suggest it is the result of the banks being loaded up with these cash reserves which they are seeking an outlet to invest, and that very fact that you have increased the amount of Bank of Canada cash by about a billion dollars has forced interest rates down, and is one of the reasons you can borrow from the banks at an average rate of a quarter of 1 per cent. I suggest that surely must have been in the minds of the government in expanding the monetary base of the country at this time and forcing interest rates down.—A. I think we could have had the present interest rates with infinitely less or no currency expansion at all, if the saving desire of the public had been very much greater than it was and had been translated into a desire to buy government bonds.

Q. In other words, if the people had acted differently from the way they have always acted in the past, you could have had that. But taking human nature as it has been in the past, the only way to get these lower interest rates was to follow the policy that we did follow; I suggest this to you.—A. Shall I put it another way? The government borrowed as much as it could from the general public. It financed the rest with the banks. If in its efforts to borrow more from the public it had thought it necessary to offer higher interest rates, then that would have defeated the policy which you have in mind. The government really said, "We will sell as much as we can to the public to absorb their savings at a rate which we consider fair; and if we cannot sell all we should like to at that fair rate, we will turn to bank financing and that bank financing must also be at an appropriate rate."

Q. But another aspect of it was the positive pressure of loading the banks up with a billion dollars worth of Bank of Canada money on which they could not earn interest unless they lent it to somebody. Failing ordinary borrowers increasing their borowings there was a tendency for them to try to invest that money in government bonds and government securities. Therefore you got your money from the banks cheaper than you otherwise would have got it.—A. No. That has not been the way it has operated during the war. The banks' cash has not increased by a billion. The billion is mostly represented by the increase in our active circulation in the hands of the public; and the increase in the cash reserves of the chartered banks, broadly speaking, was sufficient to provide the cash reserve against increased deposits resulting from the direct government financing with the banks. In other words, the banks have not been under much pressure to buy securities in the general market, in the open market.

Q. For them to buy securities, treasury bills and deposit certificates at an average of 1 per cent, when their average cost of doing business is 1·28 per cent, when they are buying treasury bills at as low as ·337 per cent, I suggest there must be some pressure on them, when they are buying them to the extent of a billion dollars.—A. Those rates were a matter of negotiation. Of course, that reflected the rates in the open market for securities of a similar term. The Bank of Canada has taken an interest in the rates in the open market. But one can take an interest and exercise a considerable influence without doing much in the way of buying or cash expansion.

Q. You suggest then that the reduction in interest rates, for which I have been inclined to take some credit for the government and the administration of our financial policy under the Bank of Canada in forcing down the average rates of interest over 1 per cent, as pointed out in the budget speech, was due more to negotiation than to any actual operations of the Bank of Canada. That necessarily means then that in times past the people handling our monetary system were not as good bargainers as those to-day. I suggest, on the contrary, that it has been the increase of Bank of Canada cash, thereby increasing the pressure on the banking system and the financial system, which has put the government in a much better bargaining position, and that the reduction in the interest rates is a direct result of the monetary policy; and I suggest that any suggestion that it is not, does not take into account all the factors of the situation, and that the suggestion is certainly a matter of argument.—A. I have not succeeded in making myself clear there. The Bank of Canada has had a material influence on the rates of interest on government bonds in the open market, so to speak; but it can exercise that influence on the basis of comparatively small dealings and comparatively small changes in cash.

Q. Yes. But if it issues large sums, as it has done, it has a correspondingly greater influence, has it not, Mr. Towers?—A. Well, I think you can defeat the thing or wear out the effect if you go at it on a very large scale. In other words, if the Bank of Canada increased the cash reserves of the chartered banks to-morrow by $300,000,000, I do not think that you would find that made any greater difference in the interest rate than if there had been an increase of $25,000,000.

Q. Yes. Your suggestion is that if you allow for the amount of money kept in the pockets of the people and in the tills, your actual expansion probably does not amount to more than $300,000,000?—A. Yes.

Q. And I suggest to you that it is because of that that we have the present lower interest rate; and I suggest that was a good thing to do, whether you were forced into it or not, and any suggestion to the contrary I regret going out, because I submit that it is good monetary management and it did lead to reduced interest rates, and the suggestion that it would not have been done unless you had been forced into it by the public I think is a very unfortunate thing to go out.—A. Oh, under any circumstances we would have done sufficient to bring about the present level of interest rates; and if that had, in fact, required the whole $300,000,000, then the whole $300,000,000 would have been used. So that I do not think we are in any disagreement there. I am inclined to think, had there been much heavier subscriptions to the loans, that, as a matter of fact, a good deal less than $300,000,000 would have produced the present level of rates. That is really all.

By Mr. Blackmore:

Q. Mr. Chairman, going on with the question regarding inflation, the object we had to-day was to find out what controls can be exercised to keep inflation in check, not only inflation which might originate within Canada but inflation which might originate in the United States, we will say, or in some other part of the world, and bring an influence to bear upon Canada. I wonder if I would be stating what is correct if I were to say that the first measure to control inflation is to increase production. I think we would agree on that.—A. That would certainly be very helpful.

Q. The next measure, if found necessary, would be rationing?—A. That is a forced control. I mean to say that ensures that people cannot spend more than a certain amount of the money they have.

Q. Then, of course, there is a measure which the government has already used, namely, that of taxing away the surplus purchasing power in so far as they can do it?—A. Yes.

Q. Then there is the method of drawing away surplus purchasing power by loans to the government from the people?—A. Yes.

Q. That also has been used. Then there is also direct price control which means that the law is made that the price shall not exceed a certain amount. That method can be used only sparingly because of the danger of a black market, but it can be used?—A. Yes, and, of course, price control over all things such as we have if continued long enough, in my opinion, necessitates government ownership. In other words, I think that it is an impossible system to operate permanently under the so-called system of free enterprise. I think in that case you must have state ownership.

Q. That has been pretty well proved by history. In the history of currency experience it has been pretty well shown that direct price control cannot succeed very long unless there are other measures used to supplement it such as increased production, rationing, and all the other devices which are being used?—A. If your situation is such that price control has to be maintained permanently then I say that must logically lead to government ownership.

Mr. CLEAVER: Would you mind enlarging on that?

Mr. BLACKMORE: I should like to finish this off before the question comes in because otherwise we will not get finished at all.

By Mr. Blackmore:

Q. Another measure which can be used in controlling prices is that of subsidizing or modifying prices. That has been used already in the present war in Canada. For example, a certain portion of the price of oranges, we will say, might be paid by the government, which device will bring the price of oranges down to the consumer. That is a device which has been used rather extensively in wartime?—A. It is precisely that device—and I think this also answers the other question—which leads me to express the view that price control continued long enough must lead to government ownership, because one would find more and more it was necessary to subsidize. The world is a changing one. There are changing costs of production. As time went on there would be more and more cases where subsidization was necessary. Subsidization during wartime is the lesser of two certain evils. It has certain protections to the government inasmuch as there is the excess profits tax, or in the case of subsidies, even the direct control of profits. The government, however, does not control the cost of production. There are not a great many chances for obvious or deliberate waste in wartime, that is, of the type where a business concern spends money recklessly on new buildings or this and that, because it is impossible to get permits, but as a steady diet if the government was subsidizing the production of a given concern in order to enable that concern to operate under a certain price ceiling then the government would be very much concerned with the cost of operation of that concern, its efficiency, what it did. If you are concerned with a thing like that there is only one way to be sure that you are getting along all right, and that is to own and operate the concern.

Q. The device of public ownership might be used as a threat, shall we say, or a modifying influence? The government might say to the producers of a certain commodity, "If you do not produce and sell at a certain rate then we will enter the field and produce and sell to displace your goods." That could be easily done, could it not? For example, a government-owned coal mine could modify the price of coal quite easily, or the threat of government ownership?—A. Again, as some one remarked earlier to-day, we are dealing with human beings. I think when the coal mine got a letter from the government saying, "You produce this coal at $2.50 a ton or else" they would reply saying, "Well, it costs us $3 a ton, and if you can show us how to do it at $2.50 you had better send your people down here."

Q. And the government, if it really could produce coal more cheaply, would simply call the bluff and enter the field?—A. Yes.

By Mr. McGeer:

Q. The subsidies on maritime coal have never indicated anything like a need for public ownership down there? We have had a substantial production of coal in the maritime coal fields, and have had to get it up into the central part of Canada for a great many years.

Hon. Mr. HANSON: That is not on production; it is on transportation.

Mr. MCGEER: It is the same thing.

The WITNESS: I think it is very difficult to argue from the particular to the general. Individuals and governments can do certain things in individual cases which they would find it very difficult to do if it was a matter of widespread general application.

Mr. MCGEER: The Roosevelt program of subsidizing the whole agricultural community of the United States never suggested that the government of the United States was going to be the owner of the farms of the United States, and that probably was one of the widest programs of subsidization that ever took place.

By Mr. Blackmore:

Q. Take our own cheese subsidy being used in Canada to-day; take our own wool subsidy. They are not leading in any degree to government ownership?—A. I am not quarrelling with the situation during the war. I think it is necessary, but if you embark on that in a widespread way through all lines—

By Mr. McGeer:

Q. What do you mean by "widespread"?—A. I mean spread all through the steel industry, the textile industry, merchandising, wholesale, retail, the works, in other words.

Q. As a matter of fact, we have subsidies on many of those things right to-day, but it seems to me that the thing you overlook in your discussion of inflation is that from 1929 through the 1930's until the war came there was a collapse of prices, and every government all over the world was making an extraordinary effort to lift prices back to what was thought to be the 1928 or 1929 level, and that the great difficulty throughout the whole of our economy was never to keep prices down; it was a struggle to lift them up. We will go into exactly that condition the minute the war activity ceases.—A. I think I said that after the war when the post-war shortages are over I am not frightened of inflation if we conduct our affairs with reasonably good sense.

Q. History has taught us that we have more than good reason to fear deflation?—A. Yes, for non-monetary reasons.

Mr. CLEAVER: Does your argument apply to price floors or were you dealing with price ceilings?

Mr. McGEER: Floors are more important than ceilings.

The WITNESS: That is a very abstruse subject, and nothing I have said implies there are not certain things which the government might decide to subsidize in one form or another through the years, but if they get involved in subsidizing almost everything then I suggest one would get into a blind alley from which there is only one exit, but that a government can successfully conduct a certain transfer of income from one set of the people to the other by certain price subsidies is, of course, true.

Mr. CLEAVER: You believe then that a subsidy to maintain price floors over a long period of years would eventually lead, of necessity, to government ownership?

Mr. McGEER: There is nothing to prove that.

The WITNESS: Well, if that subsidy is a true subsidy in the sense that the government cannot subsequently sell without loss the things which they have purchased, or if it is a direct subsidy, then that is a transfer of income from one section of the community to the other. It may be a transfer which the community is perfectly willing to have take place, and so long as it has public support it can continue to take place.

By Mr. Cleaver:

Q. I suggest, Mr. Towers, that over the years we have been bonusing industry in regard to its production by tariffs, and surely that has not led to government ownership?—A. No, it has not; a portion of that is indirect, of course.

Q. I suggest to you your argument would apply with much greater force to price ceilings than to price floors?—A. I think it probably does, and it also depends a good deal on the recipients of the subsidy and the objectives. If it is a transfer to recipients who are thought to be in need, and the transfer has public support why you can carry on indefinitely, but I suggest that if subsidization as a permanent post-war thing is a common and widespread practice in respect of our manufacturing concerns that I would not expect it to carry continued public support.

Q. I take it you differentiate between a direct cash subsidy to industry and a subsidy via the tariff route?—A. That is getting into a pretty strange field for me, Mr. Cleaver.

Q. I have not noticed any trend toward government ownership of industry notwithstanding the fact we have had tariff subsidies as far back as I can remember.

Mr. TUCKER: If you give them enough help then you had better take them over.

By Hon. Mr. Hanson:

Q. In essence subsidies are merely a bonus and an expedient?—A. Yes, an inevitable and useful expedient at times and, as I say, one which does involve a transfer which the public may very well support and want to continue.

Q. For immediate purposes but not as a permanent thing? That would be uneconomical?—A. With public support it can continue for a considerable time.

Q. It can continue with public support, but it is uneconomical. What about the laws of supply and demand? Have they no longer any force and effect in our economy?—A. They have. Sometimes it is considered expedient to avoid the operation of those laws because it is believed that the transfer of people to other vocations, for example, might be so difficult and agonizing that it should be postponed.

Q. That just proves my point; it is an expedient?—A. Very often it is thought the transfer will not be necessary after a time, that this is a problem which may only last for a few years.

Q. It is a temporary expedient; that is all.—A. I do not think anyone would knowingly embark on it as a fifty-year program.

Hon. Mr. ILSLEY: I certainly would not.

Mr. McGEER: You have done it in the field of gold mining. You have got $35 an ounce on gold.

Hon. Mr. ILSLEY: We are talking about two different things. The kind of subsidy I am talking about is the subsidy that says to industry, "You have got to sell below a certain price and if your costs go up above that price we will make up the difference." That is the subsidy I am talking about. I certainly would not carry that on for anything but temporary purposes. I know how it works.

Mr. CLEAVER: That is ceiling prices, not floor.

Hon. Mr. ILSLEY: Exactly.

Mr. SLAGHT: You will get a lot of support on that, too.

Mr. McGEER: If it comes to a question of distributing milk to the children of the cities of Canada and whether or not a bonus is necessary there to get that milk at a price that the farmers will produce—

Mr. CLEAVER: That is a floor price.

Hon. Mr. ILSLEY: That is a different thing. These fixed subsidies of so much are on a different principle entirely, but it is these sliding subsidies.

Mr. BLACKMORE: But they have succeeded.

Hon. Mr. ILSLEY: It is the sliding subsidy that is created by what it costs a man, depending on how much or how little he spends, in carrying on his business. That is the kind of subsidy I certainly would not continue as a permanent thing.

Mr. BLACKMORE: I wonder if this is not worth consideration in this connection. Do you not overcome most of the difficulty if you have an abundance of production? Is not the main difficulty which the minister has experienced incident to the fact that the war has been carrying on and he has had to have production? If you had peace-time conditions, and if there was room for a great deal of competition it would be far less difficult to apply the principle of subsidies.

The WITNESS: Then you would not need price control.

By Mr. Blackmore:

Q. I beg your pardon?—A. Then you would not need price control.

Q. That is just exactly the point we are after. What we are aiming at now is how to control inflation in peace time, when you have increased production tremendously beyond the people's capacity to buy and probably even to consume.—A. But by definition, if there is no inflation and no price control, then the problem we are talking about disappears into thin air.

Q. The creation of purchasing power or of currency debt-free, and use of that in a peace-time economy, in an age of abundance such as ours, I think you will find will be accompanied by no possible danger of inflation.—A. Well, as I suggested before, I have said all I can on that subject, Mr. Blackmore.

Q. All right. But it is very important to stress; because right in this principle, if I understood it correctly, and if I am right, in the application of this principle, lies the solution of our problem of distribution in the post-war world and the problem of providing for the consuming purchasing power which you have indicated would be so necessary in vast amounts in your report.—A. I cannot add anything to what I have said.

Q. I have just one more question.

Mr. CLEAVER: Before you leave consuming purchasing power, Mr. Blackmore, I wonder if you would bear with me for one question?

Mr. BLACKMORE: All right.

Mr. CLEAVER: I have tried to follow your argument, and if I understood it correctly you advocate greater and better distribution of purchasing power. Is that right?

Mr. BLACKMORE: Yes.

Mr. CLEAVER: Yes. That being so, when the Social Credit government came into power in Alberta, why did you reduce the purchasing power by cutting the interest rates on your bonds in half instead of increasing purchasing power by actually issuing a dividend?

Mr. BLACKMORE: The reason was that by no means whatsoever could Alberta get any access to the power over money. That power resides in the dominion government; and every effort that Alberta made to get any kind of effective control over money was blocked by the dominion government.

Mr. CLEAVER: I thought you were going to get that by a tax on the transfer and exchange of goods. I was just wondering why you did not step up the purchasing power in Alberta.

Mr. BLACKMORE: I am quite willing to discuss Alberta, but I think it is far better to allow Mr. Towers to continue during the few precious hours he is here before us. I should prefer to ask questions of him. We will deal with Alberta separately.

Mr. CLEAVER: All right.

Mr. BLACKMORE: Alberta made a very courageous attempt to deal with an almost impossible situation; and if she erred in any way, it was because of the impossibility of the situation.

Mr. CLEAVER: I understand.

Mr. BLACKMORE: Not because of any flaw in the philosophy or the technique, which the people of Alberta believed to be correct.

Mr. CLEAVER: I do not think that was explained to the people who voted for you.

Mr. BLACKMORE: You can very safely leave the problem to the voters of Alberta. They told you how they felt about that in 1940 and they will do it again in 1944. You do not need to worry at all about the Alberta voters. You had better worry about the Ontario voters.

Mr. McNEVIN: Let us get on with the questions.

By Mr. Blackmore:

Q. I wonder if it is correct to say that there is one other means of controlling inflation, namely, control of speculation in securities?—A. I do not think that has a great bearing on the subject. I think there are evils there which need to be controlled for the sake of the public, but I do not think they have a great bearing on a general inflationary situation.

Q. I wonder if I would be extreme if I were to lay down the proposition that if a government such as the Canadian government, having the powers it now possesses, were to use all these devices for controlling inflation and were at the same time to expand production greatly in Canada, we would have no difficulty in controlling any inflationary tendencies in peace time in the post-war world?—A. I think that really is a suggestion that if no inflationary situation develops, there will not be any inflation.

Q. If there is plenty of production, there will not be inflation. That is the great key to the whole situation. If you have plenty of production, there will not be any inflation.—A. Yes; and I am really suggesting that the real attention needs to be devoted to the question of our production, of our physical problems.

Q. That is right; and the main means of obtaining adequate production is to give a fair price, and a good market. Granted those two, you will get all the production you can use in Canada. Now, Mr. Chairman, I just wonder if we could ask Mr. Towers one other question. Could the Bank of Canada, with the means at its disposal, prevent the chartered banks from lending money for speculation in securities?

Hon. Mr. HANSON: What do you mean by speculation? Do you mean stock gambling?

Mr. BLACKMORE: A condition such as took place in 1927, 1928 and 1929.

Hon. Mr. HANSON: Oh, well; I want you to define what you mean by "speculation." There is such a thing as stock gambling and there is such a thing as buying and selling securities.

Mr. BLACKMORE: Whatever it was that influenced the price of securities then.

Hon. Mr. HANSON: Say what you mean.

Mr. BLACKMORE: Whatever it was that caused the inflated values that developed in the stock market and caused the crash. I wonder if Mr. Towers would answer that? Could the Bank of Canada control, or has it means at its disposal whereby it might control the expansion of credit by the chartered banks for stock speculation?

The WITNESS: I think so. I think it was in 1936—although I am speaking from memory—that it seemed to us that the very active and rising stock markets which were in existence at that time were tending to go a shade too far in their use of increased credit. So that we did speak to the committees of the stock exchanges and also to the banks, and suggested that the percentage of margin requirements should be raised. That was a matter of suggestion and persuasion; but it did not take anything very much in that way, because I think that the banks and the committees of the stock exchanges agreed that would be a wise move, and it was done.

By Hon. Mr. Hanson:

Q. And it prevented an increase. Call money went up.—A. One can never know exactly what the effects of these things are. But, in any event, I think it was a wise precaution.

Q. But marginal buying and selling is quite different from my going into the market and buying shares and borrowing from the banks and waiting for a rise or fall as the case may be. That is a perfectly legitimate economic transaction, is it not?—A. For an individual, if he chooses to do so, yes. But to the extent that the movement seems to be going, if I may use the word "haywire", and it is based on bank credit expansion, then I think there are arguments in favour of saying, "You cannot buy any security by only putting up 10 per cent. You have got to put up 40 per cent or more." The implication there really is, "To the extent you want to speculate with your own money, that is your business; but you cannot use much credit to do it."

By Mr. Blackmore:

Q. In controlling inflationary influences which might come into Canada from the outside, there are several devices which can be used as cushions. I think you mentioned or referred to this. Would you mind giving the committee an outline, or would you rather have time to think that over?—A. I do not recall just what you have in mind.

Q. You remember we were discussing the matter on Friday; and if I gathered it aright or if I recalled it aright, you implied at least that it would be quite difficult for Canada to control her economy against inflationary influences from outside.—A. To preserve a materially different price level.

Q. That is it.—A. Permanently.

Q. That could probably be done by discount, could it not, or subsidies to bring prices down, such as you are using to-day with respect to certain goods entering from the United States?—A. I think subsidization, as a matter of permanent policy, is a pretty poor device. The obvious thing, of course, is to change the exchange rate. In the event of a serious deflation in the United States I would not be worried in regard to our ability to depreciate the Canadian dollar, in other words, to establish a premium of 15 or 20 or whatever per cent was necessary, if one thought of this thing as a long-term affair. I do not think any government likes to shift its exchange rate around too frequently. It is too upsetting to the economy of the country as a whole. On the other hand, suppose the United States had very material inflation of prices. The theoretical remedy there is to put the American dollar at a discount of 10 or 20 per cent in Canada. For various reasons which I will not elaborate on, such a procedure while possible is much more difficult than the depreciation of the Canadian dollar.

Q. But you could protect the Canadian economy against the effect of serious deflation, such as we had in the depression, by a system of floor prices for primary products?—A. We have come away from the international situation, and come back to the domestic situation, have we?

Q. No. If we had a deflationary effect in the United States, or deflation in the United States, and you were trying to protect the Canadian economy from the effect of that deflation, what could you do?—A. You could change the exchange rate between the two currencies. Otherwise you would be involved in a floor for every single thing.

Q. And you could use the floor device along with these other devices, could you not?—A. That floor device would be a completely separate one. If we think their general price level is low, then the thing to do is to change the exchange rate; if you do that, there may be individual commodities in Canada which are believed to be too low in price and the rest of the public may wish to subsidize the producers of those commodities.

Q. All these things considered in the light of all that has been developed through the questions and answers, I believe we should be safe in assuming that, during the ordinary time in the post-war world, Canada need have no anxiety about inflation.—A. About inflation?

Q. About inflation.—A. I said, "Granted reasonable prudence in the management of our affairs." If we chose to do so, we could always have inflation in peace time or war.

Q. And we need not fear inflation even were we to use the device of state-created currency, debt-free?—A. It depends on the extent. It is a question of degree. I might appear to the committee at some times to be speaking dogmatically; I am sorry if I do.

Q. We expect you to speak dogmatically.—A. But one cannot keep on apologizing all the time and saying it is only an individual's opinion. But there is one thing I would not be afraid to be dogmatic on, and that would be our ability to produce a great increase in the cost of living—and I avoid the word I hate so much—and guarantee that it could be done any time, in peace or war.

Q. And guarantee that it can be prevented?—A. No. I guarantee it can be done, and I guarantee it can be done in a way in which no one can prevent it.

Q. I would not be afraid of that. I would suppose that would be true. But granted good sound common sense, we can use the device of state-created national currency, debt-free?—A. The good, sound, common sense will mean that that form of credit expansion is very moderately used.

Q. But sufficiently used to maintain a stable condition in the Canadian economy—A. Oh, Mr. Blackmore, we are coming back again to the original statement. I have gone over all that and indicated the side from which I think these problems should be approached, and it is not the currency issue side. Credit is the handmaiden. I would sooner see the approach directed to the bosses.

Q. Just one final thing before we leave that. We must bear in mind that the thing which the dominion government did, above all things, for the Canadian economy during the war was to provide a market, at stable prices.—A. It provided a program.

Q. Exactly; and once it provided the market, it provided the purchasing power with which to buy the goods. Then the other things followed.

The CHAIRMAN: Gentlemen, we seem to be repeating ourselves.

Mr. SLAGHT: Before we adjourn, Mr. Chairman, while I think the examination of Mr. Towers, which has been a prolonged and comprehensive one, has been enlightening, may the committee look forward to getting on with the bill and getting on to a discussion of some of the sections?

Hon. Mr. HANSON: Hear, hear!

Mr. SLAGHT: At the next meeting we have?

The CHAIRMAN: I think we should adjourn with the firm determination to do that very thing to-morrow morning at 11 o'clock.

The WITNESS: Mr. Chairman, there was just one thing raised by Mr. Blackmore to which my reply may have created misunderstanding. I said that the government can always get all the money it wants for anything. Naturally what I had in mind there was that the government is the sovereign power, and it can create unlimited amounts, if it should so desire. I did not suggest that that was something which would turn out to be for the benefit of the people.

Mr. BLACKMORE: In other words, never again must the Canadian people believe a government when it says, "We cannot find the money."

The WITNESS: No. But they should believe a government if it says it cannot provide something for nothing, and that it calls for effort on the part of the people to achieve a certain goal.

Mr. BLACKMORE: Exactly so. And no government, least of all a Social Credit government is ever going to ask for that.

The CHAIRMAN: Could I have the last word, Mr. Blackmore?

Mr. BLACKMORE: Yes.

The CHAIRMAN: We will adjourn until to-morrow morning at 11 o'clock.

The committee adjourned at 1 p.m. to meet again on Wednesday, June 28, at 11 a.m.

June 28, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Members will recall that we adjourned, as I understood it, with the firm determination to get on with the bill. It was at Mr. Slaght's suggestion. There are six committees meeting to-day, and I have been asked by some members who have to attend another committee to allow section 5 to stand. It seems to me, with that in mind, that we ought to proceed to take up the next section of the bill which stands, which happens to be section 10.

Hon. Mr. HANSON: I think that would be agreeable.

The CHAIRMAN: Mr. Jackman suggested an amendment to that.

Hon. Mr. HANSON: Oh, yes.

Hon. Mr. ILSLEY: But he did not make it.

Hon. Mr. HANSON: Oh, yes. Mr. Jackman has a very strong view on this section.

The CHAIRMAN: Shall we allow it to stand?

Hon. Mr. HANSON: He is not here. I will send for him.

The CHAIRMAN: We shall allow the clause to stand.

Hon. Mr. HANSON: All right. I am prepared to argue his position.

The CHAIRMAN: Argue against it?

Hon. Mr. HANSON: I am prepared to argue for it, if necessary.

The CHAIRMAN: All right. Then we go on to section 11, provisional directors.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: The section is carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 20.

Mr. NOSEWORTHY: Will section 11 be in any way dependent and need to be changed, if section 10 were changed?

Mr. TOMPKINS: No.

The CHAIRMAN: No, I think not. Section 11 is carried. Now we are on section 20.

Mr. CLEAVER: You marked section 18 to stand the other day, Mr. Chairman?

Some Hon. MEMBERS: No.

The CHAIRMAN: No. Section 18 was carried.

Mr. CLEAVER: Thank you.

The CHAIRMAN: Section 20. That is on the qualification of directors.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: That is carried. Then section 21, election of directors

Mr. PERLEY: May I say a word on section 20?

The CHAIRMAN: All right.

Mr. PERLEY: I had thought at one time of making an amendment there to the effect that there might be provision for certain members of the directors being elected from the staffs of the banks; that is, from the men in the higher-up ranks of the banks, those actually taking part in the day-to-day business. I am not going to move an amendment, but I want to go on record as saying that I think it would be quite an advantage if there were one or two directors elected from the staffs of the banks, apart from the shareholders or anything like that. They know what is going on, they know the business of the country, and they are experts. I think it would be a splendid thing if that could be considered. I am not going to move an amendment, but I want to go on record as saying that I think it would be a fine thing if that could be done.

Mr. TUCKER: I was going to ask whether the committeee has gone into this feature of the majority being British subjects. The section provides that a majority of the directors shall be natural born or naturalized subjects of His Majesty and domiciled in Canada. Apparently a bare majority of British subjects is sufficient to run our banking system. I just wondered if there were any question about that. I should like to know about it.

The CHAIRMAN: I doubt if, in practice, there has been any trouble about the thing.

Hon. Mr. HANSON: I think that was put in the Bank Act to permit of a director residing in London. It was of some importance in days gone by. It would prevent my friend Lord Bennett from being a director, and I am sure my friend from Rosthern would not want to bar him. He is a very valuable man to have on the board of any bank. As a matter of fact, in practice, there are very few bank directors who are not domiciled in Canada.

Mr. TUCKER: I was referring to their being British subjects rather than domiciled in Canada.

Hon. Mr. HANSON: I think they all ought to be British subjects.

Mr. TUCKER: That is what I had in mind. It was not as to being domiciled in Canada. When the banks are such a very important arm in the administration of this country, and are administering such an important public trust, I think he directors should all be British subjects.

Mr. JAQUES: Hear, hear!

Mr. TUCKER: I just wonder why we should pass an act under the provisions of which a bare majority of the bankers who run the banking system of this country can be British subjects, and where it is quite possible, under that Act, that we have a banking system in this country almost run by people who are not even British subjects. I do not worry so much about domicile in Canada as I do about their being British subjects.

Hon. Mr. HANSON: I suggest this to my honourable friend. I do not think there is a single case of a non-British subject residing outside of Canada being on a single board of any one of the banks. But there is one case of a non-British subject domiciled in Canada, who would be a very important addition to any bank.

Mr. MAYBANK: A non-British subject?

Hon. Mr. HANSON: A non-British subject but domiciled in Canada. I can give you his name, if you want to know it. In other words, an American citizen residing in Canada for a long period of years, and having a very important business position, would be barred from being a director of a bank. I can see no special reason why that should happen. For instance, my recollection is that Sir George Perley was a director of the Bank of Ottawa.

The CHAIRMAN: Mr. Hanson, you are turning away from the Chair. Remember the reporter.

Hon. Mr. HANSON: Yes, I should. He was a director of the Bank of Ottawa, and I am not sure whether he was really ever a naturalized British subject. He came here as an infant and always considered himself a British subject. Technically, he might be barred from such a position. I think in practice you will find it has worked out very well. I should be very glad to give Mr. Maybank the name of the party I have in mind; and I am sure he would agree, right away, with me. It is the only case I know of.

Mr. NOSEWORTHY: I wonder if any one could tell us whether there are any bank directors who are not Canadians?

Mr. TOMPKINS: First of all, may I say that, at the revision in 1934, an amendment was placed on the order paper providing that no director should hold office as a director who was not a British subject ordinarily resident in Canada. That was part of a resolution proposed in amendment to this section. That was withdrawn by leave, so that the matter was not the subject of any long discussion at that time. The position is that out of 176 directors of the chartered banks as of December 31, 1923, only two—

Mr. GRAHAM: You said 1923? Did you mean that?

Mr. TOMPKINS: 1943, I mean; only two, so far I have been able to find, are not British subjects. The question, from the point of view of reality, has never been an important one at all.

Mr. NOSEWORTHY: You say only two are not British subjects. How many are there who are not resident in Canada?

Mr. TOMPKINS: Five.

Mr. TUCKER: Out of how many?

Mr. TOMPKINS: Out of 176.

The CHAIRMAN: That answers the question, it seems to me. Section 21.

Hon. Mr. HANSON: Just one point more on clause 20, after Mr. Jackman's amendment to the previous section which now stands, section 10, that shares shall be reduced from $100 par value to $10 each. I think he has in mind, and I think the committee will agree that it would be very desirable, that directors should be chosen, we will say, from the farming community, and it might be difficult for one farmer to own in a large bank $5,000 worth of paid-up shares. I should like the committee to give a little consideration to that. I am very strongly of the view that the holdings of the banks' shares should be more widely distributed in Canada. I think the banks ought to adopt, and I think they have failed in the past to adopt, a policy of distribution among their customers of their shareholdings. I happen to be a director of a telephone company. We have our shares deliberately reduced to a par value of $10 in order that we may induce, if possible, the largest possible number of our clientele to become shareholders; and it has been a great success. If you can get a man, who is also a customer of a public utility like that, interested as a shareholder you widen the friendship for the institution and its functions in the community, its general utility, and you make it a customer-owned institution in the end. Widespread control has many ramifications, and that is a policy which I think the banks in the past have failed to recognize. If these shares are reduced to $10 each, then the banks should put on a public relations campaign to induce their customers to become participants in the corporation. The more widely owned the shares are, the better for the bank and, I believe, the better for the business of the community. Having in mind particularly this $5,000 minimum of stock shareholding in the bank, and having reference to one of the larger banks, it might render it impossible for, we will say, even an outstanding farmer, to put that much money into it.

The CHAIRMAN: Gentlemen, I suggest that we allow section 20 to stand.

Hon. Mr. HANSON: Thank you.

The CHAIRMAN: Is that the pleasure of the committee?

Mr. MAYBANK: There is something I should like to have with reference to it. When we come back to it, I should like it if some person would give the history of it and whether it has always been the same.

The CHAIRMAN: Yes.

Mr. MAYBANK: I refer to the matter of these qualifying amounts.

Mr. CLEAVER: To what amount do you think the qualifying shares should be reduced, Mr. Hanson? What would you suggest?

Hon. Mr. HANSON: Well—

The CHAIRMAN: Mr. Cleaver, just a minute. We have allowed that section to stand until Mr. Jackman appears. Mr. Jackman will make his argument.

Mr. BLACKMORE: Before we leave that, I wonder if Mr. Tompkins can tell us who the five men are who live outside Canada?

The CHAIRMAN: Mr. Tucker has the floor.

Mr. TUCKER: The Minister of Finance made a statement as to the desirability of extending the number of people or the kind of people running these banks. I think that was very desirable.

The CHAIRMAN: Well, the section stands.

Mr. TUCKER: I would suggest, from the standpoint of the department, that consideration be given to bringing in an amendment reducing the qualifying amount at least to $1,000.

Hon. Mr. HANSON: I think they ought to have a substantial interest.

The CHAIRMAN: Mr. Hanson, when you turn away, you are not being reported. Anyway, the section is standing.

Hon. Mr. HANSON: All right. We will let it stand.

Mr. BLACKMORE: Before we leave that too far, I wonder if Mr. Tompkins would tell us of what banks the five non-Canadian residents are directors.

The CHAIRMAN: The section stands. We can have that information later on.

Mr. BLACKMORE: The best and easiest time is to have it answered now.

The CHAIRMAN: I think we ought to proceed in an orderly way if we can. We are on section 21.

Mr. McGEER: Before you pass to clause 21, may I say that we had a statement of the directors filed. They have not been printed in the record. Is there any reason whey should not be printed.

The CHAIRMAN: Not that I know of.

Mr. MAYBANK: What is that again?

Mr. TOMPKINS: They are voluminous.

Mr. McGEER: There is a list of the bank directors which is filed with the exhibits.

The CHAIRMAN: Do you move that it be printed?

Mr. McGEER: Yes, I do.

The CHAIRMAN: Is it the pleasure of the committee?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Then that is carried. Clause 21.

Mr. GRAHAM: I want to do this properly, Mr. Chairman. I was not able to hear Mr. McGeer's statement; and before I give my approval, I want to know what it was that Mr. McGeer was saying.

Mr. McGEER: I asked some weeks ago that a statement of the directors of the different banks, over the last ten years, be presented. That is a public return made by the banks showing the directors of each bank and the company that he is also a director of. I looked through the record and it has not been printed. I thought it might help the committee if that statement were printed.

Mr. MAYBANK: You want it printed in these proceedings?

Mr. McGEER: Yes.

The CHAIRMAN: The committee has agreed to that.

Mr. TOMPKINS: Would you mind if I interject there? That statement is submitted under section 113, and I suggest that it really does not have much direct relation to this section we are discussing.

Mr. McGEER: I had that in mind. If it is printed in the record, we will have it for the other sections as well.

The CHAIRMAN: May I ask how many pages of printed matter the list will cover?

Mr. TOMPKINS: I do not recall from memory. It was a very voluminous list.

The CHAIRMAN: Is this the exhibit?

Mr. McGEER: Yes.

The CHAIRMAN: Do you want all this printed in the record, Mr. McGeer?

Mr. McGEER: Yes. I should like to have it printed. I think it is a very important part of the record.

The CHAIRMAN: Well, it is up to the committee. If it is the pleasure of the committee, it will be done.

Mr. MAYBANK: That is a list for ten years, showing other directorates?

Mr. TOMPKINS: No. This is a list of the firms, companies and corporations of which the directors of the banks are directors or partners.

Hon. Mr. HANSON: Under section 113?

Mr. TOMPKINS: Under section 113 of the Act.

Mr. MAYBANK: It does not go back ten years?

Mr. TOMPKINS: Oh, no. It is as of the latest date upon which they were required to submit the information to the minister.

Mr. MAYBANK: Yes. And the same information has been submitted pursuant to section 113 year by year?

Mr. TOMPKINS: Year by year, since the Act was amended in that respect in 1934.

Mr. McGEER: There is nothing secret about it. It may be called for in the house at any time.

Mr. MAYBANK: I know that.

Mr. McGEER: It should be in the record.

Mr. BLACKMORE: It is a list giving the place of residence of these directors too?

Mr. TOMPKINS: Yes.

The CHAIRMAN: Is it the pleasure of the committee to have the list printed?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Then that is carried. We come to section 21.

Mr. CLEAVER: Carried.

Mr. McGEER: Section 21 stands with 20.

The CHAIRMAN: Is 21 carried?

Mr. MCGEER: No. Section 21 stands with section 20.

Mr. CLEAVER: There is no reason why we should not carry section 21.

The CHAIRMAN: Do you want section 21 to stand

Hon. Mr. HANSON: I think we should carry section 21.

Mr. CLEAVER: Oh, yes.

Mr. FRASER: Carried.

The CHAIRMAN: Then it is carried. Section 26, postponed election of directors.

Mr. TOMPKINS: That has been carried already, Mr. Chairman.

The CHAIRMAN: Yes. Section 26 has been carried already. Then we come to section 42 on page 19, transfer and transmission of shares. Mr. Slaght moves that it be carried.

Mr. SLAGHT: Yes.

Some Hon. MEMBERS: Carried.

Mr. FRASER (*Peterborough*): Before we carry this, there is something I want to bring up in this committee, and that is in regard to the old deposit ledgers.

The CHAIRMAN: What clause are you speaking to? Is it clause 42?

Mr. CLEAVER: That has nothing to do with the transfer of shares.

Mr. FRASER (*Peterborough*): I know it has not. What item would that come under?

Mr. TOMPKINS: Section 92.

Mr. FRASER (*Peterborough*): All right. Is section 42 carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Then section 53.

Mr. SLAGHT: With regard to section 53, Mr. Chairman, I should be glad if the committee would look at schedule "O", which is the section we are discussing. Schedule "O" is to be found at page 99 of the Act. It contains, at the foot of the page, under assets, items 9 and 10. Item 9 reads, "Dominion and provincial government direct and guaranteed securities maturing within two years, not exceeding market value". That is what the banks are required to disclose under the schedule. Item 10 reads in the same way, "other Dominion and provincial government direct and guaranteed securities." In other words, the two are wrapped up together, and a lump sum is disclosed of what the two amount to. In March last in parliament I put a question on the order paper asking them to separate the lump sum so that we may know what are provincial and what are Dominion. The answer filed was that the banks do not tell the government, so the government could not tell parliament. I therefore suggest that we amend items 9 and 10 by some appropriate words, such as adding in brackets at the end of each section, "the amounts to be disclosed separately." That would cover what I have in mind. Then parliament will know hereafter how much in the way of dominion securities the banks hold and how much in the way of provincial securities. I commend that as something that ought to be separated. You may recall that Mr. Towers separated it for me from one of the items; and we found, as Mr. Hanson will recall, that about 10 to 12 per cent were provincial. I think we ought to know the amounts each year.

The CHAIRMAN: The minister has a statement to make.

Hon. Mr. ILSLEY: I have no objection to that. I think that section 53 had better stand, because we propose an amendment to that with a view to requiring the banks to make a statement each year of their earnings.

Mr. SLAGHT: Quite so.

Hon. Mr. ILSLEY: Of their earnings and expenses. There will be an amendment to the schedule, or there will be an additional schedule which will have to be provided for in this section.

Mr. SLAGHT: Let it stand, then. I do not want to repeat what I have said. I think the whole committee will be in accord with that, when the appropriate schedule comes before them.

Hon. Mr. ILSLEY: I will bring in a motion to cover Mr. Slaght's point, and also my own suggestion.

Mr. SLAGHT: Thank you.

Mr. McGEER: Is there any reason why we should not have municipal securities listed as well?

Mr. TOMPKINS: They are listed already.

The CHAIRMAN: Section 54.

Hon. Mr. HANSON: I suggest you split item 9 into two and renumber the whole thing.

Mr. CLEAVER: Mr. Chairman, some member of the committee has said that municipal securities are also listed. I cannot find them.

Mr. SLAGHT: Page 100, item 11.

Mr. CLEAVER: Thank you.

The CHAIRMAN: Section 54.

Hon. Mr. HANSON: Section 53 stands?

The CHAIRMAN: Yes, section 53 stands. We are on section 54.

Mr. CLEAVER: Section 54 was carried the other day.

The CHAIRMAN: No, not according to our record.

Hon. Mr. HANSON: Out of curiosity, I should like to ask some of the bankers here if there is any uniformity as to the further statements submitted by the management to the shareholders as to the affairs of the banks, as required by by-law. This is a matter which under the statute, is left to the discretion of each bank. Is there any uniformity of practice, and how far do they extend information to the shareholders? I think some member of the bankers' association ought to answer that question.

The CHAIRMAN: Under section 54?

Hon. Mr. HANSON: Section 54.

The CHAIRMAN: We will allow the clause to stand, then.

Hon. Mr. HANSON: I think we would dispose of it quickly.

The CHAIRMAN: If you do not mind, we will go as far as we can, then I should like to come back to the section that Mr. Jackman is particularly interested in. I should like to go back to section 10, in which Mr. Jackman has a special interest or has some amendment to move.

Hon. Mr. HANSON: All right. But before you do that, may I point out to the committee and to you, Mr. Chairman, that on a strict construction of section 54—and I would ask Mr. Slaght to follow me—it would appear that the shareholder could not get any information with respect to any phase of the bank's activities unless there was an enabling by-law to give him that information.

Mr. GRAHAM: Oh, yes; section 53.

Hon. Mr. HANSON: Well, I have not gone through section 53. But taking this section by itself, that is the case.

Mr. GRAHAM: The directors must submit a statement.

Hon. Mr. HANSON: It says they must submit a statement at the annual meeting. But if you read section 54 by itself, it limits it under this section to such further statement as the shareholders require by by-law, thus preventing a shareholder from getting any further information.

Mr. TUCKER: That is the purpose of the section, is it not?

Mr. CLEAVER: Section 53 is very wide.

Hon. Mr. HANSON: I do not know what it is there for, but it is a limiting clause; and I think we should have some explanation.

Mr. MAYBANK: Is section 54 standing?

The CHAIRMAN: Do you ask that section 54 stand?

Hon. Mr. HANSON: Well, I should like to get that information.

The CHAIRMAN: Then it stands.

Hon. Mr. HANSON: I have never seen a section like that in any other Bank Act, and I do not think anybody else ever has.

The CHAIRMAN: All right. It stands. The next is section 55.

Hon. Mr. HANSON: Before you pass on, could we have a statement from the Inspector General, in addition to what he has already said, as to the extent, efficiency and sufficiency of the shareholders' audit. I know what it means in a commercial organization. They do not okay everything. I should like to know what the banks' auditors do. If Mr. Tompkins has anything to give us on that, I should like to have it.

Mr. TOMPKINS: I was endeavouring to locate the reference in the 1934 proceedings. I gave a rather extensive outline there of the duties performed by the shareholders' auditors, which are certainly very extensive inasmuch as they take into account the physical verification of the cash and securities at not only the head office but at the several principal offices of the banks where the bulk of those securities are lodged; an extensive review of the outstanding loans of importance, the limit over which they go, in detail, perhaps varying with the size of the bank; a review of the investment securities and of all the other assets of the bank. I find that, on page 636 and following pages of the proceedings and evidence of 1934; I went into that question, and I think if the members of the committee will refer to that record they will perhaps get sufficient information for the purpose.

Hon. Mr. HANSON: Yes. My recollection is that this is introduced in the revision of 1923 when Mr. Fielding was here.

Mr. TOMPKINS: The first shareholders' audit provision came in in 1913.

Hon. Mr. HANSON: That was very limited.

Mr. TOMPKINS: The revision in 1923 enlarged the supervision in that respect by providing for two auditors, and with the limitation that no two auditors or members of the same firm could be auditors for longer than two succeeding years.

Hon. Mr. HANSON: That was of machinery set up to improve the system.

Mr. TOMPKINS: It improved the system.

Hon. Mr. HANSON: Yes. You will find a long discussion in the 1923 revision. If you will look at it you will find that most of this section, section 55, is taken up with provisions as to the appointment of auditors, their powers and rights, but their duties are not dealt with. Well, they are in a measure, but—

Mr. TOMPKINS: Oh, yes. I think subsection 10 following that pretty well covers it.

The CHAIRMAN: Shall the section stand?

Mr. GRAHAM: No.

Hon. Mr. HANSON: No. I would not ask it to stand.

Mr. NOSEWORTHY: There is a question I have on subsection 9.

The CHAIRMAN: Mr. Graham has the floor.

Mr. GRAHAM: In section 55 I notice it sets out that a list shall be furnished by the minister, and the shareholders' meetings shall appoint the auditors from persons listed therein. I notice that there is that provision which is statutory, and the auditors become the creatures of that particular section; after the shareholders have performed their duties, they lose control, of course, during the length of time which the auditors serve. Should there not be a provision in that section to the effect that, in case an auditor chosen should prove to be completely unsuited, somebody—either the minister or the shareholders—has the right to reappoint or change the auditor, because we fix him in that position without recourse for a certain period of time. It would not come up often, but if it did come up it would present a very difficult situation.

Mr. TOMPKINS: It must be done year by year.

Mr. GRAHAM: Suppose in the middle of the year the auditor blew up and became a defaulter, a criminal. Then he is fixed for that year, which would be a very unfortunate situation.

Mr. TOMPKINS: It so happens that I had a case of that kind to deal with during the course of my duties some years ago. After consulting with the bank concerned, an immediate change was made. There is provision in this section for the minister to appoint an auditor to succeed an auditor who either dies or resigns or otherwise ceases to be an auditor.

Mr. GRAHAM: Where is that?

Hon. Mr. HANSON: Subsection 6.

Mr. TOMPKINS: That is subsection 6. If I may suggest it, I think it can be dealt with very effectively without any change.

Mr. GRAHAM: That is fine. I had not noticed subsection 6. Subsection 6 covers my point.

The CHAIRMAN: Stands.

Mr. NOSEWORTHY: On subsection 9, Mr. Chairman, may I say that I notice certain powers are conferred on the minister whereby, at his discretion, he may "enlarge or extend the scope of the audit, or direct that any other or particular examination be made or procedure established in the particular case as the public interest may seem to require." Are there many instances where the minister has used that discretionary power to extend the scope of the audit or to call for special audits?

Mr. TOMPKINS: That subsection originated, Mr. Noseworthy, before the enactment of the section creating my office. It was for the purpose of enabling the minister to require certain information which might prove to be necessary or advisable in given circumstances. It remained there, and can be invoked if necessity arises; but there has been no necessity in recent years of doing anything in pursuance of that subsection.

Hon. Mr. HANSON: Well, at the time of the Home Bank, surely this section was invoked.

Mr. TOMPKINS: Yes.

Hon. Mr. HANSON: Absolutely.

Mr. TOMPKINS: I think it existed even before that.

Hon. Mr. HANSON: Yes. But at the time of the Home Bank situation, it must have been invoked or else somebody was derelict in his duty.

Mr. TOMPKINS: Of course, the Home Bank situation, if I may say so, was really the result of amendments made to the Bank Act in 1923, which made it impossible for the bank to continue without, I might say, subjecting certain of their officials and their directors to very serious danger of some criminal action, and it more or less forced them into suspension. I think that was one of the factors.

Hon. Mr. HANSON: I have no doubt that is true, but this section must have been invoked.

Mr. TOMPKINS: I think this section came in in 1923 before the Home Bank situation; but it was a part of the amendments to the Act in 1923 of which I have just spoken.

Hon. Mr. HANSON: Mr. Noseworthy asked if it had ever been invoked, and you did not know of any instance. I am suggesting that as an instance.

Mr. TOMPKINS: Of course, I cannot speak of any time prior to my appointment, which was at the very end or almost the very end of 1942. It has not been invoked in my time.

Mr. NOSEWORTHY: In other words, your appointment has taken care of a situation that would otherwise be taken care of under this clause?

Mr. TOMPKINS: I think the situation might easily develop where, if the minister desired other information, he would go through me, and I might conceivably engage the shareholders' auditors to assist me in the preparation of this information.

Some Hon. MEMBERS: Carried.

Mr. GRAHAM: Mr. Chairman, under that particular section I am wondering about inner reserves. I took it from the minister that they are disclosed to the shareholders' auditors.

Mr. TOMPKINS: They have access to everything.

Mr. GRAHAM: Yes, they have access; but I wonder how they deal with that in making the statutory reports required to the shareholders and to the directors.

Hon. Mr. HANSON: They do not deal with it.

Mr. SLAGHT: If you will permit me to say so, a great many of the shareholders' auditors, whose duty it is to represent the shareholders, would be happy in that capacity to see hidden reserves as large as possible, because the result would be that whatever the amount was, they escape taxation, which is favourable to the shareholders; so you may never hope for any interference on the part of shareholders' auditors with the amount of inner reserves.

Hon. Mr. ILSLEY: That is not correct.

The CHAIRMAN: Suppose we allow the section to stand?

Mr. CLEAVER: It is carried.

Some Hon. MEMBERS: No.

The CHAIRMAN: No. We cannot carry it.

Mr. GRAHAM: Mr. Chairman, I do not see why we should not ask that this clause stand. At some time we have to get this information, and it would seem to me that now is the proper moment.

The CHAIRMAN: We were trying to go on with the quasi-controversial clauses.

Mr. GRAHAM: The non-contentious ones?

The CHAIRMAN: Yes.

Mr. GRAHAM: Having regard to the point raised by Mr. Slaght, I would suggest the opposite. The reserves would be known. The shareholders' auditors, acting for the shareholders, would be inclined to want to have those declared as dividends to the shareholders, but they would not want the inner reserves decreased beyond perhaps the point of safety. However, that is only a matter of argument,

Mr. SLAGHT: That is another aspect there as well.

Mr. CLEAVER: Carried.

Some Hon. MEMBERS: Carried.

Hon. Mr. ILSLEY: What is carried?

The CHAIRMAN: Yes, what is carried? Section 55?

Mr. MAYBANK: Section 55.

Mr. CLEAVER: Section 55 is carried.

The CHAIRMAN: All right.

Hon. Mr. HANSON: All right.

Mr. GRAHAM: Mr. Chairman, I want to get this point clear. I am not going to allow my approval to go to something that I do not quite understand. We have at last got down to the duty which this committee was instructed to perform. Could you tell me, Mr. Tompkins, how the shareholders' auditors, in preparing the report required by the section, conceal from the shareholders the amount of the inner reserves?

Mr. TOMPKINS: I hardly like the word "conceal". But what they do is what has already been explained, I think, in the minister's statement. Those reserves are deducted from certain of the assets—loans, investments, etc.—to bring them down to what is considered a fair or realizable value; and there is a certificate that accompanies the auditors' report to the shareholders, which incidentally is in compliance with the sort of certificate required by section 55. Shall I read the certificate?

Mr. GRAHAM: No. It is quite all right if you give us the general information.

Mr. TOMPKINS: It is a certificate that the balance sheet is a true balance sheet and in accordance with the books, that they have obtained all the information and explanations that they require, and that the transactions of the bank which have come under their notice have been within the powers of the bank and so forth. It is a very short statement.

Mr. GRAHAM: In other words, it more or less indirectly says that the reserves are sufficient and proper under the circumstances?

Mr. TOMPKINS: Yes.

Mr. SLAGHT: May I ask a question of Mr. Tompkins?

The CHAIRMAN: Yes.

Mr. TOMPKINS: And incidentally too, those statements are accompanied, of course, by the profit and loss account of the bank.

Mr. GRAHAM: Yes.

Mr. TOMPKINS: Which says that the profits for the year are after providing "X" dollars for dominion government taxes and after making provision to contingent reserve, out of which reserve provisions for bad and doubtful debts have been made.

Mr. SLAGHT: Mr. Tompkins, apropos the question Mr. Graham asked, I think the committee should know this. He asked how the auditors for the shareholders conceal the amount of inner reserves. Let us change that, if you will allow me, to "do not disclose". By what method do they make a report to the shareholders which they are required to make and do not disclose to the shareholders the amount of the hidden reserves? And may I suggest——

Mr. MAYBANK: Inner reserves.

Mr. SLAGHT: Inner reserves, yes. Must I give up "hidden" too?

Hon. Mr. HANSON: Non-disclosed reserves.

Mr. SLAGHT: I suggest this is exactly the way they do it. They interpret that clause you have just read to show the value of the assets after depreciation, to enable them to take, let us say for illustration, $100 as the value they start with on the assets. Then for illustration—and you need not accede to the amount—they deduct $20 from those assets, reaching the amount as hidden reserves, or the directors have reached it for the auditors. Then that leaves $80. Then they report to the shareholders only the item of $80 and thus successfully fail to disclose the $20 item of inner reserves. Is that not exactly what they do?

Mr. MAYBANK: May I interrupt before you answer that, Mr. Tompkins? That $20 left off is, however, $20 for which there is no value. Would not that be correct?

Mr. SLAGHT: No. The $20 left off, if you are asking me, is $20 that they earned in that fiscal year, it is earned money.

An Hon. MEMBER: No.

Mr. SLAGHT: All right. Mr. Tompkins will correct me if I am wrong. It is earnings for that year. They take that amount and write down the assets by $20.

Mr. CLEAVER: The total earnings are shown.

Mr. TOMPKINS: It may not be the earnings for the year.

Hon. Mr. HANSON: Gross receipts.

Mr. TOMPKINS: It might not be earnings in that particular year.

Mr. SLAGHT: Might not or might be.

Mr. CLEAVER: No. I take it that the total earnings, in any event, are shown. The total receipts of the bank are shown annually.

Mr. SLAGHT: The hidden reserves are not shown in that year because they are not earned in that year; and they are not shown because they are freed from taxes in that year for fear they might be lost in the years to come.

The CHAIRMAN: May I suggest that the section stand, Mr. Slaght. I have a letter from the General Accountants' Association bearing on the matter. Is it your pleasure that the letter be printed and that the brief be printed?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: It is at some length. I think we will allow the section to stand.

Mr. MAYBANK: Section 55 stands?

Hon. Mr. ILSLEY: Just a minute, please. Would the committee wish to take evidence as to how the shareholders' auditors discharge their functions?

Hon. Mr. HANSON: I think it would be advisable.

The CHAIRMAN: I would suggest we get a representative shareholders' auditor and let him give evidence.

Hon. Mr. HANSON: All right.

Some Hon. MEMBERS: Hear, hear!

The CHAIRMAN: Tomorrow?

Mr. GRAHAM: That is one of the great safeguards.

Hon. Mr. ILSLEY: Tomorrow if we can arrange it.

An Hon. MEMBER: There is no meeting tomorrow.

The CHAIRMAN: There is a caucus tomorrow.

Mr. NOSEWORTHY: Mr. Towers is only available this week.

The CHAIRMAN: That is right.

Mr. NOSEWORTHY: I think there are some of us who want to question Mr. Towers.

The CHAIRMAN: Section 56.

Mr. MAYBANK: Mr. Chairman, may I ask when the shareholders' auditor is to be here? Will he be here on Friday?

Hon. Mr. ILSLEY: That means that we will be discussing section 55. That is an agreement to discuss section 55 on Friday. That is what it is.

The CHAIRMAN: Is that the pleasure of the committee?

Some Hon. MEMBERS: Carried.

Mr. NOSEWORTHY: There is just this point. In view of the fact that Mr. Towers is only available——

Mr. RYAN: Will we sit on Friday? I think we had better adjourn until next Tuesday?

Mr. NOSEWORTHY: In view of the fact that Mr. Towers will be away from the city after Saturday, I think we should probably make use of him while he is here.

Mr. BLACKMORE: Hear, hear!

Mr. NOSEWORTHY: I should like to question Mr. Towers for about an hour at some time this week while he is available.

Hon. Mr. ILSLEY: We will have the shareholders' auditor later, then.

Mr. NOSEWORTHY: I think it would be better if the shareholders' auditor came later.

Hon. Mr. ILSLEY: All right.

The CHAIRMAN: Section 56.

Hon. Mr. ILSLEY: Section 55 shall therefore stand.

The CHAIRMAN: Yes.

Hon. Mr. ILSLEY: Section 56 should stand.

The CHAIRMAN: Section 56 stands. Then we come to section 59.

Mr. SLAGHT: With regard to section 59, Mr. Chairman, may I say that I shall not be able to be here on Friday. But having reached it in its course, I should like to make some observations with regard to section 59.

The CHAIRMAN: We will come back to it later on.

Mr. SLAGHT: Well, there will not be any later on. We have reached it in its course—

The CHAIRMAN: No, Mr. Slaght. We have already allowed section 10 to stand, about which Mr. Jackman desires to make some observations.

Mr. SLAGHT: Let Mr. Jackman make his observations.

The CHAIRMAN: Do you want to go back to section 10?

Mr. SLAGHT: That is quite agreeable to me.

Mr. GRAHAM: I think, Mr. Slaght, you would be satisfied if we do not deal with section 59 until you get back.

Mr. SLAGHT: I shall not be back until next week.

Mr. GRAHAM: That is fine.

The CHAIRMAN: We will be going on next week.

Mr. SLAGHT: All right. I am not particular about to-day as against any other day, but as we reached it in its course, I thought perhaps now would be the proper time to make my observations. As the committee perhaps know pretty well by this time, I have some strong views on it which I want to invite the bankers to agree with and the members of the committee; and I think we can happily and peacefully solve this problem by amending section 59 in a very simple manner. If I may have the opportunity to do that later, all right.

The CHAIRMAN: I think so.

Mr. SLAGHT: I do not want to stop the committee here.

Mr. CLEAVER: I would suggest that, when that time arrives, the committee should have the benefit of the evidence of an officer of one of the banks who is either now or who has recently been charged with the responsibility of investments and of the bank reserves, so that we will know how this section operates from day to day in connection with normal banking practice.

Mr. SLAGHT: Mr. Cleaver spoke to me about that yesterday, and I am fully in accord with his suggestion.

The CHAIRMAN: I think the committee is also in accord. Then we come to section 60.

Mr. FRASER (*Peterborough*): In regard to section 60, may I say that—and I mentioned it in a debate in the house—I think there should be a definite colour for each note and that those notes should be different than they are at the present time. If you take a one-dollar bill and a five-dollar bill, you will see that the face of each is pretty much the same. I do not think I have one here. Yes, I have a five-dollar bill here.

An Hon. MEMBER: You are lucky.

Mr. FRASER (*Peterborough*): And a one-dollar bill; and after the five has been worn a little bit, there is very much the same appearance to them, especially to a person with poor eyesight.

The CHAIRMAN: We cannot see that from the table.

Mr. FRASER (*Peterborough*): Well, I am not going to give them in as exhibits. One nearly blind person said, "If you take a one-dollar bill and look at the bottom right hand corner, and the same on the five, it looks the same; the one and five in French or the same in English on the left hand corner. The one or the five in the numerals should be on the whole four corners." That is a suggestion from some nearly blind people with whom I have had contact. I do not know if I have a two-dollar bill here, but a person can see it in the dark almost. It is a different colour. With the other bills there is not that certainty. I know it concerns the Bank of Canada but it comes under these notes too, and the different banks which are issuing notes; and it should be so that a person can see it even in a dull light. I hope that the minister will take that into consideration.

Hon. Mr. ILSLEY: Let me point out that the banks will not be issuing any new notes after January 1, 1945.

Mr. FRASER (*Peterborough*): I know that. But it is just a hint to the Bank of Canada to carry this out.

Hon. Mr. ILSLEY: Oh!

Mr. MAYBANK: Mr. Chairman, there might be very considerable merit in that. I think we need to give it much greater examination. I think we might get the Bank of Canada to supply each member of the committee with a full set.

Some Hon. MEMBERS: Hear, hear!

The CHAIRMAN: Is the section carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 61.

Mr. BLACKMORE: Mr. Chairman, is anything going to be done with respect to the suggestion of Mr. Fraser?

The CHAIRMAN: Yes. The Minister is taking it into his consideration.

Some Hon. MEMBERS: Carried.

Hon. Mr. ILSLEY: There is an amendment to section 61.

The CHAIRMAN: Section 61 stands. Section 62.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 64.

Some Hon. MEMBERS: Carried.

Mr. McGEER: Section 64 has an amendment to it.

The CHAIRMAN: Yes. Do you want it to stand?

Mr. McGEER: Yes.

The CHAIRMAN: It stands. Section 65.

Mr. NOSEWORTHY: I should like section 64 to stand.

Mr. TOMPKINS: There is no amendment tabled for section 64.

The CHAIRMAN: Section 65.

Hon. Mr. HANSON: I think we ought to carry it.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 66.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 75.

Mr. NOSEWORTHY: What about section 68?

The CHAIRMAN: Section 68 was carried last time.

Mr. KINLEY: Was section 68 carried?

The CHAIRMAN: Yes. Section 68 was carried on June 16.

Mr. KINLEY: Thank you.

Mr. CLEAVER: And section 71 is carried?

The CLERK: Section 71 was carried on June 16th.

Mr. MACDONALD: That was carried before.

The CHAIRMAN: Section 75.

Mr. McGEER: Stands.

The CHAIRMAN: That stands. Section 85.

Mr. MACDONALD: Carried.

Mr. MAYBANK: What about section 82?

The CHAIRMAN: Section 82 was carried on June 16th.

Mr. MACDONALD: Mr. Kinley suggested that 85 be carried.

The CHAIRMAN: 85 carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 88. I think that should stand.

Mr. GRAY: Stands.

The CHAIRMAN: Yes. Section 88 stands. Section 89.

Mr. NOSEWORTHY: Stands.

The CHAIRMAN: That stands. Section 90.

Some Hon. MEMBERS: Carried.

Mr. FRASER (*Northumberland*): Stands.

Mr. KINLEY: That ought to stand too.

The CHAIRMAN: Section 90 stands. Section 91.

Mr. FRASER (*Northumberland*): Stands.

The CHAIRMAN: Section 91 stands. Section 92.

Mr. FRASER (*Peterborough*): Mr. Chairman, under this section 92 I understand comes the holding by the banks of old deposit ledgers. I have a letter from one bank, and they say they have their ledgers back to 1856 and according to the law they are not supposed to dispose of them.

The CHAIRMAN: Mr. Fraser, we are going to allow section 92 stand. We have many communications from the banks.

Hon. Mr. HANSON: I understand the minister has an amendment.

The CHAIRMAN: Yes. We have quite a few communications. It stands. Section 93.

Some Hon. MEMBERS: Carried.

Mr. FRASER (*Northumberland*): If the other stands, this should stand.

The CHAIRMAN: Section 93 stands.

Mr. MACDONALD (*Brantford*): It is service charges.

The CHAIRMAN: Stands.

Mr. GRAHAM: I think maybe that had better stand, because it raises that question.

The CHAIRMAN: Section 93 stands. Section 94.

Mr. FRASER (*Northumberland*): Section 94 should stand too, if section 93 stands.

The CHAIRMAN: Section 94 stands. Section 97.

Mr. TOMPKINS: Mr. Jackman has an amendment to section 97.

The CHAIRMAN: Mr. Jackman has an amendment to section 97, I am informed; so it stands.

Hon. Mr. HANSON: Mr. Jackman's amendment is to raise the amount up to $1,000.

The CHAIRMAN: I think it had better stand.

Hon. Mr. HANSON: I think the committee would carry that if you would allow me to explain it. Let us clean it up and carry it.

The CHAIRMAN: All right.

Hon. Mr. HANSON: Is there any objection to setting the amount at $1,000?

Some Hon. MEMBERS: Carried.

Hon. Mr. HANSON: There is not any objection, I do not think.

Mr. SLAGHT: No, because the bank is protected if we pass it. They could never be sued.

Hon. Mr. HANSON: As a matter of fact, the $500 in many cases is not enough. We have had practical experience with it. If a man died down in Florida—and it is very expensive to die down there—he has got to be brought up north and buried on the $500.

Mr. FRASER (*Northumberland*): It is not only expensive to die in Florida; it is expensive elsewhere too.

The CHAIRMAN: Mr. Jackman has the floor.

Mr. JACKMAN: I do not want to take up time unless there is objection raised. $500 will be little enough for the burying of a deceased person. I think in fairness to the depositor and to the beneficiaries who have to discharge the duties of the deceased, the amount should be raised. Nearly everything has gone up in cost. Undertaking expenses sometimes run to quite substantial figures. If no one is going to be damaged, particularly the Crown, by raising it from $500 to $1,000, I suggest to the committee that they should carry this.

Mr. CLEAVER: Is it $1,000?

Mr. GRAY: Mr. Chairman, if you make it $1,000, you can make it $2,000. You would not get it anyway, because the bank would demand the consent of the treasurer of the province, certainly in Ontario; and with respect to dominion succession duty, they would demand that the consent of the succession duty department be filed as well as the probate or letters of administration. Probate and letters of administration, in my experience, come through very quickly. But my experience with getting consent from the dominion, especially, is that they are very slow, and it will be a problem. If we are to allow the banks to pay out up to $1,000 and exclude from that compelling them to present a succession duty release, that is very good. But it is simply worthless to pass that at $1,000, $2,000 or $5,000, because the banks are not allowed to pay out without this consent being filed. I repeat that with dominion succession duties there have been long delays, up to six months and even longer.

Mr. FRASER (*Northumberland*): Make it a year.

Mr. GRAY: Six months or even a year in some cases. So that passing the section as it stands without doing something about the succession duty release would not help a bit.

Mr. SLAGHT: This will come in another form at a later date. Let us do this much now, I suggest, and then approach the proper authority for the amendment to the Succession Duty Act, or the department.

Mr. GRAHAM: I should like to study that section. I suggest that it stand.

The CHAIRMAN: Stands.

Mr. KINLEY: That sounds all right.

The CHAIRMAN: Section 107.

Mr. CLEAVER: Carried.

The CHAIRMAN: Carried. Section 114.

Mr. MACDONALD (*Brantford*): What about section 112? I do not think 112 carried.

The CHAIRMAN: I beg your pardon. Section 112, yes.

Mr. NOSEWORTHY: Had not section 112 better stand?

The CHAIRMAN: Section 112 stands.

Hon. Mr. HANSON: What about section 113?

Mr. TOMPKINS: Section 113 was carried.

The CHAIRMAN: Yes, section 113 was carried. Section 114?

Mr. CLEAVER: Carried.

The CHAIRMAN: That is carried. Section 115?

Mr. MCNEVIN: Carried.

Mr. NOSEWORTHY: Wait a minute.

The CHAIRMAN: Mr. Noseworthy, did I hear you say something?

Mr. CLEAVER: Section 115 carried.

Hon. Mr. HANSON: Carried.

The CHAIRMAN: That is carried. Section 116.

Mr. FRASER (*Peterborough*): Will not that section of the Income Tax Act have any bearing on this section 116?

Hon. Mr. HANSON: No.

Mr. FRASER (*Peterborough*): Where they will have to show the amount of interest paid to the depositors? How will that work in?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: That is carried. Section 117.

Mr. GRAHAM: You had better let that stand.

The CHAIRMAN: Did somebody say stand?

Mr. GRAHAM: Yes.

The CHAIRMAN: It stands. Section 119.

Mr. CLEAVER: Carried.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: That is carried. Section 128.

Mr. GRAHAM: I wonder, Mr. Chairman, if section 119 has not the same germ of argument between the provinces and the dominion as the usual rule of escheat would have?

Hon. Mr. HANSON: It is winding up an insolvent bank. Surely that is within the jurisdiction of the federal authorities.

Mr. GRAHAM: It is in winding up proceedings. But what about the disposal of the remaining assets?

Hon. Mr. HANSON: It is under the dominion winding-up authority.

Mr. GRAHAM: I have no objection.

The CHAIRMAN: Section 128.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 128 is carried. Section 129.

Mr. NOSEWORTHY: Not too fast, Mr. Chairman.

The CHAIRMAN: Take your time.

Mr. MACDONALD (*Brantford*): On section 129, some one suggested there should not be the double liability.

Mr. JACKMAN: What is the liability now?

Mr. TOMPKINS: 35 per cent.

Hon. Mr. HANSON: After the 1st of January what will it be?

Mr. TOMPKINS: It will be 25 per cent after the 1st of January, up until January 1 of 1950, when the bill proposes that the amount of outstanding circulation shall be paid over to the Bank of Canada which will thereafter assume liability for redemption.

Hon. Mr. HANSON: There is still double liability.

Mr. TOMPKINS: Then there will obviously be no double liability.

Hon. Mr. HANSON: That would be the consequence?

Mr. TOMPKINS: That would be the consequence.

Hon. Mr. HANSON: And that is specifically so stated. The double liability has always been the bogey to people buying shares of banks. If it is wiped out, it ought to be expressly stated that it has ceased to exist.

Mr. GRAHAM: I think we should secure information with regard to the present need and advisability of continuing that double liability.

Hon. Mr. HANSON: Hear, hear!

Mr. GRAHAM: I suggest the section stand.

The CHAIRMAN: It stands.

Mr. MCGEER: There is another phase that I think should be considered at the same time. I understand this change in double liability is correlated with the change in the right to issue circulation as against the paid-up capital. The shareholder who had the right to use the capital he invested in the bank plus the right to issue circulation to the same amount had a double asset in operation. When you come to consider removing the double liability, the security of the depositor, I think, comes into the picture; because a double liability was supposed to be a protection to the depositor, and it is here where I think we should consider whether or not we should strengthen the Canadian banking system by guaranteeing the deposits up to a certain amount. I do not think there is very much in that guarantee to-day, because not only have the banks changed very greatly with regard to this issue of circulation, but they have changed very greatly in the position of the type of asset which they now possess. Some of the banks have a liquidity of upwards of 80 per cent, I think, on government securities and the cash which they hold. But here, I think the depositor should be given some consideration.

The CHAIRMAN: The section stands. Section 140.

Mr. KINLEY: You weaken the banks, though.

Mr. McGEER: I do not think so. They have done it in the United States.

The CHAIRMAN: Section 140. We are at section 140, Mr. McGeer. Do you want it to stand or is it all right?

Mr. McNEVIN: Carried.

Mr. McGEER: That stands, Mr. Chairman.

The CHAIRMAN: It stands. Section 146.

Hon. Mr. ILSLEY: I have an amendment to that.

The CHAIRMAN: It stands. Section 148. You have an amendment there?

Mr. TOMPKINS: There is no amendment there.

The CHAIRMAN: Shall section 148 carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: That is carried. Section 149.

Hon. Mr. ILSLEY: That is section 56. That does not conflict with this.

The CHAIRMAN: Section 149.

Hon. Mr. HANSON: Is section 148 carried?

The CHAIRMAN: Yes. That is carried.

Mr. MACDONALD (*Brantford*): I think section 149 should stand. Section 88 is standing so section 149 should also stand.

The CHAIRMAN: Then that stands. Section 150.

Mr. MACDONALD (*Brantford*): Stands.

The CHAIRMAN: Section 150 stands. Section 157.

Mr. MACDONALD (*Brantford*): Carried.

The CHAIRMAN: That is carried, then. Section 165. That stands. Then going back to clause 10, Mr. Jackman has the floor.

Mr. JACKMAN: On clause 10, Mr. Chairman, my amendment reads that the par value of the capital stock of the banks shall be $10 in place of $100, and I shall give the reasons which I suggest apply to that. The price of the shares of the chartered banks in all cases exceed $100, and as we saw in a review of the prices of those shares in previous times when they were up to $400—

The CHAIRMAN: Mr. Jackman, will you read your amendment, please?

Mr. JACKMAN: The amendment is a very simple one. We omit the words "one hundred dollars" and substitute for them the words "ten dollars." The effect of it is to reduce the par value of the issued shares of the capital stock of our chartered banks from $100 to $10 each, merely substituting $10 for $100. As I mentioned, the stocks of all the chartered banks sell at a relatively high figure. Even at the present time they are in excess of $100. I think perhaps the highest is $234. I will just read them, if you like: Banque Canadienne Nationale, $135; Bank of Commerce, $133; Bank of Montreal, $149; Dominion Bank, $162; Bank of Nova Scotia, $230; Royal Bank, $139 and Bank of Toronto, $234. Those prices do not attract the ordinary investor who is entitled, if he so wishes, to own bank stocks in this country. There is a fashion in investment the same as there is in almost everything else, and people do not want to buy shares with a high value such as banks stocks have at the present time. They prefer stocks having a considerably lower value. When I say "fashion", it is true that a fashion does exist; and I think we should recognize that people do not want to get into high price shares because they can only afford to buy two, three, four or five shares. They like to say that they own ten, fifty or one hundred shares or even more or even thousands of shares when it comes to mining stocks or securities of that nature. So that there is no appeal for the ordinary investor to buy this type of security; and in many cases it prevents the small citizen from acquiring bank shares. Therefore I have suggested that they be split or reduced in par value from \$100 to \$10, which would make the range from 13.50 to \$23 a share for the present outstanding stocks. There is nothing unusual in a bank stock selling at a fairly low market price. There is no reflection on the security or the integrity behind those shares, nor does it lead to any loss of confidence on the part of the depositors. For instance, referring to the British banks, we find that a great many of the leading banks in that country have £1 shares, or in some cases less, sometimes £2½. For instance, Barclays Bank have "A" shares at £1, selling at 56 shillings a share and "B" shares of £1 selling at 80 shillings a share. Hambros Bank have £10 shares with £2½ pounds paid, and class "A" shares of £1. Lloyds Bank have class "A" £5 shares, with £1 paid, and class "B" stock of £1 par value. Martins Bank also have £1 shares and the Midland Bank have £12 shares with £2½ paid. That is the story in Great Britain. In the United States we find it makes no difference apparently to the standing of the bank as to whether or not the stock has a high par value or a high market value. We find the stock of the Bank of Manhattan selling at \$23 a share; the Chase National Bank—I suppose perhaps the largest bank in the world—selling at \$40 a share; the City Bank-Farmers Trust, at \$37; the Corn Exchange at \$48; the First National Bank at \$1,600; the Guaranty Company, \$335.

Mr. SLAGHT: Are they at a par of \$10?

Mr. JACKMAN: I am sorry but I do not know the par value of those shares. But I would think that in no case—although I speak without absolute knowledge—are the bank stocks there selling for less than par value. Otherwise it would lead to lack of confidence. My amendment does not have anything to do with the relation between the market value and the par value. It is simply a case of reducing the par value from \$100 to \$10, and the market prices would be correspondingly reduced.

Mr. FRASER: (*Peterborough*): May I ask if the shares in the United States are double liability?

Mr. JACKMAN: I do not know. But I point out again that, in the debate on the bank bill in the house, Mr. Coldwell made the suggestion that inasmuch as the banks were allowed to build up their reserves, both insurance reserve and the disclosed reserve—and in ploughing back profit so that they could carry on a greater amount of business—it tended to create a monopoly among the shareholders rather than having them go to the public for their additional capital required in the business. So that it would seem the wider the distribution, the fairer it would be to all our people.

Mr. SLAGHT: Carried.

Mr. JACKMAN: The whole point in the amendment is that it makes the bank shares available to all our classes of citizens, and does not reserve them for institutional investors and for large investors to whom high-price stocks have appeal. I think all classes of our people should be able to participate in this type of investment if they so desire. I therefore move that the par value of our bank stocks shall be reduced to \$10.

The CHAIRMAN: Before we vote on the amendment, gentlemen, might I say that we have been rather ignoring the bankers so far; and I would ask Mr. Wedd if the bankers desire to make any representations in regard to the amendment moved by Mr. Jackman?

Mr. WEDD: Our only representation, Mr. Chairman, would be to approve of it.

Mr. RAE: I would say we heartily approve.

The CHAIRMAN: What is your pleasure, gentlemen?

Mr. KINLEY: Do not forget there is a relation between double liability, and this proposal. I would hate to see the average man—that is the poor man—in the country induced to buy shares in something where he had a double liability. The double liability of the bank is being reduced by reason of the fact that their circulation is being taken away; I think there is a relation between the two. If we are going to have a double liability, I would be more careful about voting for $10 shares.

Hon. Mr. HANSON: Mr. Chairman, I have already expressed my view on this point. I should like to point out that there is no other jurisdiction in the world that I know of where banks carry double liability. They certainly do not in the United States, so far as I can learn, and I do not believe they do in Great Britain.

Mr. NOSEWORTHY: We do not want the United States' banks here.

Hon. Mr. HANSON: Double liability in Canada was imposed on the banks really to protect the note issue; although as a matter of law and of strict construction, I suggest it is protection for all the creditors of bank. We all know that the note holder is a preferred creditor of the banks. That has disappeared, and I do not see why the banks are hereafter to be placed in a different position from any other joint stock company; and the double liability should disappear or will disappear if the trend of public thought and parliamentary thought continues as it is to-day.

Mr. SLAGHT: Are you not afraid of shaking confidence in the banks?

Hon. Mr. HANSON: No. I have as much confidence in the banks, I guess, as they have in me. So I am going to leave it at that.

Mr. FRASER (*Northumberland*): You are both safe.

Hon. Mr. HANSON: I am not concerned about confidence in the banks. The only thing I would be concerned about is that the public should not be misinformed by innuendo and false insinuation that the banks are people who have special treatment at the hands of parliament and the taxing authorities at Ottawa. As I stated some days ago, there is no form of corporation in Canada that is so confined and restricted, explored and examined by public authority as the banking corporations of Canada. Control of our joint stock companies in the issue of their shares and what they shall put in their business under any Companies Act within the ten jurisdictions,—nine provinces and one dominion,—is not done by any such confining and contracting restrictions as are applied to the banking system of Canada.

Mr. KINLEY: And rightly so.

Hon. Mr. HANSON: I am not objecting to that; but I am pointing out the state of facts as they exist.

Mr. KINLEY: You accentuate it.

Hon. Mr. HANSON: I am pointing out something we are apt to forget.

Mr. KINLEY: Oh, no.

Hon. Mr. HANSON: For the double liability, of course, there was a very effective reason. They were given a public franchise that was conferred on only one class of corporation in Canada, namely the issue of their own notes. That is now being taken away from them. That franchise in fact, so far as the note holder is concerned, will disappear as time goes on and will effectively disappear in 1950. But I put this thing on a wider plane than that. If you will examine a list of the bank shareholders—and I have not done so for a long period of time—I think you will find more dead ones than live ones on it as shareholders. That is a good thing for a few.

Mr. NOSEWORTHY: Do you mean physically dead?

Hon. Mr. HANSON: Yes, physically dead; and I am not including the member for East York either.

Mr. FRASER: He is not here. He is not a shareholder either.

Hon. Mr. HANSON: What I do suggest is that the reduction of the shares from $100 par value to $10 par value will lend itself to a much wider distribution of the shareholdings in the banks of this country. I think that is a consummation devoutly to be hoped for, that the customers of the banks, the people who are dealing with the banks, should become owners of this institution. It will be making friends for the banks. I illustrated my point of view from the standpoint of the local telephone company. That is wonderful support to have—a group of shareholders of every community owning shares in the telephone company. They are interested in seeing that that company is well conducted. They are interested in seeing that it gives good service to the community. It has all the features of a co-operative society, if you get very large shareholdings. In a company with a capital issue of about $7,000,000, they got 35,000 shareholders.

Mr. FRASER: It applies to political parties.

Hon. Mr. HANSON: I am not carrying the analogy that far.

The CHAIRMAN: Pardon me a moment, Mr. Hanson, but I think the amendment carried.

Mr. GRAHAM: Oh, no.

The CHAIRMAN: The amendment is not carried.

Hon. Mr. HANSON: If it is carried, I am satisfied.

The CHAIRMAN: Suppose we vote.

Mr. BLACKMORE: Mr. Hanson has the floor.

Mr. GRAHAM: Mr. Chairman, I think we spent weeks putting information on the record that I do not think is germane to the committee's work at all. I think it would be very unwise to make a drastic change in this without proper consideration.

The CHAIRMAN: I thought the amendment had carried.

Mr. BLACKMORE: Mr. Hanson has the floor.

The CHAIRMAN: If. Mr. Hanson wishes to argue, all right.

Mr. SLAGHT: Question.

Mr. GRAHAM: My point is this. I see a great deal of merit in what Mr. Jackman suggests and that merit is given great weight by the evidence, somewhat casually given, I am afraid, by the representatives of the chartered banks here to-day. Yet the thought strikes me, Mr. Chairman, that bank stock particularly, as Mr. Hanson points out, if we leave that double liability clause in, is a stock that we should be peculiarly careful of before we lower the par value in order to induce the public generally to subscribe to the stock. Many a subscriber of $10 stock would probably not be fully informed as to this special liability that would attach itself to bank stock. I also had this in mind. I am not suggesting that this should overweigh Mr. Jackman's suggestion, but I am asking the committee to consider carefully that that is involved. In moments of financial stress it strikes me that the stock holders in a bank as at present constituted, with stock at a par value of $100, would be less likely to be effected by a momentary panic and to disturb the banks' stability by throwing a large quantity of bank stock on the market, I wonder if a medium step might not be wiser than reducing it from $100 to $10, and if we should not have expert advice, a little more considered and a little more deliberate than given by Mr. Wedd and the other gentlemen here this morning, before we make this change which is very drastic in the set-up of the capital stock of the bank? I wonder if this committee should not consider lowering it from $100 to $50 or to $25 rather than down all the way to $10.

The CHAIRMAN: If I may say so, Mr. Graham, just because Mr. Wedd and Mr. Rae gave very short "yes", it does not mean that it was not a considered opinion.

Mr. GRAHAM: Well, it seemed so to me. There is no reason given.

The CHAIRMAN: I think you can take it for a fact that they have considered the matter.

Hon. Mr. HANSON: Yes.

The CHAIRMAN: Are you ready for the question?

Some Hon. MEMBERS: Question.

Mr. RYAN: Can Mr. Wedd give an answer as to why the banks are favourable to this?

Mr. GRAHAM: That is the point.

Mr. RYAN: To reducing the par value from $100 to $10.

Mr. WEDD: I think, Mr. Chairman, it is rather obvious that it would lead to wider distribution, and I think that fact speaks for itself. As far as giving a casual answer to this, is concerned, Mr. Graham, it naturally has been thought of somewhat often. I think the banks are all unanimous that this would really be a good thing from a public relations standpoint.

Hon. Mr. HANSON: Hear, hear!

Mr. GRAHAM: Mr. Wedd, do you think in addition we should do away with the double liability attached to the bank stock?

Mr. WEDD: Naturally I would prefer to see the double liability done away with if it could be worked out in the judgment of the committee.

Mr. GRAHAM: You see, I have a tremendous regard for this. Our banking institutions have a record for safety unexcelled in this world; and even in comparison with British banks our method of holding stock has, so far, proved its worth in a remarkably efficient banking system. I am afraid, Mr. Chairman, if I may interject it, that we are going to be concerned. For instance, Mr. Slaght raised the question of confidence in the banks. With all deference, in raising that argument again, I must say to him that if this committee adopted your scheme and parliament agreed in it, I as a bank depositor would lose confidence in our banking system.

Mr. BLACKMORE: That is too bad.

Mr. GRAHAM: When I remember that in a good year the shareholders in our banking system earned on the shareholders' equity only 6 point some per cent, I think this committee in the interests of the public, not of the banks, must consider the position of the shareholder in these banking institutions; and the deliberations of this committee, in my opinion, should have in mind the fine record of the banks, and the necessity of maintaining that stability and confidence on the part of the public. I believe that in any amendment we make we should have that carefully before us.

The CHAIRMAN: Mr. Ryan, has Mr. Wedd answered your question?

Mr. RYAN: Yes; quite satisfactorily.

Mr. FRASER (*Peterborough*): I should like to ask Mr. Wedd a question. If you take away the double liability, would that have more effect on public confidence in the banks? Or perhaps I should put it another way. Would the double liability have more effect on the confidence of the people in the banks than the statement Mr. Towers made that if the banks were in difficulty the Bank of Canada would come to their rescue? He said that here.

Mr. WEDD: Mr. Towers' statement, of course.

Mr. FRASER (*Peterborough*): It would have a greater effect?

Mr. WEDD: Yes. There is one point that Mr. Graham mentioned, that people might buy these shares and not really recognize the double liability factor or at least as it is now, the 35 or 25 per cent factor. I do not think the public realize that there is any secondary liability on the part of the shareholder of a bank. I mean the great majority of them.

Mr. JACKMAN: The shareholding public do.

Mr. WEDD: The shareholding public, yes.

Mr. FRASER (*Peterborough*): You think Mr. Towers' statement would be enough to give people confidence?

Mr. WEDD: Yes.

Mr. KINLEY: I should like to ask the witness a question. At the moment what is the extra liability on bank shares?

Mr. WEDD: 35 per cent.

Mr. KINLEY: It is a disappearing thing.

Mr. WEDD: It will be 25 per cent at the first of next year.

Mr. KINLEY: And then what?

Mr. WEDD: And then it will be carried on under this Act. That will be carried on, in order to cover the circulation privileges that may exist for outside of Canada.

Hon. Mr. HANSON: Only?

Mr. WEDD: Only. Well, I should add to that for the note circulation that will be outstanding and which will not be reissued.

Mr. KINLEY: In other words, in the future of the banks, if we do not change the Act, it will mean that they have one and a quarter liability.

Mr. WEDD: Quite right.

Mr. KINLEY: Just because of their circulation in other countries?

Mr. WEDD: No; plus what is still out and which will be taken up by the Bank of Canada in five years.

Mr. MCNEVIN: In 1950.

Mr. KINLEY: Therefore in this discussion of the double liability, it is not a question of whether we are going to drop the double liability. It is a question of whether we are going to continue the policy and let it go down, or whether we are going to re-enact the double liability. If we are going to re-enact the double liability, I would be against the motion. If we are not, I would be in favour of it.

Mr. SLAGHT: Mr. Chairman, it seems to me that this is peculiarly a matter where the committee can, without any peril, do so, and therefore they ought to accept the view of the chartered banks who have given it mature consideration. For instance, any group of men joining together to invest their money and form an ordinary industrial company, instruct their solicitors as to the amount of capital and the amount they desire to secure in their charter for authorized capital; and they have an entirely free hand in the matter of selecting the par value of their shares as between $100 and $10.

Hon. Mr. HANSON: Or no par value.

Mr. SLAGHT: Or no par value. There are also provisions in our Companies Act which enable, upon petition for supplementary letters patent, such a corporation to change the par value of its shares at its instance.

Hon. Mr. HANSON: By by-law.

Mr. SLAGHT: And those applications are granted by the Secretary of State, and the various provincial secretaries, as a matter of course. Therefore it does seem to me that the predominant factor that should govern our committee on this item is the desire of the chartered banks.

Mr. McNEVIN: Mr. Chairman, I just wish to say a word or two here. The lowering of the par value of any stock, and in particular with respect to bank stock, does not in the slightest degree weaken the financial position of the bank.

An Hon. MEMBER: Hear, hear!

Mr. McNEVIN: It is simply a reallocation of the share value. There is one point that up to date has not been brought out in the discussion before this committee relating to bank stock. Has there been any time, Mr. Tompkins, in the history of the Canadian banks where there has been a split-up of stock as has been the case in several other of our large corporations?

Hon. Mr. HANSON: No.

Mr. TOMPKINS: Not that I know of. I cannot give the year offhand, but I recall that I think the stock of the Bank of British North America, which was incorporated originally by royal charter, was at one time of a par value of $50. But all shares of Canadian banks were given an official par value of $100 in, I think, around 1890 or possibly 1880, I do not recall which at the moment. But in the sense of the split-up as it has been achieved by certain industrial or other companies, there has been nothing in the nature of a split-up in the shares of banks, to my knowledge.

Mr. McNEVIN: As far as I am concerned, I favour the proposition. There has been a good deal of discussion in this committee about the banking business being a monopoly. Here is an opportunity, if they so desire, for a very large number of people with small means to get into the banking business. Naturally it will take a much larger number. Also the matter of spreading the ownership of bank shares to a very much larger clientele, to my mind, is sound practice.

Hon. Mr. HANSON: Hear, hear.

Mr. NOSEWORTHY: Mr. Chairman, I wish to support this amendment. But in doing so, I think I should make it clear that I realize there is probably more advantage to the banking institution as it exists to-day in this wider distribution of the stock than to any other section of the community. I may be wrong in that. I may probably be prejudiced. I can readily see where the public relations of the bank will be improved by this wider distribution of the stock, where it may be possible to build up over the country a great many more shareholders who will most ardently back the bankers and others in support of the present banking system. As the stock becomes more widely distributed I can see where there will be more business for the brokers, as there will naturally be more shares of the banks changing hands; and I have no doubt there are many brokers who will support this reduction in the par value of the stock.

Mr. FRASER (*Northumberland*): At a lower rate of commission.

The CHAIRMAN: Attention, please, gentlemen.

Mr. NOSEWORTHY: As time goes on, I think there will inevitably be less profit to be made for the private bankers in the banking business; and it is quite possible there are those who have been very keenly interested in getting their money invested in banks in the past who may not, when that time comes, be so anxious to hold so much bank stock. This will undoubtedly give them a much greater opportunity of disposing of this stock which is no longer so highly profitable.

Mr. CLEAVER: Do you think the monopoly privilege has not much value?

An Hon. MEMBER: Hear, hear.

Mr. NOSEWORTHY: I think what a great many people would like to see and what I would like to see—and what the minister suggested, I think, in his speech—is the desirability of representatives of the farming community, representatives of some of the lower income groups becoming shareholders in the banks and influencing or having some influence on the policy of the banks. I do not for one moment suspect that, so long as banking remains very profitable, this device will enable representatives of the farming organization or co-operative organizations or representatives of low-income groups to have much influence on the policy of banking. I have no doubt that, so long as it remains profitable, the control of the stock and consequently the direction of the policy, will remain pretty well in the hands of the same group of people who have directed the policy of the banks in the past.

The CHAIRMAN: Order, please.

Mr. NOSEWORTHY: Nevertheless, it does open up possibilities, and the time may come when representatives of the lower-income groups, especially if banking becomes less profitable——

Mr. FRASER (*Peterborough*): It is not very profitable now.

Mr. NOSEWORTHY: ——may be able to get into the banking business. Members of the C.C.F. may be able to buy bank stock.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the section as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Now Mr. Slaght, you had something you wished to say.

Mr. GRAHAM: Mr. Chairman, may I draw the attention of the committee to a statement made by Mr. Fraser which I do not believe should be allowed to remain on the record. You will recall that Mr. Fraser indicated to Mr. Wedd that Mr. Graham Towers, Governor of the Bank of Canada, had indicated that the Bank of Canada would always be prepared to come to the assistance of any chartered bank in difficulty. I do not think the Governor went that far.

Mr. FRASER (*Peterborough*): Oh, yes.

Mr. GRAHAM: No. I think he went this far, that the Bank of Canada would not allow any of the chartered banks to be injured by panic thinking, unjustified on the part of the public; but I do not believe Mr. Graham Towers meant to leave the suggestion with this committee that if a bank, by mismanagement or dishonesty, got into difficulties, the Bank of Canada would come to its assistance.

The CHAIRMAN: When the Governor of the Bank of Canada returns, we can ask him the question. Mr. Slaght, you have the floor.

Mr. SLAGHT: I could not conclude what I have to say, Mr. Chairman, in the time remaining.

The CHAIRMAN: May I just explain something, then. There is a caucus of the government party tomorrow morning, and we may not be able to get a quorum. Is it the pleasure of the committee that we meet this afternoon?

Hon. Mr. HANSON: No.

Mr. BLACKMORE: No; not this afternoon.

Mr. RYAN: That would be a good idea.

Mr. BLACKMORE: We are sitting in the house this afternoon, are we not?

The CHAIRMAN: We have the privilege of meeting while the house is in session. We have already done that very thing.

Hon. Mr. HANSON: I should like to point out, Mr. Chairman, that the budget debate is to be resumed on Thursday and those who are speaking will have to get ready, and must have a little time. I cannot analyze this magnificent budget in one or two days.

An Hon. MEMBER: Hear, hear.

The CHAIRMAN: Well, I think that is a very conclusive argument. I think it very desirable that those who speak should get ready.

Mr. NOSEWORTHY: Mr. Chairman, surely we are not going to give a Liberal caucus precedence over the House of Commons in the matter of closing up the banking committee. If we close for one, surely we should for the other.

The CHAIRMAN: The only thing is the matter of getting a quorum. If we can get a quorum, I will go on.

Hon. Mr. HANSON: You have to be fair and above-board in this matter of caucuses. You have to give them precedence, and it must depend on the convenience of the Prime Minister and members of the government. Mr. Noseworthy is ambitious. May I point out to him that perhaps some day he may—although I hope not—be in the same position.

The CHAIRMAN: Mr. Ryan has the floor.

Mr. RYAN: Mr. Chairman, I would suggest that as it is now 1 o'clock, we adjourn until next Tuesday. Saturday is a holiday and some men who have been sitting here at all these meetings will want to get away before this Saturday. I think we will have much difficulty in getting a quorum on Friday.

The CHAIRMAN: I think we ought to try to get a quorum on Friday if we can.

Hon. Mr. HANSON: Yes.

Mr. RYAN: I would ask for the opinion of the committee.

The CHAIRMAN: May I ask for a show of hands.

Mr. MAYBANK: What are you talking about?

The CHAIRMAN: Who has the floor?

Mr. MAYBANK: I was trying to find out what you were saying, but these other men were trying to prevent you from telling me what you were saying.

The CHAIRMAN: Mr. Ryan suggests that we take the concensus of opinion of the committee as to whether we meet on Friday or not, since there is a prospective holiday and some members will want to go away, to get prepared for fire crackers or something of that sort. Is that right?

Mr. RYAN: Saturday is Dominion Day, and members will be leaving town on Friday and perhaps Friday morning. I do not think it is very much to ask that we adjourn for one day.

Mr. MACDONALD *(Brantford)*: Mr. Chairman, the only thing is that the Governor of the Bank of Canada, I understand, is going away the first part of next week, and Mr. Noseworthy expressed the wish to examine him on Friday. If we do not sit on Friday, then we would have to put off that examination until some time after his return.

The CHAIRMAN: Yes. Gentlemen, you have to remember that we have a very heavy agenda that must follow the disposition of the measure before us now.

Mr. McGEER: I suggest we meet on Friday at 11 o'clock.

The CHAIRMAN: All in favour hold up their hands. As a result of that, Mr. Ryan, I think we will meet on Friday morning.

Mr. RYAN: Thank you.

The CHAIRMAN: Then we shall adjourn until Friday morning at 11 o'clock.

The committee adjourned at 12.55 p.m. to meet again on Friday, June 30, at 11 a.m.

June 30, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Noseworthy has asked for the floor.

Mr. NOSEWORTHY: Mr. Chairman, I do not think I can introduce anything new into the discussion this morning. When I discussed with Mr. Coldwell the probability of my questioning Mr. Towers, he remarked that he thought Mr. Towers had already been asked every question that it was possible to ask him on banking. What I want to do is to try to gather together some of the threads of discussion, in order to get a little clarification of certain points for my own benefit particularly, and probably for that of other members of the committee, and if possible to reach some definite conclusions.

Mr. GRAHAM F. TOWERS, *Governor of the Bank of Canada, recalled:*

By Mr. Noseworthy:

Q. Mr. Towers, you and other witnesses have given testimony on various aspects of the money and banking question. I should like to review briefly some of these rather elementary points, and I hope, as I indicated to Mr. Wedd when he was on the stand, that you will not mind my asking elementary questions. I am not a banker. I am not a professional financier or broker. Consequently my questions may be quite elementary. The first question or two will be regarding deposits, for my own information. Deposits, I understand, constitute ordinarily anywhere from 80 to 90 per cent or more of our total medium of exchange; that is, cheques written against bank deposits, most of which arise from bank loans or investments, finance about 80 or 90 per cent of our business? —A. If one takes the total amount of bank deposits and the total amount of notes in the hands of the people, and regards the sum total of those two things as our medium of exchange, then I think bank deposits represent about 85 per cent of that total. Then next there is the question as to which is the most used, so to speak, for settling current transactions; in other words, whether bank deposits perhaps turn over faster than notes. There is no exact means of arriving at that; but if we said—dealing with ordinary business, retail and commercial transcations—that cheques were used to the extent of 85 per cent for this purpose and cash to the extent of 15 per cent, I think we should have got pretty close to the answer.

Q. I notice in evidence given before a committee of the United States Senate they estimated that the transactions carried on through the medium of cheques constituted close to 90 per cent of the medium of exchange.—A. Yes.

Q. In that country.—A. I think it is probably a higher percentage in the United States and Canada than anywhere else in the world. In other countries, in varying degrees, they tend to use notes more, to pay cash more than to write cheques.

Q. Then I come to the question of inflation. I think it has been generally conceded here, or it has been the general impression, that the printing of paper currency such as occurred, for instance, in Germany following the period of the last war, is one of the means of expansion that leads to inflation; but it is also true, is it not, that inflation would tend to rise probably as much or more from the expansion of deposits?—A. I think one might regard the two things as the same; because a person who has a deposit can always get a bank note instead or a person who has a bank note can always deposit it. They are interchangeable.

Q. The point I want to make is that the printing of paper currency is not by any means the only cause of inflation, and that a sufficient increase in deposits would have an inflationary effect.—A. Oh, yes.

Q. Through the increase in the bank reserves, and automatically increasing deposits from those reserves?—A. Yes.

By Mr. Macdonald (Brantford City):

Q. Was it not brought out the other day that there was a large increase in deposits in the years 1933 and 1934, and there was no inflation?—A. Yes. In other words, the results of a given expansion depend, to a certain extent, on the circumstances of the time.

By Mr. Noseworthy:

Q. They depend on other factors than the expansion itself?—A. Yes. If the expansion is pushed hard enough and on a sufficient scale continuously, one can guarantee the ultimate results. But if it is a more moderate affair, then its effects will depend to quite an extent on the circumstances of the times and the mood of the people.

By Mr. Blackmore:

Q. Particularly on the goods and services available?—A. That will have a bearing.

By Mr. Macdonald (Brantford City):

Q. There were plenty of goods available for sale in 1933 and 1934.—A. Yes.

Q. And there was a lot of money in the banks, and there was no inflation. Is that not correct?—A. That is correct.

By Mr. McNevin:

Q. It depends on the attitude of mind of the public.—A. In part.

By Mr. Noseworthy:

Q. It would also depend upon the distribution of those deposits and the money available?—A. In part, yes.

Q. In other words, an increase in deposits or the printing of paper currency, either one, might cause inflation, though neither of them need, of necessity, cause inflation of itself?—A. That is true; subject to the qualification that if you do go at it hard enough, then you can guarantee inflation.

Q. I want to ask a question on the reserve ratio. Legally banks require a cash reserve of 5 per cent to back up their loans and deposits. That is correct?—A. That is correct; as a reserve against their deposits.

Q. In practice, they require a 10 per cent reserve; that is, for every \$10 loan or investment, which provides a deposit liability, the bank must have one dollar in cash, in Bank of Canada notes, or in a deposit account in the Bank of Canada.—A. For every \$10 of deposit liabilities, yes. I do not want to add unnecessary complications. We have been using that 10 per cent reserve figure against deposits pretty consistently in the committee and perhaps could keep on in that way. I would say that, under existing war conditions, the banks are tending to keep something more like 11½ or 12 per cent. But for purposes of the discussion, we could very well stay at the 10 per cent figure.

Q. So that for every additional one dollar of reserves, the banks can expand loans and deposits by \$10?—A. Yes.

Q. And for every decrease of one dollar of reserves, you would say the banks must contract loans by \$10?—A. Loans and investments.

Q. Yes.—A. By $10.

Q. Providing they have already reached the limit of expansion?—A. Yes.

Q. In the past would you say this has been one major factor contributing to boom and depression? I notice, for instance, from figures submitted by you in the 1939 committee proceedings, volume 8, page 205, that cash reserves in the banks fell by about $35,000,000, from 195·5 million dollars in 1929 to 160·7 million dollars in 1933, while Canadian bank deposits fell by about $340,000,000. That in itself would have a pronounced deflationary effect, would it not?—A. Yes.

Q. Previously, from 1926 to 1929, there had been a comparable expansion of reserves, loans and deposits, and a consequent inflationary effect in some sectors of the country or of the economy?—A. As I have mentioned earlier in the committee hearings, I do not regard that 1924-1925-1929 period as an inflationary period in the sense that it was one of materially rising general costs of living or of a shortage of supplies or a great shortage of labour. So that I prefer not to use the term "inflation" in referring to that period. There was a stock market boom. The extent of that boom, I think, added to the difficulties of 1930-1931, when the boom collapsed. I think developments of that type made the subsequent crisis somewhat worse than it would otherwise have been. But there would have been a collapse of business, or at least a severe decline in business and serious trouble, even if the stock market boom had not taken place.

Q. Would you say that the expansion of reserves, loans and deposits at that time was a contributing factor to that stock market boom?—A. Yes, I would. How to divide the thing into two, I do not know, because there are no figures. But if one said that probably 75 per cent of the trouble would have been caused in any event—assuming that the other factors in the situation had been the same, of course—then perhaps 25 per cent of it or 20 per cent of it was that accentuation of the trouble due to gambling and speculation, which may have represented the marginal tail end 20 or 25 per cent.

Q. It is impossible to estimate just what that effect was?—A. Yes, it is.

Q. Or just what its contribution was?—A. It was the lunatic fringe of the thing, so to speak.

Q. I understand correctly, do I, that one major function of the Bank of Canada is to exert some control over the cash reserves of the banking system so as to prevent unregulated expansion and contraction?—A. Yes.

Q. And that we are now in a position to avoid some of the, shall we say, unfortunate occurrences that happened, such as the unregulated expansion and contraction that took place before the Bank of Canada was established?—A. Assuming that the Bank of Canada and others recognize it when they see it. It is obviously easier to recognize it after the event. I think that a situation as extreme as the 1928-1929 one would be clearly recognized.

Q. Would you care to make any other comment on the likelihood of the Bank of Canada being unable to recognize a period of expansion or contraction which would lead to boom or depression?—A. The easiest thing to recognize would, of course, be the tremendous volume of speculation on credit, which was taking place during the 1927, 1928 and 1929 years. I think one could recognize that clearly and prevent it, to the extent that it was built on credit. And now, recognizing the other type of inflationary boom where commodity prices in general and the cost of living were moving upward and where a situation was developing to a point that a serious attack might be expected, that is harder. Almost always it just seems like good business and some general rise in commodity prices probably does no harm. You get where it is liable to get out of hand, that is a much more difficult thing to decide. By the time that it has gotten out of hand of course then it is fairly recognizable.

Q. Then I think it has been made clear to the committee that the main instruments of control of the so-called legal market operations is selling securities so as to decrease the cash reserves and prevent expansion, or buying securities so as to increase the cash reserves and encourage expansion?—A. Yes, but of course direct action of that kind would have to be supplemented by what I might call indirect action. For example, the other day in committee I mentioned that in 1936 speculation on credit appeared to be commencing to go too far. The steps taken then were not to contract cash reserves and to try to bring about an overall contraction of loans, investments and deposits, but rather to go at the thing directly and indicate to the banks and the stock exchanges that they should take appropriate action in that specific field.

Q. In other words, the Bank of Canada could take preliminary preventive measures without having recourse to the buying and selling of securities?—A. Yes, it can advise the measures and ask for the co-operation of those who would have to execute them.

By Mr. Macdonald (Brantford City):

Q. Supposing the banks do not think it is advisable, have you any powers to force them to accept your views?—A. No. I think that in such a case we might publicly state the view, I think we would have to communicate with the government. It could be brought on in that form I suppose. It might be a subject of discussion for parliament or the Banking and Commerce Committee. But I would expect that only extremely serious differences of opinion would cause trouble.

Mr. McGEER: That did happen in New York in 1929 when a large number of the bankers wanted to stop the boom and there were a large number of other bankers who disagreed, particularly the First National Bank of New York.

The WITNESS: I do not recall who lined up on the two sides; there was a disagreement, yes.

Mr. MACDONALD: Was there a central bank in the United States?

Mr. McGEER: The federal bank was in operation, yes.

The WITNESS: Yes.

Mr. McGEER: Would you mind just a little interjection there?

By Mr. McGeer:

Q. In addition to having no powers to force the banks to take that advice, you have no power to force the banks to sell securities or to buy them, nor have you any power to force the public to either buy or sell securities; that must be a control which comes into it purely through the voluntary co-operation of the banks and the public; is that not correct?—A. Yes, but experience has always shown that this practically automatically takes place.

Q. You have had no experience yet with the Bank of Canada because you have maintained this great open-market policy of buying, ever increasing?—A. You mean we have not had any experience on the contraction side?

Q. You have not had to smash a boom yet?—A. That is right.

Mr. MACDONALD: But you have had experience with advising bankers with respect to a crash; I have in mind the situation in 1936, I understand they took your advice on that occasion?

The WITNESS: Yes, they agreed.

Mr. McGEER: Of course, the Roosevelt program of balancing the budget at that time had an influence which was very outstanding.

The WITNESS: Yes, but I am speaking about what took place before the so-called balancing of the budget.

Mr. McGEER: Mr. Roosevelt was elected in 1936 on a balanced budget program.

By Mr. Noseworthy:

Q. You would think the fact that the Bank of Canada has the authority to sell or buy securities would be an effective weapon in the hands of the governor of the bank in his preliminary negotiations with the bankers?—A. If the question related to the problem of undue expansion of credit in the field of call loans or commercial loans then I believe that the appropriate action is the direct one rather than that of curtailing cash to try to force an overall contraction.

Mr. McNEVIN: Pardon me, my memory may be wrong, but as I recollect it I think it was in 1932 when President Roosevelt was elected on a balanced budget program, and that the introduction of the New Deal come in 1936. I wonder if Mr. McGeer agrees to that?

Mr. McGEER: If you want to see a very fine treatise on that you read Mr. Jimmie Walberg's "Hell bent for Election" and he will tell you that Roosevelt was returned on the promise to balance the budget in 1932, and that the campaign in 1936 was against government spendings, to curtail the Roosevelt spending program and force him to balance his budget.

Mr. GRAHAM: According to my recollection Roosevelt was returned with an overwhelming majority on his New Deal program in 1936.

Mr. McGEER: No, I do not think so; I think you will find that Mr. Roosevelt promised to balance his budget in the 1936 campaign.

Mr. NOSEWORTHY: I think we could very well let the American question stand for the time being, seeing that Mr. Towers will be here for this session only.

By Mr. Noseworthy:

Q. I notice, Mr. Towers, that you object to the expression that the banks get something for nothing, or that the banks can only lend money when they have the cash; I understand that by that you mean that to get cash reserves with which to expand loans they are obliged to sell securities to the Bank of Canada or the public and thus forego some interest?—A. Yes.

Q. That is really what you mean by your statement that the banks do not loan money that they haven't got?—A. That is what is meant by the statement that the banks do not get their cash reserves financed free. The second part of the statement; i.e. that they do not loan money that they haven't got, relates to this; when the individual bank makes the loan to a customer and credits the customer's account, that individual customer can withdraw his deposit, he will pay it out, and the resultant deposits would appear with the other banks, so that the bank making the loan has to be prepared to lose cash to the other banks. In other words, there is a difference between the situation of an individual bank and the situation as a whole. One individual bank cannot keep out of step with the rest of the system.

Mr. McGEER: Without going into bankruptcy.

The WITNESS: Yes.

Mr. McGEER: Unless you come to the rescue with the Bank of Canada?

The WITNESS: Well, not bankruptcy exactly, but inability to meet a demand for cash.

Mr. McGEER: And the demand for cash also applies to the Bank of Canada cash?

The WITNESS: Yes.

By Mr. Noseworthy:

Q. Getting back now to the question of the variable ratio or the reserve ratio, the legal ratio is five per cent, but the practical ratio is 10 per cent; there actually can be a considerable variation either above or below the 10 per cent at any time, can there not?—A. There can be, yes. For example if next week the Bank of Canada embarked on a very heavy security buying program, if we bought in the open market $15,000,000 worth of securities during that week then the cash ratio of the bank would jump, of course, and it would probably stay on a rather high level for some little while, some weeks or months, depending upon how fast the banks use this additional cash, how fast they in turn tried to use it to buy different securities themselves; but for the time being it would remain at 12, or 15, or 16, or whatever we would suddenly put it up to.

Q. Then you would say that the amount of cash reserves can give rise to a variable amount of deposits?—A. Depending upon the program of the bank in regard to cash ratio to which they work at one time. An example of that was referred to by me in an earlier sitting of the committee. At one time we knew that if we bought securities and put the cash ratio up to 11 per cent it would raise action on the part of the bank to extend their assets and liabilities and bring that 11 down to say 10 per cent not by reducing the absolute amount of cash but by increasing the amount of their liabilities and therefore reducing the ratio. Right now 11·5 per cent is more like the average ratio to which the banks work. But the banks have views on that subject, as to whether they are 10 or 11½ or 12 or 15; but if the ratio goes above the views they hold they would take action to expand that, and if it goes below they will take action to contract.

Q. If, for instance, there were few available loan outlets, the banks might hold excess cash reserves.—A. Well, in general, and this of course is what has been the base for the last nine years if the banks are faced with additional cash reserves through Bank of Canada action and want to expand, really their only practical avenue of doing so immediately is through the purchasing of securities.

Q. What I had in mind was I noticed this memorandum and the tables with respect to the Bank of Canada, extracted from the evidence, and there is statistical information with respect to the Bank of Canada's action in 1939 (it is shown on pages 20 and 22) and you show there that in February of 1939 the bank's reserves were $270,000,000?—A. Yes.

Q. The bank's deposits were $2,500,000,000?—A. Yes.

Q. Which would indicate that there was an excess of reserves there of about $20,000,000, over 10 per cent?—A. Yes.

Q. And so this variable ratio between reserves and deposits is one factor of instability, would you say, and a potential factor in inflation during boom time?—A. Not of any importance. It will be remembered that during those years we were steadily pursuing an expansion policy which always kept the cash just a little on the liberal side and gradually the banks caught up with them and then we sell securities a little on the liberal side.

Q. Well, is it not true, that apart altogether from the legal maximum ratio of 5 per cent it is entirely up to the chartered banks themselves to decide how large a volume of loans or deposits they will make on the basis of a given cash reserve?—A. They cannot decide on the loans, of course, because that depends on the customers; so that when they need to expand, unless it just happens that the customers at that time are wanting additional loans, when they seek to expand they usually have to do that by buying additional securities. I say usually; that represents general conditions over a number of years past. If there were a demand for a substantial increase in loans then expansion could take place in that form, but that is not something the banks have any control over.

Mr. MACDONALD: But if the ration got below 10 per cent and stayed for a considerable time below that would the Bank of Canada take action?

The WITNESS: Well it would never get below unless we wanted it to get below, it would be the result of our action if it went below ten.

By Mr. Noseworthy:

Q. It might get above 10 per cent if you wanted it do so?—A. Oh, that does not matter, because we know what the banks are aiming at with respect to the cash ratio and we could always adjust our program accordingly. In other words, if the banks in general were aiming at a ratio of 15 per cent we would know that. We therefore would not consider we were taking any expansionary action unless we had put the ratio above 15 per cent.

Q. But the banks themselves decide whether the ratio should be 10 per cent, 12 per cent or 15 per cent?—A. Yes; and of course if they decide that it should be below 10 per cent, I think we would express views that that was too little. On the other hand, if they should decide that it should be 11 per cent or 12 per cent or 15 per cent, if they thought that favourable, we would of course not have the slightest objection, we would simply adjust our policy to conform to that; that is, by buying more securities.

Q. Is it correct to say that the Bank of Canada because of this right or power which the banks use to determine their ratio, that because of that the Bank of Canada could not actually prevent deflation?—A. Prevent deflation?

Q. Yes.—A. Oh Yes; I mean to say we could because if the banks wish to carry cash reserves of 15 per cent, that is all right so far as we are concerned, we simply buy more securities. That is easy.

Q. But suppose the banks do not see adequate loan or investment outlets; or if individuals, business concerns or government agencies do not wish to borrow; is there any way under our present laws by which the purchasing power could be distributed to the community by the Bank of Canada otherwise?—A. If the Bank of Canada has the view that expansion should take place, it then increases the cash reserves of the banks. Suppose that the bank customers do not want to borrow, well then they cannot expand that way. But they do go into the market and buy securities and the pressure which they exercise to obtain securities will tend to bring interest rates down. In other words in a country where the public are holders of a substantial volume of securities, the banks could buy them and could expand that way provided they offer a high enough price; and that was the way in which interest rates were brought down in the years following the establishment of the Bank of Canada. So I would never fear that there would never be an avenue for expansion through the purchase of additional securities in a country such as Canada. They can be purchased at a price. Now, the second part of your question related to the contraction of purchasing power, and that is a different thing. All that a central bank and the banking system can do is to create conditions where interest rates are reasonable and loans are freely available for any reasonably sound purpose. In other words, the monetary action opens the door to business or capital borrowing and capital investment. If under certain circumstances no one comes through the door, then the effect is not produced. It is like the Chinese proverb: "Loud noise at top of staircase but no one comes down".

Q. Yes. What I wanted to try to get clear is, suppose following this war we get, as we had in the 1930's, a situation where private individuals—I think the bank managers, at least one of them, told us that the restriction of loans during the 1930's was not because they did not want to loan money but because the people did not want to borrow money; that was the argument which the banks put forth, that industrial firms and individuals did not want to borrow money in those days. The result of that was that we ran into a period where industrial enterprise does not find it profitable or good business to borrow from the banks; what is there that the Bank of Canada could do about that situation?

—A. Nothing. We can make conditions where if a person wanted to borrow he could be encouraged by reasonable rates and ready availability, but if for reasons relating to the general business situation or his appraisal of conditions, a person does not want to incur a liability, well then, you cannot force him to do so. Of course, one has to remember that relates not only to private business but also to government. Reasonable borrowing conditions and ready availability of money is something which applies both in respect of private industry and in respect of government.

By Mr. Macdonald (Brantford City):

Q. May I clear up in my own mind a question I asked with respect to reserves? I understand that the bank must retain a cash reserve of 5 per cent by statute and in practice 10 per cent—A. Yes.

Q. Suppose the cash reserve position of the bank became less than 10 per cent; I ask would the Bank of Canada take any steps to rectify that?—A. If it is temporary, no; something which lasts a week or something like that or, indeed, if some banks believe that by reason of the character of their business that 9 is all right I do not think we would raise an objection.

Q. Even if it persisted at 9 per cent?—A. Yes. The character of the business might be such, and the character of some of the other liquid assets, say treasury bills, might be such that it was a perfectly reasonable thing for them to do, to operate say on a 9 per cent basis.

Q. So 10 per cent is the amount at which the banks aim?—A. On the average; in other words, some aim at that figure; some aim higher. If I took the Canadian banks as a whole now and got a weighted average of their goal so far as cash ratio is concerned I would put it very close to 12 per cent.

By Hon. Mr. Hanson:

Q. If the ratio was up to 15 per cent the banks would be earning less money?—A. Yes.

Q. And they are out that much money.

Mr. MACDONALD *(Brantford City):* The higher it goes the less money they earn.

Hon. Mr. HANSON: They are out to make money and therefore they keep it at what they think to be safe.

By Mr. Noseworthy:

Q. To get back to this question of purchasing power in the hands of the community, it is not true under circumstances where individuals or business concerns cannot or will not borrow from the banks the only way in which increased purchasing power can be distributed at the present time is by government borrowing and investing or spending on public works and projects of various kinds?—A. That should not be thought as the whole thing. It is a marginal thing. Current business can continue at quite a level without any changes in borrowings at all. If the business situation is unsatisfactory the various causes may be sought. One could be that our export trade was most unsatisfactory, and that purchasing power was not coming into the hands of those in the export business because they could not sell a sufficient quantity of their goods, or it might be that new investment was not taking place at as high a level as it should. Suppose on the other hand new capital investment, public and private, was taking place on a very substantial scale, and that conditions were quite prosperous and employment quite high. That could take place without any additional borrowing from the banks. To the extent that borrowings were required they might come from the public. In that case one would not see bank loans and investments or bank deposits expanding. It is likely, however, that some expansion in bank loans, investments and deposits would be taking place under those circumstances, but not an expansion which covered the whole of the capital investment, rather a portion of it, rather a situation perhaps reminiscent of what we have seen during the war when the government's annual deficits recently have been of the order of cash deficits of 2½ to 3 billion dollars, but not all of that, of course, has come from the banks, only a small portion. The same thing can take place when private and public capital investment is heavy in peacetime.

Q. I note, for instance, that the increase of deposits in the banks was from $400,000,000 to $500,000,000 from 1934 to 1939?—A. Yes.

Q. Was that made possible primarily by the banks' purchases of government securities?—A. Yes.

Q. I find, for instance, bank holdings of those securities increased from 683 and some odd millions in 1934 to 1,234 million.

Hon. Mr. HANSON: Mr. Noseworthy suggests that the cause of that was the purchase by the banks of the securities. I suggest that is an effect of the situation.

The WITNESS: The Bank of Canada was increasing cash reserves pretty steadily all through. There was one year in which I think it did not go up materially but through the period there was a fairly steady expansion of cash reserves, and that did cause the banks to acquire the additional government securities you mention, and that in turn caused an expansion in deposits.

By Mr. Noseworthy:

Q. You would not say the increase in deposits was due to the purchase of these government securities?—A. The purchase of the government securities caused the increase in the deposits.

Q. I notice the expansion of Canadian deposits from $2,630,000,000 in 1939 to $3,943,000,000 in 1943 was likewise paralleled by an expansion of bank holdings of government securities from $1,234,000,000 in 1939 to $2,627,000,000 in 1943.—A. Yes.

Q. That same parallel holds in these later years?—A. Yes. During the war there has been some increase in bank loans as well, but it was greater a while back. By now the figures of bank loans are, I think, not very far from where they were at the beginning of the war.

Q. Do you think these large holdings of government securities constitute a danger of inflation under our present banking system, that is, once the present war controls have been released is there anything to stop the banks from (*a*) selling these securities to the Bank of Canada or on the open market and (*b*) using the proceeds as cash reserves on the basis of which loans and deposits can be expended? Has the Bank of Canada any means to prevent that from happening?—A. First if the banks sell securities to the public they do not increase their cash reserve. An individual bank selling securities to a member of the public, if that member of the public banks with someone else, can draw cash from the bank patronized by the buyer of the securities. The sum total of bank cash, however, does not increase. The only way in which it can increase is through the sale of securities to the Bank of Canada. So you ask, is there a danger that the banking system as a whole will sell securities to the Bank of Canada after the war in order to secure additional cash reserves and to expand their loaning business materially? I would say that the circumstances are likely to be such that there is no such danger, if indeed it is a danger. One would want to know more about the purposes of the loans and the extent of the rise. If we had satisfactory and balanced business expansion and development taking place and some addition to loans was required for that purpose then, of course, one would welcome it.

Q. I notice on page 49 of this memorandum you made this statement:

> Whatever the immediate and intended effects of deficit spending may be, if the deficits are financed largely by banks the government does to some extent surrender its power to control future developments in the banking system. If banking deposits are greatly increased by purchases of government securities they cannot be readily contracted when, at the start of an inflationary movement, their velocity of turnover begins to rise.

—A. That is true, but you realize that velocity of turnover is not something which the banks influence in any way. That depends upon the action of the customers, that is, the owners of the deposits. If one builds up a tremendous total of deposits those deposits are owned by the public and under certain circumstances if they decide that they are going to spend them hard and fast the velocity will increase, and to try and control that situation is extraordinarily difficult. To think of doing it by trying to extinguish deposits in great volume through the sale of securities by the banks to the public implies such a crisis situation, such a rise in interest rates to try and draw the public into securities instead of spending their money on something else that it cannot be considered practical.

Q. Am I correct in saying that these large holdings of government securities by the banks do constitute a potential inflationary danger, and that circumstances might arise which would render it impossible for the Bank of Canada to exert any control over that danger?—A. I would put it another way. I would say the large holding of deposits by the public do constitute a potential danger of the type which you mention. On the other hand, after the war and post-war shortages are overcome I do not think that danger is a serious one.

Q. Is there, for instance, any danger that immediately following the cessation of hostilities the increased deposits and the money now in the hands of the Canadian people may be released suddenly for the purchase of goods that have been withheld from purchase during the war? There is evidently a danger of that. What control has the Bank of Canada over that situation?—A. Oh, none, because we cannot control millions of human beings who have money in their possession. To the extent they try and spend it in greater quantity than there are goods available then only direct controls will keep things in order.

By Hon. Mr. Hanson:

Q. Only government regimentation? That is what you mean. That is what this gentleman promises in the future.—A. Well, the type of thing I am thinking of is rather protection of the public from rising prices or unfair distribution of the available goods.

The CHAIRMAN: Pardon me; I wonder if we could have a little less conversation. We find it very hard to hear.

Hon. Mr. HANSON: I am wondering how much longer this is going to go on.

Mr. BREITHAUPT: We cannot hear what is going on. Mr. Noseworthy probably has some good points but it is just a conversation between him and the head table.

The CHAIRMAN: Mr. Noseworthy, will you speak a little louder?

Hon. Mr. HANSON: I am wondering, Mr. Chairman, if we are going to devote the whole session to this very interesting conversation which is getting us nowhere. This is a re-hash of what we have had before.

Mr. McGEER: Oh, I do not think that the Governor of the Bank of Canada takes that attitude.

The CHAIRMAN: Mr. Noseworthy has been more than patient. He has not taken up much of our time and he has asked for an hour today. He has been interrupted several times and we will have to give him a little more time. Then, after Mr. Noseworthy is finished Mr. Jaques has asked for ten minutes.

Hon. Mr. HANSON: All right.

Mr. NOSEWORTHY: I may say, Mr. Chairman, if you or the committee should decide at any time that my questions are not relevant and you want me to stop I will stop right away.

The CHAIRMAN: Proceed, Mr. Noseworthy.

By Mr. Noseworthy:

Q. Am I correct then, Mr. Towers, in reaching the following conclusion, that the Bank of Canada has no direct means for preventing deflation if the chartered banks find it to their own interest to call in their loans and not make new loans?—A. I think that is putting it in too extreme a way, Mr. Noseworthy. The Bank of Canada can see that inadequacy of cash reserves is not responsible for the calling in of loans or failure to make fresh ones, so action will not be taken because of any shortage of cash. Then, why might it be taken? Only because the banks are frightened in regard to the safety of the loans. It can, of course, happen through a decision on the part of customers to repay because they do not need the money. We are perhaps not thinking of that; we are thinking of the type of case where the customer would prefer to go along but the bank thinks he has over-extended and wants him to reduce the loan. The bank will not be doing that because of any lack of cash reserve in the system but doing it because it thinks that for its own sake and presumably also for the customer's he should get somewhere nearer to shore. That also will influence banks when someone wants a new loan or an increased loan. Therefore, we come to the question of judgment. If it seemed to be the case that all of the ten banks were unnecessarily nervous than I think it would be perfectly appropriate to express those views, but with the keenness which there is to make loans I am inclined to think that undue nervousness which we refer to would not, in fact, exist.

Q. Am I right in my assumption that in the 1930's public interest required expansion of loans, and that it was not good business for the banks at that time to make loans, it was not profitable or sound banking? In other words, at that time the needs of the public conflicted with what was good sound banking business?—A. No, I do not think that was the case because with falling prices, with contracting business, people did not want to borrow more. They wanted to borrow less. In the great majority of cases the reduction of bank loans was due to the customer wanting less. There were certainly some cases where the customer wanted to keep his loans at the level at which they had been, and perhaps even increase them, cases where the banks concerned thought that the customer was making a mistake and that it would be much better for him and also safer for the bank if the customer paid off some of the loan. There are bound to be those disagreements. I would regard them as the fringe and say that the main reductions in bank loans at that time were due to circumstances of business which circumstances reduced the borrowing needs and desires of the customers.

Q. You do not agree with the widespread impression that there were vast numbers of people who would have borrowed during those years if the banks had been prepared to lend? A. I do not see how they could have, because they would have to foresee a profitable means of employment of the funds if they did borrow additional amounts. Borrowing goes up when commodity prices are rising and business is expanding, because people will see the possibility of borrowing money and putting it into additional goods and selling those goods at a profit. Now, in the 1930-32 period the business community and others were facing a decline in volume of business.

Mr. MACDONALD *(Brantford City):* I think Mr. Noseworthy suggested there were many people who wanted to borrow but they did not have security which was satisfactory to the bank.

Hon. Mr. HANSON: Or ability to repay.

Mr. MACDONALD (*Brantford City*): The banks would have been ready at any time to make loans provided they had satisfactory security?

The WITNESS: Oh, yes, but the type of thing I thought we had in mind was a business enterprise of some kind.

Mr. NOSEWORTHY: Or a farmer.

The WITNESS: Or a farmer—where the security in the case of the business enterprise is largely provided by current assets, its inventories and receivables, and in the case of a farmer by his assets and in particular by his expectation of his crop and what he can get for the crop. I do not want to suggest Mr. Noseworthy—I thought I had made that clear—that there were no cases where a person who wanted to borrow more did not have difficulty in getting the money. There would be such cases where the bank said to the borrower, "You have expectations of increasing your business or this, that or the other thing, but I think your expectations are too optimistic." There would certainly be a fair number of cases of disagreement of that kind.

Mr. MACDONALD (*Brantford City*): I suppose there always are.

The WITNESS: There always are. There would, of course, be more, in my, opinion, at an upset time such as 1930-32 than there would under normal conditions.

By Mr. Noseworthy:

Q. Am I correct in concluding that there are at least two ways of preventing deflation: first, a banking system is prepared in the interest of the public economy and can temporarily afford to take losses in order to maintain volume of credit and purchasing power; and, secondly, public borrowing and spending as occurred in the 1930's? A. Answering the first part of your question: a banking system can be operated in a way which would mean that in itself, the system was in no way responsible for any deflation which occurred; that a central bank in existence or a banking system will not be in any way responsible for deflation because of lack of cash. One would hope and expect that it would not be in any way responsible either through undue nervousness, unnecessary curtailment of loans, or unnecessary stickiness in making fresh ones. Under any circumstances that latter factor of undue nervousness is only the fringe of the thing anyway, but one would want to avoid even that fringe. Beyond that the banking system is powerless if other events in the economy cause a downturn in business.

Now, coming to the second part of your question, whether under those circumstances a government can prevent this: it can contribute materially to the prevention. It, of course, can only assume or try to control the situation domestically; it cannot control the external situation. If a major contributing cause to the down-turn in business is a serious reduction in exports which we have been accustomed to make then the government cannot overcome that; it can take measures to try to temper the wind—the cold wind of experience by those who are in the export trade—the workers there—by sharing the trouble over the whole people, so to speak.

Q. In other words, are we to conclude that in your opinion once a deflationary period such as we had in the thirties sets in there is nothing that either the banks or the government can do to stop it, providing we are losing our export trade.

Hon. Mr. HANSON: If it is worldwide, of course.

The WITNESS: The character of banking policy at such a time may very well make the deflation situation less extreme; it may prevent a portion. The governmental policy also may ameliorate the situation quite considerably. But if it is due to exteranl causes the government cannot possibly maintain an over-all degree of physical prosperity which would have been possible if this disruption of export trade had not occurred. The government, short term, cannot possibly do that, because it cannot make water run uphill; long term, if the export business which had been found profitable by the people in it is never going to be restored, then gradually, I suppose, the people who have been employed in it will go into other vocations, perhaps ones for which the country is less suited than the export business, and gradually a long struggle takes place to bring the physical standard of living up to the point where it was before the export trade was lost. That is a long process.

Mr. MACDONALD (*Brantford City*): Export trade affects practically everyone in Canada?

The WITNESS: Yes, it does.

Mr. MACDONALD (*Brantford City*): It affects the railways in particular?

The WITNESS: Oh, a tremendous number of individuals.

Mr. MACDONALD (*Brantford City*): A tremendous number of individuals, yes.

The WITNESS: But during this period that we mention, the government can do things to make the crisis less serious and they can also try to share the calamity among the whole people rather than just the wretched individuals who depend entirely upon export trade.

By Mr. Noseworthy:

Q. Mr. Chairman, I appreciate your patience, and I have only two more questions to ask before I have finished. As I see it, the main limitation, Mr. Towers, that you see in monetary control then is that as long as Canada depends heavily upon foreign trade, depression and unemployment caused by a loss of foreign trade cannot be compensated for by monetary measures alone?—A. Oh, no, nor indeed by governmental measures; it can be ameliorated, but not fully compensated.

Q. I see. In other words, unemployment and depression are, in your opinion, inevitable in Canada when our export trade drops?—A. I would say that if our export trade is extremely low due to unfortunate conditions internationally then it really means that the people who had been working in the export trade have less work. The government can try to find other work for them or it can ask the rest of the community in one form or another to come to their assistance; but to put a concrete case—and I will make it an extreme one—if, after the war, no country in the world wanted to buy our wheat and if, therefore, the wheat production which could be sold was limited to domestic consumption, then inevitably those who had been producing wheat would in large measure be out of a job. I am not talking about a situation which lasts six months but one which we say is a long term one. They are out of a job. Now, the process of shifting them to other vocations is, of course, a long and difficult one.

Mr. TUCKER: Not only that, but their investments in farm machinery and such things would be practically wiped out.

The WITNESS: Yes. So that Canada, depending to the extent of 30 per cent of her income on foreign trade, we cannot get away from the fact that it is very important.

Mr. MACDONALD (*Brantford City*): If, Mr. Towers, it were a temporary reduction in foreign trade—in fact, almost totally doing away with foreign trade for a short period, then the government could do something to provide work for the people.

The CHAIRMAN: Gentlemen, may I interrupt to say that the governor will have to leave us in about fifteen or twenty minutes—

The WITNESS: Fifteen minutes.

The CHAIRMAN: I have already promised Mr. Jaques that he shall have ten minutes with the governor.

Mr. NOSEWORTHY: I have only one question more to ask. Mr. Towers I think, will agree that in cases where our export trade is inadequate considerable planning and control not only of monetary policy but also of production and distribution would be necessary and would assist in maintaining full time employment.

The WITNESS: Production and distribution domestically? Or are you referring now to foreign trade?

By Mr. Noseworthy:

Q. We are assuming that our foreign trade has dropped off. Then, does it not become necessary, to maintain anything approximating full employment, that there should be considerable planning and control both of our monetary policy and our production and distribution—does not that become necessary?—A. A monetary policy, of course, is in essence the simplest part of the problem that you mention in the event of a serious situation with respect to export trade. True the government is then faced with abnormal difficulties. It may try to ameliorate the situation by expanding public investment; it may try to encourage private investment; it may do certain things in the form of a readjustment of income in its efforts to help the exporters; but I think there is a part of your question which is very difficult for me to answer without getting into a territory where I should not be, because I think you are asking whether in such circumstances only a socialized state could deal with the problem.

The CHAIRMAN: Now, Mr. Jaques has the floor.

By Mr. Jackman:

Q. May I ask one question which I hope the governor can answer? If we had such a reduction in our export business as we had during the 1930's, can you envisage any financial system or any political or economic system such as capitalism, bolshevism, socialism, or fascism, under which there would not be a tremendous disruption of our whole economy resulting in unemployment for a long period of years before we had a realignment of our economic activities, in the absence of this foreign trade?

Mr. McGEER: Let us get the answer to that question.

The WITNESS: I think as a temporary matter that the government can do a great deal for the exporters to ameliorate the situation. I think it does it in part at the expense of the rest of the people, but I think if that is something which the rest of the people will support, that is perfectly all right. If, then, it is temporary the rest of the people come to the aid in various ways and in due course the situation cures itself through the resumption of export trade. If that loss is permanent, then there is the long and slow job of transferring people to other vocations.

Q. Do you confine that to six months or a year?—A. A year or so, something like that.

Hon. Mr. HANSON: I would like to know whether the governor is going to be away very long, because I asked certain questions on the Industrial Development Bank for which he is preparing answers and he is prepared to give them, and I might like to cross-examine him on those answers. If he is not going to be back I would like to have the answers anyway.

The WITNESS: I am going to Bretton Woods for a short time and then I am hoping to have a short rest, although if there is something absolutely imperative which comes up I shall always be in the country.

Hon. Mr. HANSON: I am not going to ask you to interfere with your rest, but would you mind filing the answers?

The WITNESS: Yes; and presumably I will be available again unless the committee disbands in the near future.

By Mr. Jaques:

Q. Mr. Towers, you said the other day—correct me if I am wrong—that people can be fooled into thinking they are getting something for nothing?—A. It has been done.

Mr. MACDONALD (*Brantford City*): Giving them something for nothing.

Hon. Mr. HANSON: They are fooled into thinking that.

By Mr. Jaques:

Q. There was another statement of yours, that the debt free money is a liability of the government: do you mean a liability or responsibility?—A. Responsibility.

Q. I have one or two very short questions to ask. The chartered banks have no gold reserves?—A. No.

Q. And the gold reserves held by the Bank of Canada, if any, are not a backing of our currency?—A. The gold reserves and foreign exchange reserves are presently held by the Foreign Exchange Control Board.

Q. They have been transferred to the Foreign Exchange Control Board?—A. Yes.

Mr. MCGEER: And completely disassociated with our domestic currency?

The WITNESS: Yes. I have always regarded them as an international matter, anyway.

By Mr. Jaques:

Q. With regard to the gold reserves that are held by the Foreign Exchange Control Board, have they any connection with or are they controlled by the Bank of Canada?—A. No.

Q. And with regard to the gold reserves of the Foreign Exchange Control Board, have they any connection with or are they controlled by the federal government—the dominion government?—A. Yes, in a sense. When I say in a sense—suppose they were at such and such a figure at the commencement of the war and suppose that the war needs for imports from the United States were very heavy, as indeed they were, then those reserves went down and down, and they were controlled by the dominion government in the sense that they could have preserved them by not importing war materials. But assuming the need of war materials then you had to part with the gold.

By Mr. Macdonald (Brantford City):

Q. What happens to the gold that is mined in Canada?—A. It is sold usually in New York to provide us with part of our current requirements of United States dollars.

Q. Are these United States' dollars used to purchase goods in the United States? A. Yes; and elsewhere.

Q. The goods come to Canada and the dollars stay in the United States. Is that right?—A. Yes. We sell a certain amount of stuff to the United States. Some times that provides us with enough United States' dollars to cover all our requirements. In the early years of the war it did not, and we had to draw on our reserves.

Q. May I just follow that through. At the present time we have gold being sold to the United States, whether or not it is needed to balance our accounts?—A. There is a flexible policy there. Our gold and United States' dollars are practically synonomous. The proportions of the two may vary. Some times gold may go out and United States' dollars go down. It is a movable feast, so to speak.

The CHAIRMAN: Will you continue, please, Mr. Jaques?

By Mr. Jaques:

Q. Who owns the gold?—A. The dominion government.

Q. The dominion government owns the gold?—A. Yes.

Q. Would you say that applies to the gold reserves in the United States? —A. That the federal government own them?

Q. Yes.—A. Oh, yes.

Q. As briefly as possible, would you say how the treasury of the United States obtained ownership of the gold?—A. How they obtained ownership of it?

Q. Yes.—A. By assuming a liability to the public.

By Mr. McGeer:

Q. By legislation, is it not?—A. By assuming a liability to the public.

Q. But they did it by legislation, did they not?—A. That was a transfer from the federal reserve to treasury, and treasury gave federal reserve gold certificates. That is just the use of mirrors within the family.

By Mr. Jaques:

Q. Would you agree with this? I have here a statement issued by the Board of Governors of the Federal Reserve System at Washington dated June, 1940. It is called, "Ownership and Utilization of the Monetary Gold Stock." It explains briefly the steps by which the treasury obtained possession of the gold. It says, "The treasury has possession of the gold; bank deposits and bank reserves have both been decreased by the amount of the gold; and the treasury's checking balance at the Federal Reserve Banks, reduced by the purchase of the gold, has been restored by credits based upon the gold. The purchase of the gold has cost the treasury nothing."—A. That is not the *Federal Reserve Bulletin*, is it?

Q. I beg your pardon?—A. What is that document, Mr. Jaques?

Q. That document is "The Ownership and Utilization of the Monetary Gold Stock," reprinted from the *Federal Reserve Bulletin* for May and June, 1940, and it is issued by the Board of Governors of the Federal Reserve System at Washington.—A. I would not have time to answer that question now, and I should like to study the reprint. I have a feeling that it was not reprinted by the Board of Governors, and that someone has reprinted it with a pretty free use of phraseology.

Q. The whole point I wish to make is this. It says, "The purchase of the gold has cost the treasury nothing."

Mr. MACDONALD *(Brantford City)*: Who said that?

The WITNESS: Out of respect for my colleagues in the United States, the reason I am suggesting that someone has reprinted that in their own language is that I cannot make head or tail of it. It does not seem to me to make sense.

Mr. JAQUES: It does not. That is a fact.

The WITNESS: But I should like to get that. I should like to see if it is a genuine reprint, and I should like to try to understand it.

The CHAIRMAN: Could the Governor of the Bank of Canada see that, Mr. Jaques?

Mr. GRAHAM: Would Mr. Jaques mind filing it?

Mr. JAQUES: Yes, certainly. Perhaps the treasury or the people of the United States were fooled into thinking they got something for nothing.

By Hon. Mr. Hanson:

Q. Is it not true in this respect: The government issued gold certificates against paper money which is now irredeemable?—A. The situation is a little uncertain. You can get gold under certain circumstances in the United States.

Q. I can get gold?—A. Oh, your government probably can.

Q. Oh, yes; the government.—A. But as an individual perhaps you cannot.

By Mr. Macdonald (Brantford City):

Q. So gold still has a monetary value in some places?—A. Most decidedly.

Q. And it has monetary value in Canada?—A. Yes.

Hon. Mr. HANSON: It has commercial value.

The WITNESS: If you will permit me, I should like to have a look at this.

By Mr. Jaques:

Q. I wish to say only this. It seems odd to me that 22 billion dollars worth of gold can be acquired for nothing by the treasury.—A. It was acquired by giving Federal Reserve System gold certificates; in other words, practically deposit receipts.

Q. I would suggest that, in reality—although that gold is in storage, if you like, in the treasury—the certificates are really warehouse receipts for the gold.—A. Yes.

Mr. MCGEER: Oh, no; they are not redeemable.

Mr. MACDONALD *(Brantford City):* Therefore they are redeemable.

The WITNESS: I should like to have a look at this and perhaps put on record an answer of explanation.

By Mr. Jaques:

Q. Have you two or three more minutes, Mr. Towers?—A. Well, there is the matter of a 'plane. That is my problem.

Hon. Mr. HANSON: Oh, let him go.

The WITNESS: I am already late for getting it.

By Mr. Jaques:

Q. I do not want to detain you. Will you be back again?—A. Oh, yes.

Q. Then, if I may, I will reserve the rest of my questions until then.

Mr. MCGEER: There is no doubt about that being an official document of the Federal Reserve System.

The WITNESS: We will try to elucidate that rather peculiar phraseology.

Mr. MCGEER: I mean, there is no question about it being an official document.

Mr. JAQUES: The question I should like to take up on your return is whether production finances consumption, because I think that is the most vital question of all.

Mr. MCNEVIN: Let him get away.

The CHAIRMAN: Thank you, Mr. Towers.

Mr. MACDONALD (*Brantford City*): Bon voyage.

The CHAIRMAN: Shall we proceed with the sections of the bill?

Mr. McGEER: Mr. Chairman, there are some questions I should like to ask Dr. Clark if I may, before we proceed, in view of the evidence that was given this morning by Mr. Towers.

Dr. W. C. CLARK, *Deputy Minister of Finance, recalled:*

By Mr. McGeer:

Q. Dr. Clark, this morning Mr. Towers told us that if the issue of paper money were pushed too far, inflation,—of an uncontrollable nature, I presume,—would result. Would you agree with that?—A. Yes.

Q. That term "pushed too far" is a pretty general one. What is your idea of a reasonable interpretation of that term in the light of to-day's situation and the post-war situation of which we have, I hope, formed some picture after all the investigation that has been done?—A. It is a very difficult phrase, I think, to define, Mr. McGeer. Its application in a particular case would depend upon a great many circumstances of the time, including the factor of public phsychology, whether or not the public see fit to hold a lot of cash idle in their pockets or whether they run to spend the excess purchasing power that they have. That will vary a good deal with circumstances. At times you will see what appears to be excess purchasing power not being used by the public, and at other times they get the idea when they rush to spend it the velocity of circulation of money will speed up, and you will get your inflationary process under way almost at once. Generally speaking the criterion, would be that of pushing the issue of money too far, increasing the supply of money more rapidly than the supply of business available for exchange, the goods supplied to the public.

Q. Have we ever had any experience in Canada that would indicate that our volume of money has increased to a point where an inflationary condition was developing?—A. Oh, yes, Mr. McGeer, I would say in the last war, I think in the latter part of the last war, we had such a condition.

Q. And you will agree that that automatically adjusted itself in a decline of prices?—A. Not automatically Mr. McGeer; it adjusted itself after the end of the war by a collapse of prices when production increased—increased as a result of the maladjustment that had occurred during the inflationary period.

By Hon. Mr. Hanson:

Q. There were other causes?—A. For the decline, for the collapse?

Q. Yes, there was the tariff policy of the United States?—A. Oh well, there were a good many causes.

Q. Yes, that is the point.—A. But once you get to a question of prices anywhere on a pretty substantial scale until the collapse they are inevitable. It is just a question of what circumstances would finally coincide with the deflation and in effect cause the start of the collapse.

Q. It was not the only contributing factor to the collapse, to the inflationary collapse?—A. Oh, well, there are other factors, if you like; but in essence the collapse of prices after the war was the collapse of the inflationary move that occurred nearly all over the world.

Q. Yes, true; but the restriction on foreign trade caused by foreign tariffs was a big factor, was it not?—A. That was a factor.

Q. I know that from private experience.—A. Quite.

By Mr. McGeer:

Q. Yes, but I am asking you about the effect of the volume of money on the economy of Canada?—A. Yes.

Q. Now, the volume of money had been doubled; as a matter of fact the volume of money steadily increased right up to 1929, did it not?—A. Oh well, Mr. McGeer, I would think it declined in 1921, 1922 and 1923; I do not know, but I think that is it.

Q. Have you got the figures? I think you will see that that is not correct. We checked that over here the other day.—A. I haven't got the figures with me but I would be willing to take that, that there had been a substantial decline in the volume of money in the form of bank deposits in 1921 and 1922.

By Mr. Blackmore:

Q. Could it be that the goods production in Canada overtook the money supply and that caused it?—A. No, if they overtook the increase in money supply you would have a collapse.

Q. But you would have a fall in prices, would you not?—A. No, not if your supply of goods increased sufficiently to take up the excess of purchasing power in the form of money.

Q. You would have a decline in the price of goods because of the law of supply and demand, wouldn't you; just as soon as the goods supply overtook the money supply you would have a decline in prices because of the natural operation of the law of supply and demand?—A. Oh now I understand what you mean, if prices overtook—

Q. The goods being offered.—A. —the goods being offered; yes, I see what you mean, there might have been a fall in prices as a result of the increase in the supply of goods relative to the supply of money.

Mr. Blackmore: Right. That is the vital thing to be considered in all this question of money, in all this monetary discussion.

Mr. Noseworthy: Is not that the major factor in determining prices, the relative supply of money in relation to goods?

The Witness: Yes, in relation to the amount of money work there is to be done, the movement of goods and services. Mr. McGeer, I have the figures of the deposits by the public in Canada before me now.

By Mr. McGeer:

Q. Yes?—A. In 1920 they were running around \$1,800,000,000 \$1,892,000,000, \$1,978,000,000; they reached that in November of 1920; the next month was \$1,950,000,000; in 1921 it was \$1,897,000,000; they go slowly down during 1921; in 1922, January, they are \$1,720,000,000; in May you had \$1,691,000,000; then in June, \$1,687,000,000 and then there was a gradual increase during 1923 and 1924 and they get back into the \$1,800,000,000 level again, and then apparently it slowly climbed up—

Q. Yes, up to \$2,270,000,000 in 1929?—A. Probably, this column does not go that far.

Q. But what I am pointing out is that there was a collapse, a deflationary condition in 1921, and then the volume of money increased up to 1929 and we had another deflationary development then?—A. Right.

Q. So that if this theory that the increase in volume of money in Canadian economy will develop a spiral of inflationary conditions, instead of having a deflation in 1929, we should have had an inflation?—A. Oh no—you did have a degree of inflation in 1929, in 1928 and 1929.

Q. Well, Mr. Towers says he prefers to call it a stock market boom and not an inflationary condition as we usually conceive it, as arose from the increase in the volume of money.—A. Yes, still I would prefer to call it a very modest inflation which found its fields particularly in the stockmarket and in the construction industries on this continent, primarily in those two fields.

Mr. McNevin: I thought Mr. Towers said that there was an inflation and that the stock boom might have been a contributing factor.

Mr. Jackman: Commodity prices did not rise during that period.

Mr. BLACKMORE: Consequently there was no inflation because commodity prices did not rise.

Mr. McGEER: There was a manipulated stockmarket in which a good many people were taken for a ride; there was a decided rise in the price of stocks, but there was at that time no general rise in commodity prices.

The WITNESS: That is true, and security prices are one aspect of the whole process; security prices went up and the price of real estate and certain other things was raised, they rose pretty rapidly, although commodity prices in the ordinary sense of the term did not show much change.

Mr. MACDONALD (*Brantford City*): Mr. Towers referring to inflation said "a shortage of a particular commodity and a great enhancement in the price of that commodity can hardly be described as inflation."

Mr. BLACKMORE: But over the whole field there is an inflation, there is a rise in prices.

Mr. MACDONALD (*Brantford City*): But not with respect to any one commodity, only when there is a general rise in prices.

Mr. BLACKMORE: When there is a rise in prices over the whole field, then there is a condition of inflation.

Mr. MACDONALD (*Brantford City*): But not when it is confined to one particular commodity, but if there only is a rise in respect to one particular commodity or even a general enhancement of the price of that commodity, according to Mr. Towers. That is not what you would call a general inflation.

The WITNESS: Yes, you could, Mr. Macdonald, and you could even have an inflation with a very stable commodity price level. Under certain conditions if the cost of production as a result of technological advances is going down you ought to have a fall in prices, the consuming public ought to get the advantage of the increased efficiency of production; but that decline in price might however be offset by an increase in the money supply which may hold prices stable. Now, you could call that inflation, it is inflation in the real sense; but normally that kind of thing does not happen, normally inflation shows itself in a rise in the general price level.

By Mr. McGeer:

Q. We have never experienced anything like that in Canada yet, like a rising spiral that would not adjust itself?—A. I would say very definitely, Mr. McGeer, we experienced it in the last war. at the end of the last war.

Q. But that collapsed automatically?—A. It collapsed.

Q. There were other forces which came into operation which brought about the collapse, and this alleged movement of one thing on top of the other as the inevitable result of a monetary program does not necessarily follow on the figures as we have them in Canada.

Hon. Mr. ILSLEY: You just mean inflation does not go on forever.

Mr. McGEER: What I suggest is this; I think we face a terribly difficult period in Canada following this war. I think we face conditions which are somewhat similar to what we faced following the collapse in 1929. I think our foreign trade position is going to be extremely difficult. Take one example, and if you do not mind I would offer this as an explanation of why I think we should explore this very problem. The entire supply of Great Britain has been cut off.

Mr. MAYBANK: Mr. Chairman, we are having the same difficulty experienced some little time ago. Mr. McGeer is beginning to carry on a conversation with the white shirts at the head table and his voice is not coming down here. Dr. Clark answers him in the same way. In other words, cast some remarks to the swine over on this side.

Hon. Mr. HANSON: Just speak for yourself.

Mr. McGEER: When we do face the post-war situation we probably will have a surplus of production in Canada of a great many things, and in that export field, if we are going to export at all, it is altogether likely we will have to export under a gift program such as we are maintaining today. The minute that Europe is released from German control the exchange of goods between Denmark, Norway, Sweden and all those countries in Europe is going to find not only access to the supplies they need themselves, but to England. In England production has been tremendously increased as a part of their war program so that the demand for goods in England will decline very substantially. If we are dependent upon foreign trade as we were in the earlier 30's, when foreign trade collapsed and the value of our total exportable products of the farm fell from almost a billion dollars in value and we found surpluses everywhere, some solution must be found for that problem if we are not going to enter into the same kind of economic collapse that we had continuing up until the declaration of war. What I suggest as a solution for that thing is that we can maintain in Canada a measure of internal independence.

Mr. BLACKMORE: Hear, hear.

Mr. McGEER: A measure of internal expansion, and we can do it in such a way as to develop an expansion internally in Canada that will meet whatever foreign market situation develops.

WITNESS: You mean, Mr. McGeer, by giving our goods away to other countries?

Mr. McGEER: If we have to.

Mr. BLACKMORE: Give them away to Canada.

Mr. McGEER: And using it among ourselves.

Mr. McNEVIN: Your review of the situation indicates that it would be possible internally to consume 350,000,000 bushels of wheat?

Mr. McGEER: I think we would have to adjust that production down very substantially as we have done over the last ten years.

Mr. KINLEY: Not very substantially.

Mr. McGEER: Pretty substantially; however, I do not think I am alone in that. I think if I remember rightly one of the distinguished members of the banking and commerce commission that made the investigation in 1933/34 made observations then along that line. I should like to quote to the committee the observations of one of the dissenting commissioners, Mr. Beaudry Leman, who was at that time, I think, president and general manager of the Banque Canadienne Nationale, and a former president of the Canadian Bankers' Association. He says this at page 96 of the report:—

> Sufficient stress has not been laid upon the factors of national recovery, far more dependable and permanent than the temporary advantages of export trade of raw materials or food stuffs. Outside markets for our surplus specialized production of certain commodities should unquestionably be sought, but it should always be borne in mind that world markets are unreliable and a source of constantly recurring disappointments. Rightly or wrongly, but as a matter of fact, the countries of the world are economically becoming more and more nationalistic. Are we to await the belated results of international conferences between bankers, that may or may not, in the near or remote future, restore international exchanges and trade, or shall we endeavour to build up as rapidly and as soundly as possible our own domestic market?

Mr. MACDONALD *(Brantford City)*: Whose statement is that?

Mr. McGeer: Mr. Beaudry Leman, who was one of the dissenting commissioners in the Canadian MacMillian committee report which was made following the investigation in 1932-33.

Mr. Graham: Do you not think that Mr. Beaudry Leman's premise is based on the nationalistic attitude of all nations in 1934, and do you not hope with me that the world has learned its lesson?

Mr. McGeer: I am simply pointing out that whether the world has learned its lesson or not we in the Dominion of Canada should do all that we can do for ourselves, should do as much as we can do to increase our exchange of goods and services with a peaceful world and all the nations in it, but what has been suggested from time to time is that Canada is hopelessly dependent upon foreign trade for the progress of her internal economy. I quite agree that in a country like Canada our foreign trade must always be an important factor but I think there is a great deal that we can do within our own economy that can improve the standard of living of our Canadian people.

Hon. Mr. Hanson: You are suggesting that a home market and home industry are fundamental?

Mr. McGeer: I do suggest that. I think the exchange of goods and services should be treated as something on which we can improve our standard of living and not be dependent for our economic life on foreign trade.

Mr. Noseworthy: Is it not true that after the war in all probability we shall have to take in return goods from other countries for everything we export?

Mr. McGeer: I think that is inevitable, and I will come to that a little later. I should like to put on the record something more of what Mr. Leman has to say. He goes on to say:—

> Paragraphs Nos. 243 and 244 should be read and studied in the light of the effect that world prices have had on the value of field crops. Measures calculated to develop intra-imperial co-operation or imperial monetary co-operation, as set forth in paragraph No. 211, should not be developed beyond the scope of providing ample facilities for the interchange of goods and services, unless the people of Canada understand and decide, in full knowledge of the consequences, that close monetary co-operation may lead to close economic association which in turn is a step towards common political action.
>
> The criticism will doubtless be offered that the foregoing observations are limited to reservations of a negative nature and do not contain suggestions of a constructive character. It should, however, be borne in mind that the government of Canada sought recommendations from a group of men, formed into a commission, and not from its individual members.

In that we have from Mr. Leman, who is a highly responsible member of the banking community, a strong recommendation, even in 1934 in the midst of the depression we could have done more internally than we were doing. Now, we never did have, following the collapse of 1929, a sufficient volume of currency issued into the economy of Canada to cause an inflationary condition; is not that correct?—A. Let me understand the question. Do you mean that after the collapse of 1929 we did not insert or inject enough additional purchasing power into the money stream to cause an inflationary condition?

Q. Yes.—A. I think that is correct.

Mr. Macdonald (*Brantford City*): At that time, as I understand, there was plenty of money on deposit in the banks.

The Witness: Plenty of money, and the Bank of Canada when it got started followed an easy money policy, a policy of expanding money supply.

By Mr. McGeer:

Q. And I think if you will look at the figures you will find that our volume of money in circulation rose from 1929 when it was at a figure of $2,400,000,000 to $2,735,000,000 in 1939?—A. Are you speaking of bank deposits alone?

Q. Yes.—A. According to the figures I have here, the total deposits in Canada would not be as large as the figure you mentioned; they would be about $2,200,000,000 or thereabouts.

Q. In 1929?—A. In 1938. In 1929 I check with you pretty well—well, no, it is about $2,100,000,000 or $2,200,000,000; and in 1939, according to the figures I have, it was about the same size. That is bank deposits in Canada; excluding deposits outside of Canada.

Q. Canadian bank deposits. I have them here, and I am quoting from page 77 of the memorandum tabled and compiled by yourself and Mr. Towers. Let us take these figures: 1914, the total amount given there is $1,052,000.000; in 1918 it rose to $1,842,000,000; in 1929 it rose to $2,270,000,000; in 1938 it rose to $2,498,000,000.

Hon. Mr. HANSON: Does that include deposits elsewhere than in Canada?

Mr. McGEER: The figures are given here. I do not think there is any question about this document.

Mr. McNEVIN: Is there not there also the factor of the velocity of money which plays a very important part?

The WITNESS: It does. That is what I meant a while ago by the effective public psychology.

By Mr. McGeer:

Q. The other point I wanted to come to is that had we injected more money into the economy of Canada through a wider program of national defence, would there have been any danger of inflation as the result of that policy?—A. I think it would have depended on how far we went, Mr. McGeer.

Q. Let us put it at a figure of, say, $200,000 000 a year?—A. Well, I could not tell about things that might have happened. You might have started an inflationary process or spiral or you might have had just the opposite effect. What I mean by that is that as the result of the policy being followed private enterprise, private investment might have declined. Actually, I think they had in the United States something of that same effect and something of that contrast with conditions in Canada. The United States followed a policy of very much larger amounts of government expenditure under the W.P.A., and the P.W.A. and so on, in order to provide employment to solve this problem where there were four million or more people unemployed.

Q. And we had a large number of people unemployed in Canada?—A. Yes, but the policy in Canada did not go quite so far in the expenditure of national funds—of government funds for that purpose. Now, I think if we check the curve of business activity and production in the two countries we will find that in the Canadian curve it shows a steady upward climb—steady practically without any real fluctuations in it at all—a steady upward growth, slower than anyone would have liked but nevertheless a steady upward growth, whereas, if we follow the American curve, the direction the federal reserve takes, we will find this kind of thing happening—we would get a rising business activity for a time and then a drop, quite a substantial drop, which meant, I think, that the programs for huge government expenditures in the United States in order to solve the problem of unemployment tended to produce—it may have put a lot of people to work—but as the result of the effect on private investment they created more unemployment in another sector of the field, and as a result they had almost as much unemployment as they had when they started. Now, that is the effect of public psychology.

Hon. Mr. HANSON: It was not productive employment?

The WITNESS: No.

Mr. MAYBANK: Mr. Chairman, before we close may I state this question and it will probably be answered at our next meeting. Just to make certain that what Dr. Clark is stating here is not a fallacy of accident, would it be possible to know what the situation was in some other countries in this respect and to see what the graph line would be like in those countries? You have stressed a situation existing in the United States; you have indicated that the graph line is waving and suggested that the very fallacy is what made it wave: are there any other countries which might be examined so that we might be able to conclude that was a case of cause and effect and not a case of coincidence particularly?

The WITNESS: I think we could find the figures for England, at least, and perhaps one or two other countries.

Mr. MAYBANK: Possibly Australia and New Zealand?

The WITNESS: Yes.

The committee adjourned to meet Tuesday at 11 o'clock a.m.

July 4, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. McGeer has the floor.

Dr. W. C. CLARK, Deputy Minister of Finance, recalled.

By Mr. McGeer:

Q. Dr. Clark, when we adjourned on Friday we were dealing with the question of the issue of money in relation to inflation. I think we all agree that money can be issued to such an extent that inflation, destroying the value of accumulated savings due to a rise in the price level of both goods and services, can be brought about, but we have not come to the point of experiencing an uncontrolled inflation in Canada yet?—A. Not an uncontrollable one, Mr. McGeer; I hope not.

Q. And that inflation as it flows from the increase of the volume of the medium of exchange in circulation may automatically adjust itself if it operates in a field of free competition.—A. I do not know just what you mean by that. I do not see how it can adjust itself.

Q. What I mean is this, that operating in a field of free competition if prices rise there is an inducement to the production of goods for sale?—A. Yes.

Q. And if there comes into the market more goods than are required there comes a fall in prices, and that happened in 1920 and 1921?—A. Not as a result of more goods coming into the market.

Q. Whether it was from that reason, there was an automatic collapse of prices at that time which adjusted the spiral of inflation that had started due to an increased volume of money put into circulation?—A. Yes, but as I would look at it, it certainly is not a desirable thing that you should have a collapse of prices after an inflationary boom. That is one of the things that we are trying to avoid; surely we are trying to avoid the deflationary period.

Q. But in that day the government took no steps at all to control prices? —A. Very little.

Q. As a matter of fact, I think there was some attempt made in 1919 to set up a control on certain items?—A. Yes.

Q. But as a general thing that inflationary condition which developed following the last war collapsed for reasons outside of controls established by the government, whatever they were?—A. Yes.

Q. You will agree with that?—A. Yes, I would think so.

Q. Now, the volume of money— —A. If I may comment there, like you I regard a deflationary period with very great concern, very great seriousness.

Q. But I am dealing with inflation; we will come to deflation a little later on. We had an increase in the volume of money again from 1921 and 1922 up to 1929. That is right, is it not?—A. Very slowly during the mid 20's.

Q. Very slowly, but it was an increase; the total volume of money in circulation in 1929 was roughly 125 per cent more than it was in 1914?—A. I have not those figures before me, but I accept those.

Q. I think they are well enough known so there is no dispute about that. I think they are a little higher, as a matter of fact. They were higher then than they were in 1921 and 1922. As a matter of fact, in 1929 we had the highest volume of money we had in issue and in circulation in the 20's. I am measuring money in terms of bank deposits, Dr. Clark, but I think that is a fair basis to operate on. That is right, is it not?—A. I am accepting your figures, Mr. McGeer. In 1921, one of the years you took, total deposits by the public in Canada were running around $1,800,000,000. What were they in 1929?

Q. My figure is $2,270,000,000 as against $1,834,000,000 in 1923.—A. In 1929 they were of the order of $2,100,000,000 towards the end of the year according to the figures I have here.

Q. I am taking the figures which you gave the Banking and Commerce committee in 1939 in your own memorandum of tables. I think they can be accepted?—A. Yes.

Q. I find there that in the years 1928 and 1929 we had more money in circulation, measured in terms of bank deposits, than we had ever had in any other year in the history of Canada?—A. Up to that time.

Q. And it was roughly 100 per cent more medium of exchange than we had in 1914?

Mr. BLACKMORE: 1921?

Mr. McGEER: No, 1914. In 1914 we had $1,000,000,000 and in 1929 we had $2,270,000,000. We ran not into a period of inflation but we hit deflation head-on. That is right, is it not?—A. Yes.

Q. Now, Dr. Clark, what I want you to tell me, if you will, is how in the face of the situation that developed in 1929—and the situation was this, that you had more money in circulation and in active circulation and a higher velocity of circulation than you ever had in the history of Canada—instead of developing this theoretical spiral of inflation you collapsed in the worst period of deflation that Canada has ever known?—A. Mr. McGeer, I would say in the years 1927, 1928 and 1929, particularly 1928 and 1929, you had a degree of inflationary boom which evidenced itself not throughout the economic structure as a whole but primarily in the stock market, in real estate prices, in the construction field, much more so in the United States than in this country, but you had a degree of it even in this country. You had a degree of inflation which did not spread, did not ramify throughout the whole economic structure but was concentrated in a few fields. That has happened in a good many cases in previous eras of boom period. You might find that it might be a boom based on railroad construction or some other one major industry, or one or two or three major industries, without spreading throughout the whole economic system. The collapse that you had beginning at the end of 1929 and running on through the 30's was in part a collapse of the inflationary structure that had been built up.

Q. So that again we have, as we had in 1921 and 1922, a collapse of the inflationary condition without the intervention of government control?—A. Yes. I think that is substantially true, Mr. McGeer.

Q. All right. And the theory that the increased volume of money will set up a spiral of inflationary conditions, stepped up and up and up, has proven to be incorrect in Canada, both in 1921 and 1922 and in 1929 and 1930?—A. Oh, I could not agree with that. I think just the contrary is true.

Q. I see.—A. Your inflationary process at the end of the last war did bring about the inevitable collapse.

Q. Yes?—A. Similarly, in the late twenties, a degree of inflation and an inflationary boom process developed which again led to an inevitable collapse in the early thirties.

Q. Without the intervention or interference of government control?—A. Oh, yes. But surely that is not part of the theory. I think the theory is merely that if you allow an inflationary boom to develop, it is practically certain to end in inevitable collapse, in deflation.

Q. Yes.—A. And the best way to stop deflation, which you and I fear very seriously, is to prevent the inflationary boom from getting out of hand.

Q. But what we suffered from in the twenties and in the thirties was not an inflationary condition. We suffered from a deflationary condition which was the reaction, as you say, to the inflationary condition?—A. Yes.

Q. I just put this thought forward because I want to argue it a little later, namely that the deflationary condition which developed was due to a controlled circulation of an insufficient volume of the medium of exchange to sustain production.—A. Well, I do not know that I follow you. I think that, certainly in the late years of the last war, that would not be a correct description of what happened.

Q. That was the inflationary condition. We were pouring money into circulation then, but we stopped spending money as a federal government from about 1922, I think; that is, to increase our issue. I mean, it held a pretty permanent level, and went up slowly.—A. Oh, yes. I think, as far as government was concerned, in those days they were not acting on the basis of any deliberate constructive program.

Q. I mean to say, we have all read the budget speeches of Mr. Fielding, Mr. Robb and Mr. Dunning, and they were adherents of the policy of a balanced budget and a reduction of the national debt. There is no doubt about that. Every budget speech that was made shows that.—A. In the late thirties?

Q. No, no. I am talking about Mr. Fielding, Mr. Robb and Mr. Dunning. That is up to 1929.—A. Was Mr. Dunning in then?

Q. Mr. Dunning came in in 1930; Mr. Robb died in 1929.

Hon. Mr. HANSON: Mr. Dunning was in before that.

The WITNESS: He was in for a few months.

Mr. McGEER: Yes. As a matter of fact, he took over the budget that Mr. Robb prepared before his death. They were all adherents of the policy of a balanced budget out of taxation, and of curtailing expenditure of public money by federal authority, a policy which was endorsed by every banker in Canada; and it was due to that policy that the circulation of the medium of exchange fell behind the rate of progress and the inevitable deflationary collapse resulted from it. Do you agree with that?

Hon. Mr. HANSON: I do not think that is correct. I do not agree with that.

The WITNESS: If inflation developed in the late twenties, I would think that could hardly be true, Mr. McGeer.

Mr. McGEER: All right. It collapsed and it collapsed without the intervention of controls.

Mr. BLACKMORE: And why?

By Mr. McGeer:

Q. It collapsed automatically.—A. It always collapses.

Q. You and I are not at cross purposes?—A. No.

Q. We are both here together as servants of the people of Canada.—A. Quite so.

Q. We are trying to find a remedy or a preventive power.—A. Right.

Q. So that the conditions of 1920 and the conditions of 1930 are not going to be repeated in 1940.—A. That is the supreme object of my life, Mr. McGeer.

Q. And I do not think that any of us have found any easy, open sesame or that any of us are convinced that any real solution is available yet.—A. Well, I do not think there is any simple solution.

Q. No.—A. But I think there are solutions.

Q. There are solutions?—A. Yes.

Q. And we are still looking to find them and to prevent that condition?—A. That is right.

Q. That is the job we have before us. So if we move in that way, I performing my duty as I see it in my way, which is the only way I can fulfil it, you and I need not be unfriendly to each other?—A. I hope not.

Q. Or in any way lacking in cooperation to have this matter discussed openly?—A. Far from it.

Q. Not only so that we in this committee may understand it, but so that the public of the Dominion of Canada can understand it as well?—A. That is so.

Mr. BLACKMORE: Hear, hear!

By Mr. McGeer:

Q. Because there is no form of government that can survive without the support of the majority of the people.—A. I quite agree.

Q. And I want to say to this committee that the votes that have been cast in Canada over the last two years indicate a much more serious condition with regard to the public mind than a great many of us would like to see develop as a post-war condition.

Hon. Mr. HANSON: Why not close the mouths of the demagogues and let us get back to the matter in hand?

Mr. McGEER: My honourable friend has done that kind of thing ever since he has been here; but I want to tell him he can get little consolation out of the votes of the public as far as his anti-demagoguery is concerned.

Mr. BLACKMORE: Why not open the minds of the leaders instead of closing the mouths of the demagogues?

Mr. McGEER: In any event, we are not going to be stopped or frustrated by that kind of nonsense.

The CHAIRMAN: Order.

Hon. Mr. HANSON: There are some things you cannot control.

The WITNESS: May I say this. For nearly thirty years one of the chief things that I have devoted myself to is to try to remedy the kind of situation that you are speaking about; to study that problem of boom and depression with a view to eliminating, to the extent that it is possible for democratic countries to do so, this recurrence of ups and downs in business activity, unemployment and all the rest of it.

By Mr. McGeer:

Q. I quite agree. I think your views given here are of more than ordinary value. I too have been studying that problem, first as a member of a labour union, then as a member of the legislature, then as mayor of a city and then as a member of parliament. I have been studying that problem of developing the circulation of a medium of exchange that would sustain the rate of progress in accordance with the advancement of science in our civilization.—A. Quite so.

Mr. BLACKMORE: In production.

Mr. McGEER: I have probably had a different point of view, but I have bumped into finance in the hard way of serving to meet public demand without enough money to do it.

Mr. GRAHAM: May I interject a question there, Mr. McGeer?

Mr. McGEER: Yes.

By Mr. Graham:

Q. Dr. Clark, Mr. McGeer asked you if our task was not to find ways and means of preventing or curing a situation that arose in 1921 and 1922 and in the thirties. Is it not more correct to say that our chief task is to find a way of curing the events of the earlier years in each of those periods in order to prevent inflation that inevitably is followed by deflation? Is that not true?—A. That may be one difference between me and Mr. McGeer. I do think that one of the surest cures for deflation or depression is to prevent the inflation or boom from developing and getting out of hand. If it does develop and gets out of hand I am sure we are going to have a depression and deflation.

By Mr. McGeer:

Q. In any event, you did not have any difficulty with inflation getting out of hand and automatically controlling itself in 1929 and 1930?—A. Oh, yes, Mr. McGeer, we did. The collapse came in the thirties, and it was a terribly serious collapse.

Mr. BLACKMORE: Why? Was it because of too much money or too much goods? Was it the fact that we got to the point where we were producing faster than even the money which was in circulation in 1929 was able to produce?

The WITNESS: It was because for many reasons our economy and the economy of the leading countries got out of balance, out of adjustment with each other. There was a large number of factors working both on the money side and on the supply side or the goods side.

Mr. BLACKMORE: It is true that the minute depression came on everybody talked about over-production instead of talking about under-consumption. The trouble was under-consumption because of the shortage of money.

The WITNESS: Everybody takes in a lot of people, Mr. Blackmore. I would not say that.

Mr. BLACKMORE: Say the leaders generally—the newspapers.

By Mr. McGeer:

Q. In any event, certain forces went to work to improve the controls over maintaining a situation, an active circulation of the medium of exchange?—A. The lack of circulation?

Q. No, active circulation. I say we went to work. We had in Canada the McMillan committee?—A. That is right.

Q. In England they had the McMillan committee?—A. Yes.

Q. In the United States they had a whole re-vamping of the federal system, of the banking system, and a whole group of auxiliary institutions came into being, the most outstanding of which was the Reconstruction Finance Corporation and the Export Banks, Farm Loan Banks, and the contributions of the great varieties of the new deal?—A. Right.

Q. But they were all directed to increasing the volume of the medium of exchange in circulation under reasonable control; is not that correct?—A. Well, I am not sure that I quite agree with you, that the prime purpose, for instance, of the Reconstruction Finance Corporation was to do that. It was not directly concerned with that function, but its effects, I think, worked in that direction.

Q. And government spending— —A. Oh, yes, government spending—

Q. —came into being?—A. That is a direct way of increasing the volume of purchasing power in circulation.

Q. Let me lay down this proposition: that following the collapse of the boom in the stock market, which Mr. Towers says was not general inflation, but which you suggest is an inflationary— —A. There was far more than the boom in the stock market. I was in that country at that time. There was a tremendous boom in the construction trades, in real estate, and so on.

Q. All right, we know that, and I think we will agree on the reason for it; but we do know that following that collapse, throughout the English speaking world, steps were taken to increase the volume of money in circulation and in the possession of the masses of the people?—A. That is quite right.

Q. To improve the buying power of the impoverished and the wage earners; is that correct?—A. That is generally correct.

Q. Now, is this not a fact: that as a result of the boom in the stock market a great deal of money was being expended in the consumer market and particularly in the luxury market that was a direct flow from that boom spirit where paper values pyramided into astronomical figures?—A. I think that is true; that the profits resulting from securities trading went into—

Q. People buying automobiles, real estate, and new homes?—A. Yes.

Q. So we were dependent for our economic security and our economic progress in 1928 and 1929 and carried into the 1930's to a certain extent upon the circulation of money that came from the false idea of profits being made in the stock market?—A. To a degree, yes.

Q. To a degree. Now, I go through that terrible history in our own period from 1930 to 1939. We increased the volume of money in circulation during that period of time, and by 1939 we again had more money in circulation in Canada than we ever had in our history; is that right?—A. Right.

Q. And we still had a condition of deflation, mitigated to some extent, but still a condition of deflation?—A. Well, I think, perhaps, deflation is not quite the word there. We had not a condition of full employment, full utilization of our resources. I would use the word "deflation" to describe the process of contraction. By the last half of the thirties we were going upward pretty steadily.

Q. We were going up; and I am saying that in 1939 we still had—if you do not like the term "deflation"—we still had a serious condition of unemployment?—A. We had incomplete utilization of our resources.

Mr. MACDONALD (*Brantford City*): Was the money in actual circulation or was it not in bank accounts?

Mr. McGEER: I will come to that. I fully appreciate that; but that is not the point at the moment.

By Mr. McGeer:

Q. And when war came we started to spend money, and we spent money on a scale never known in the history of our civilization, and never anticipated?—A. That is right.

Q. That is correct?—A. Yes.

Q. Now, we increased our national expenditures in round figures from $500 million in 1939—that is right?—A. That is right; a little over $500 million.

Q. To $5,000 million in 1943?

Mr. BLACKMORE: That is in four years?

The WITNESS: That is right.

By Mr. McGeer:

Q. And despite the fact that we elevated our national expenditures from $500 million to $5,000 million we did not meet a condition of uncontrollable inflation; is that correct?—A. That is correct. We have been able to control it—

Q. When you jumped from $500 million to $5,000 million, how many hundred per cent are you lifting it?

Mr. MCNEVIN: Don't you think it illustrates the great unity of purpose on the part of the whole Canadian people?

Mr. MCGEER: I am not dealing with that. I have never questioned that. I am saying that despite the fact that we lifted from $500 million to $5,000 million we did not meet a situation of uncontrollable inflation?

Mr. KINLEY: We have a bigger ship to float, that is all.

Mr. MCGEER: That may be your idea.

The WITNESS: We had to do many things, however, to prevent it resulting in inflation.

By Mr. McGeer:

Q. I am not saying that. Some of them you found were extremely difficult. But in the main you found the Canadian people co-operated to a satisfactory degree?—A. That is right.

Q. And the success of the controls was undoubtedly due to the understanding co-operation of the Canadian people as a whole?—A. I agree thoroughly with that, and I think the reason for that co-operation was that this huge expenditure was being made to win a war which the Canadian people felt was extremely important, and they were united almost 100 per cent behind that purpose.

Q. Of course, on some other features of the war they are not so united, unfortunately?—A. No, but generally speaking they are and have been pretty well united behind the winning of the war and are prepared to see these huge expenditures made even though they should result in huge budgetary deficits and all the rest of it.

By Hon. Mr. Hanson:

Q. A condition which will not exist in peacetime?—A. No, I am afraid it did not.

Mr. BLACKMORE: Unless it is carefully managed.

By Mr. McGeer:

Q. I have a great deal of faith in our Canadian people. I know them pretty well from coast to coast.—A. So do I.

Q. My own conception of the Canadian people is if you as a government present a reasonable proposition to them, and give it to them so they understand it as being for the well being of the whole, Canadian people will generally support it.

Mr. BLACKMORE: Hear, hear.

Mr. MCNEVIN: Before you leave that question, are you convinced you can find in peacetime any issue upon which you can solidify and unite the people for a common objective to the same extent as you can in the war?

Mr. MCGEER: Yes. I believe our people in Canada will unite just as fervently and just as positively for the conquest of poverty in Canada as they will to resist the conquest of a foreign aggressor.

The WITNESS: I think, if I may express an opinion there, that I would agree substantially with that statement. I think that in the post-war period it will be possible to get the support of the Canadian people for whatever may be necessary to win the war against unemployment or against poverty, whatever you like to call it.

Mr. McGEER: You see, Dr. Clark, as a politician I would hardly agree with my colleagues on this cabinet that our Canadian people have shown much unity behind this government as measured in terms of the votes that have been taken during the last year and a half. I have never seen the people of Ontario so hopelessly divided as they were in the last provincial election.

Mr. KINLEY: This government did not do that.

Mr. McGEER: My friend says that this government did not do it. What happened to the by-election in Stanstead? What happened to the by-elections in the federal arena?

The CHAIRMAN: Is it necessary to go into those matters?

Mr. McGEER: If they are going to raise the question of unity let us deal with the facts.

The CHAIRMAN: Proceed with your question.

Mr. McGEER: Our trouble is that in this committee we are dealing with theories that repudiate facts, and we are not dealing with the facts that will support the solutions that are necessary.

The CHAIRMAN: I would suggest you proceed with the facts.

Mr. McGEER: I am dealing with the facts. Anybody sitting in this House of Commons that does not think the by-elections that have taken place are a fact in the Canadian political economy has a different idea of facts than I have.

The CHAIRMAN: Let us go on with the inquiry.

Mr. McGEER: I am dealing with the reasons for those disagreements. As a result of our experience in the 20's and the 30's we have learned that we can put enormously increased volumes of medium of exchange in circulation without developing an uncontrollable condition of inflation?

The WITNESS: Under certain conditions you can.

By Mr. McGeer:

Q. We have yet to experience any condtiion under which we cannot in Canada?—A. Well, the increase in the circulating medium or in public purchasing power during the war would have produced an uncontrollable inflation had it not been for the very drastic controls that were put into effect, very drastic fiscal policy and very drastic direct controls. Whether or not that kind of thing is possible in peacetime is another question.

Q. That is what we are trying to find out, but we do know it is possible in wartime?—A. With the united support of your public behind you.

Q. We have had united support.

Mr. MACDONALD *(Brantford City)*: The 6 per cent increase did not cause inflation.

Mr. McGEER: Good heavens above, you have increased your bank deposits from what they were in 1939 to what they are to-day. We are dealing with the medium of exchange.

Mr. MACDONALD *(Brantford City)*: I am talking about currency.

Mr. McGEER: I am talking about medium of exchange, not bank reserves.

By Mr. McGeer:

Q. Let me put it to Dr. Clark this way; what was the increase in the medium of exchange in issue in Canada from 1939 to 1943?

Mr. BLACKMORE: Say as of July.

By Mr. McGeer:

Q. Any time?—A. At December 30, 1939, demand and notice deposits in Canada—that is excluding depostis outside of Canada—were about \$2,600,000,000. At the end of April, 1944, they were \$4,200,000,000 approximately.

Q. Roughly an increase— —A. Of nearly 100 per cent, 80 or 90 per cent.

By Mr. Macdonald (Brantford City):

Q. It is not that high a percentage. It is slightly over 50 per cent?—A. Sixty per cent, perhaps that is right.

By Mr. McGeer:

Q. Give me the figure of the increase. Give me the same date in 1939 that you gave me in 1943?

Mr. BLACKMORE: Say July of 1939 and July of 1943.

The WITNESS: July of 1939, roughly \$2,400,000,000, slightly under \$2,400,000,000.

By Mr. McGeer:

Q. July, 1944?—A. I have not July, 1944; July 1943 is \$3,300,000,000.

Q. Roughly a billion dollars increase?—A. A little over a billion dollars increase.

By Mr. Tucker:

Q. You are just referring to demand deposits. The way we carry on our banking system in Canada time deposits are also in effect money?—A. I have been giving the demand and the time deposits together. I am just adding them together roughly.

By Mr. McGeer:

Q. Now, we have another form of medium of exchange, have we not?—A. You mean notes in circulation?

Q. No, I mean government bonds.—A. I would not call them a "medium of circulation".

Q. But you would call them liquid assets?—A. Oh, they are liquid assets.

Q. Upon which people can borrow?—A. Yes.

Q. And which can be converted into cash?—A. Yes, but if somebody else bought the bond, his cash purchasing power would decline proportionately.

Q. Unless he deposited it with a bank and got a loan on it which would mean an increase.—A. Unless he borrowed at the bank in which case the effect of that on deposit would be—

Q. To increase the volume of medium of exchange?—A. Reflected in the deposit figures.

Q. We have increased our medium of exchange in the form of bank deposits by slightly more than a billion dollars. As a matter of fact, we have by this time increased it to something like \$1,600,000,000.—A. Yes, it is more than a billion dollars now.

Q. It has been running up. We have been increasing new money by the rate of \$900,000,000? \$900,000,000 of new money was created during 1943?—A. During 1943?

Q. In 1943 we increased our total volume of money in Canada by roughly $909,000,000.—A. In bank deposits, according to the figures I have here, the increase was from roughly $3,100,000,000 to $3,600,000,000, that is, an increase of about $500,000,000 in chartered bank deposits. Notes in circulation would have gone up also.

Q. I think you will find Mr. Towers discussed that in his Bank of Canada report. At page 6 he says this:—

> During 1943, the Canadian deposit liabilities of the chartered banks increased by $748,000,000. In addition, total active note circulation (including Bank of Canada notes) rose by $161,000,000, making the total expansion in the volume of money, therefore, $909,000,000 during the year.

You do not dispute that?—A. No.

Q. Now, did you find any inflationary condition resulting from that?—A. We found very serious inflationary pressure which had to be controlled.

Q. Any pressure that necessitated any further controls than were already in operation?—A. No, I do not think any new controls.

Q. We had the situation in hand and we could do that without fear of developing an uncontrollable inflationary condition?—A. Not without fear; we have constant fear.

Q. We went through it; 1943 is past?—A. Yes, I know, but there was constant fear, constant danger.

Mr. MACDONALD (*Brantford City*): Real estate prices right now are becoming almost inflationary.

Mr. MCGEER: There are a great many people who would like to see real estate prices rise.

Mr. MACDONALD (*Brantford City*): But they may rise to an inflationary value from which there will be the ultimate crash and deflation.

By Mr. McGeer:

Q. I think you will agree with me, Dr. Clark, that the condition of our taxation in our municipalities will have a very serious effect in holding real estate prices against any inflationary development?—A. We do see the beginning of an increase in land values and prices at which land is selling, particularly in the rural areas, I would say. It is not nearly as significant as it is in the United States. It has gone very rapidly there, and I think under present conditions it is a dangerous sign.

Hon. Mr. HANSON: What would cause it? Is it not basically because there is a fear that other things may collapse and that land will not?

The WITNESS: I would not like to say. There may be something in that, but I hope there is not too much.

By Mr. Macdonald (Brantford City):

Q. Are there any controls on real estate prices?—A. Not as such; there are controls on rentals which represent the returns from real estate.

Q. I am talking about sales. Is there any control whatsoever over the sale of real estate?—A. No, not that I know of.

Mr. KINLEY: Except demand, which is being increased by the soldiers' settlement. The demand is being increased by the buying of land by the soldiers' settlement. That will raise the price.

Mr. BLACKMORE: Also land is more profitable now; people want it.

The WITNESS: Yes.

By Mr. McGeer:

Q. Let me give these three things to you which control the values of real estate, urban and rural. First there is the debt load and the taxes of the urban communities?—A. They have been going down.

Q. Yes, but they are still a definite control on the value of real estate?—A. Yes, by reducing the income from real estate.

Q. As a matter of fact, as the mayor of the city of Vancouver, and as a member of the mayors' conference of Canada in 1936—and I have been in touch with the situation since—I would say that the municipal debt load and the tax policy converted a great deal of the investment in urban real estate from an asset into a liability where throughout every city in Canada there was destruction of improvements to get away from taxation. You will agree with that?—A. I think there were some cases of that, but I would not make it quite as general as you do.

Mr. KINLEY: Would you say that municipal government has been over-extravagant?

Mr. McGEER: No, I would say this, that the burden of responsibility imposed on municipal government by the provincial and federal authorities has compelled municipal government to levy more taxes on real estate than should have been levied.

Mr. KINLEY: I think we may put it this way, that the principle of making real estate the basis of taxation is wrong.

Mr. McGEER: I quite agree. I think the cure for that is the cure they have developed in England where the tax on real estate is restricted to an income basis, and not a mere arbitrary levy and assessment on what in many instances are inflationary prices.

Mr. KINLEY: It is fixed on auction values.

Mr. McGEER: And on boom prices.

Mr. COLDWELL: Would not taxation in many areas in Canada directly prevent inflation of land values and also speculation?

Mr. McGEER: I think if you will study municipal policies developed in the Old Country where a national government steps in to contribute 60 per cent to the cost of education and 50 per cent to the cost of relief, and where the basis of taxation is on income, you will find that the British cities are much more stable than our own. Undoubtedly you will have speculation in a free market and with free enterprise. It is a part of the life of the community.

Mr. KINLEY: Part of the adventure.

Mr. McGEER: Part of the adventure of life; if everything was fixed and put on a static basis by a government that government would fail because it would be unable to co-operate with the pervading mutability of human affairs. That is where we disagree.

Mr. COLDWELL: I think Mr. Kinley raised the point just now when he said real estate values were going up because the soldiers' settlement organization was buying land for soldier settlement.

Mr. KINLEY: I say that would be a factor.

Mr. COLDWELL: The taxation in many parts of Canada on land values has been such as directly to prevent the acquisition of land and the holding of it for speculation, thus causing farmers to pay higher for their basic land and impoverish them in the long run.

Mr. KINLEY: Do you not think that the price of farm land is unsually low in Canada?

Mr. COLDWELL: It has been high enough.

Mr. McGeer: I went out here and looked over a farm in Ontario the other day not far from Ottawa. I think there were 360 acres sold for $3,000.

Hon. Mr. Hanson: It is now 12 o'clock. I am wondering just how much longer this line of procedure is to be continued. I want to get back to this bill. I think the membership of this committee want to get back to the bill.

Mr. McGeer: You are not going to stifle the thing as far as I am concerned.

Hon. Mr. Hanson: I am going to have my say and let the battle be on.

Mr. McGeer: We will have the battle. We have had it before.

The Chairman: Order.

Hon. Mr. Hanson: I am not afraid of battle. Certainly I am not afraid of anything the member may say. He may insult me, as he has on many occasions.

Mr. McGeer: I am not insulting you at all. It is you who are doing the insulting.

Hon. Mr. Hanson: I venture to suggest that the membership of this committee is not content that we shall go on and on and on ad nauseum, ad infinitum, in discussing theories. We have been brought here under a deliberate reference from the House of Commons to discuss Bill 91. I want to get down to the bill, and I am asking this committee for support. If I cannot get it I am going to quit. There is no point in my coming here and listening to the iteration and reiteration and reiteration of theories that have no bearing on the work we have to do, and I protest.

Mr. McGeer: Mr. Chairman, I just want to say in answer to that, that it is unfortunate that the hon. member from York-Sunbury is in the position he is in. He is not controlling this committee as he did in 1934, and I want to say that the people of Canada repudiated the policy you brought out of the Banking and Commerce Committee in 1934.

Hon. Mr. Hanson: I expected you to say that.

Mr. McGeer: I want to say to my Liberal colleagues that if we as Liberals allow the Tories to dominate this committee they will repudiate us for doing the same thing.

Mr. Kinley: On a point of order—

Mr. Blackmore: Progress and reaction.

Mr. Kinley: I think common sense should dominate this committee. We are here as business men to do a job. Can we conceive that any people in Canada, even of the lowest mentality, would come here for thirty or forty meetings and do as little as we have done? I think we should be ashamed of it.

Mr. McGeer: That may be your idea.

Hon. Mr. Hanson: Let us get going.

Mr. McGeer: The public of Canada are very well satisfied with this committee.

Mr. Kinley: This talk about politics in this committee is cheap.

The Chairman: Mr. McGeer, the records of the committee speak for themselves.

Mr. McGeer: I agree.

The Chairman: And they speak of a great deal of reiteration.

Mr. McGeer: Unfortunately that is true.

The Chairman: A great deal of reiteration which seems to me is unnecessary. As Mr. Hanson has said, and as I have repeated over and over again, we came here with the specific assignment from parliament to deal with the bill. Certain issues, involving government ownership of the banks for one, were decided in parliament; and the party that moved that resolution has accepted the decision in this committee. Another resolution was moved by another party involving issues that have been repeated over and over again. I am not complaining of the tiresome repetition, but I think that we are not getting on with our job.

Mr. BLACKMORE: Well, I think we are doing a splendid job. That is what I think.

The CHAIRMAN: Are we not discussing questions which were disposed of in parliament?

Mr. BLACKMORE: Not by any means.

The CHAIRMAN: It is not for us to decide new policy.

Mr. BLACKMORE: I think it is.

The CHAIRMAN: I beg your pardon. That is not our assignment.

Mr. BLACKMORE: Mr. Chairman—

The CHAIRMAN: Just a minute, please.

Mr. BLACKMORE: I want the floor next.

The CHAIRMAN: Mr. Blackmore, please do not interrupt just for a minute.

Mr. BLACKMORE: Go ahead.

The CHAIRMAN: We were assigned, after discussion in parliament of policy, a particular job, namely the review of the bill that was handed to us or that was sent to us. We have not confined our work to that nor proceeded with our work according to our assignment. That is the judgment of the chairman of the committee. Mr. Hanson, may I say this. I think—and I have discussed it many times—that if committees are to work in parliament and perform their functions, there must be a revision of the rules of committees. I have been at a loss to know what to do about all this vain repetition that we have had.

Mr. McGEER: Oh, Mr. Chairman—

The CHAIRMAN: I beg your pardon. Please allow me to finish.

Mr. McGEER: But you can be out of order too.

The CHAIRMAN: The record speaks for itself.

Mr. McGEER: All right. But I was in order.

The CHAIRMAN: I will leave it to the committee. I will leave it in the hands of the committee.

Mr. McGEER: I will leave it to the people.

Mr. FRASER (*Peterborough West*): Continue, Mr. Chairman.

Hon. Mr. HANSON: The Chairman is right.

Mr. McGEER: I do not think so.

The CHAIRMAN: I want to say that the rules of the committees must be changed if we are to discharge the duty and perform the work that has been assigned to us. I say, and I still insist, that the records show that we have not discharged our duty.

Mr. BLACKMORE: May I ask a question?

Hon. Mr. HANSON: The rules of relevancy must apply to this committee.

Mr. McGEER: Another closure.

Mr. BLACKMORE: May I ask a question, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. BLACKMORE: Is it not of first importance that this committee determine what are the causes of inflation before this committee can tell whether or not to pass the Bank Act in its present form?

The CHAIRMAN: We are to review the Bank Act. That matter was decided in parliament, after discussion.

Mr. BLACKMORE: It could not possibly be decided in parliament.

The CHAIRMAN: Well, it should have been.

Mr. BLACKMORE: It could not possibly be decided in parliament for the simple reason that parliament never had before it the question of inflation as a general problem for discussion. Now may I draw to your attention, and that of members of the committee, the fact that I asked the Governor of the Bank of Canada specifically the first day I questioned him whether he believed it was essential that this committee should discover the cause of our ills and recommend a remedy, and he answered "Yes." I agree with the Governor of the Bank of Canada and I say that if the committee, under Mr. Hanson in 1934, had done its duty with the thoroughness that this committee is endeavouring to do its duty, we would have been saved a lot of trouble in this country and would not have been as helplessly unprepared when the war came along as we were. This problem facing this committee is the result of an accumulation of neglect on the part of members of previous committees for years and years. Perhaps some do not realize it, but they will all understand it in due time: you simply must learn how to distribute your goods as well as how to produce them: and if you do not learn how to distribute your goods, you will encounter failure, disaster in the form of depressions consistently. So I say, Mr. Chairman, in my judgment we are making superb progress. I believe virtually every constituent of mine will back me in making that statement. The letters I get are all of the finest, in the highest degree full of approbation. They say, "Go straight ahead. This problem has to be solved."

The CHAIRMAN: Mr. Blackmore, you said these matters had not been decided in parliament. I, speaking personally, have heard you make this statement you have just made in parliament a good many times. After having made this statement, parliament has referred this bill to the committee, after discussing the policy; and in my opinion it is the duty of the committee to deal with the details of the bill clause by clause. We have tried to do that but we have failed; and we have failed because certain members, and a small minority of this committee, have insisted upon dealing with a matter that was disposed of in the House of Commons.

Hon. Mr. HANSON: Hear, hear!

Mr. BLACKMORE: Mr. Chairman, I do not agree with that at all.

Mr. KINLEY: Mr. Chairman—

The CHAIRMAN: Mr. Kinley has risen and asked for the floor.

Mr. KINLEY: Mr. Chairman, it seems to me that this money thing is an international matter. What we do is controlled a great deal by what happens in the country to the south of us and in Great Britain; and if we are going to go haywire in this country, off on our own, it seems to me that we would be doing a very dangerous thing. The House of Commons simply decided by a big majority on the principle of this bill. The principle of this bill represented the opinion of the House of Commons in a general way as to what this legislation shall be.

Hon. Mr. HANSON: And government policy.

Mr. KINLEY: And government policy. We are to review the bill, and if there are any details in the bill we think should be different, it is our duty to amend the bill accordingly. It seems to me it is our duty to get down to that; and if there is no way to do that by applying the rules of the committee, I think it should be reported to the house and we should say that this committee will meet continuously and we can go on and finally we will get somewhere.

Mr. BLACKMORE: May I ask a question?

Mr. KINLEY: Yes.

Mr. BLACKMORE: Does Mr. Kinley insist on the bank charters being renewed for ten years? Would not nine years be satisfactory or would he be favourable to eleven?

Mr. MACDONALD (*Brantford City*): That makes no difference.

Mr. BLACKMORE: Let me ask the question, whether Mr. Kinley would insist on ten years or whether nine would be agreeable or whether eleven would be agreeable?

Hon. Mr. HANSON: What difference would it make?

Mr. BLACKMORE: You will see the difference. Probably the honourable member has not sufficient perspicacity to see it, but he will see it in a minute. I will point it out to him.

Mr. KINLEY: May I answer that. I think the vote in the House of Commons indicated that the charters of the banks would be renewed in the regular way. Further, we have a statement from the minister saying that for the stability of the post-war period, it is important that we have this matter settled and that we know where we are going with regard to finances.

Mr. BLACKMORE: Does that identify you with ten years?

Mr. KINLEY: In the third place, we are renewing these charters for ten years, but that does not mean anything, because if there is anything radically wrong, the House of Commons can at any time introduce legislation to amend the Bank Act.

Mr. MCGEER: You do not suggest they should repudiate it?

The CHAIRMAN: Order, please. Let Mr. Kinley continue.

Mr. KINLEY: In view of all these things, I think the obstacles that have been put in the way are only ghosts; and if we are going to be afraid of things in the future, where are we going to get? As a business man, I like to face conditions and deal with them. There is always an element of risk in anything we do, and we must face that hazard, if there is one. I do not think we should sit here continually talking about theories and ghosts that are abroad in the world, where after a while we will find that people are so afraid of them that they will think there is nothing stable and secure and nothing worth working for.

Mr. BLACKMORE: Does Mr. Kinley insist on the ten-year extension? That is what I want to know. He has not answered that.

The CHAIRMAN: Order. Mr. Jaques has the floor.

Mr. BLACKMORE: Mr. Kinley has not answered my question.

Mr. KINLEY: I think I did.

Mr. BLACKMORE: No. You cannot answer it. You do not dare.

Mr. KINLEY: I will

The CHAIRMAN: Please, Mr. Kinley. Mr. Jaques has the floor.

Mr. JAQUES: I merely wish to say that nobody can accuse me of wasting the time of this committee so far.

The CHAIRMAN: I agree with you, Mr. Jaques.

Mr. BLACKMORE: He agrees with you.

Hon. Mr. HANSON: We all agree with you.

Mr. JAQUES: I can assure you and the committee that I do not appreciate sitting here in this heat any more than anybody else does.

Mr. BLACKMORE: Even the member for York-Sunbury.

Mr. JAQUES: I would rather be out. I would go so far as to say that I would rather be out at the swimming pool. It would be far more enjoyable. But we are asked to pass an act which will hold for ten years. I do not agree at all that you can pass it and can then tear it up any time you feel like it. That is not an honourable thing to do. It is not the proper thing to do.

Mr. KINLEY: Why not?

Mr. BLACKMORE: A sacred contract!

Mr. JAQUES: A contract is a contract.

Mr. BLACKMORE: Surely.

Mr. KINLEY: Every statute is a contract.

Mr. JAQUES: If there is anything wrong with it, let us find it out now beforehand.

The CHAIRMAN: Mr. Jaques, may I just suggest that it is part of the parliamentary system that what one parliament does another parliament can undo.

Mr. JAQUES: Yes, I know. But it would not be very fair to the banks.

Mr. BLACKMORE: Surely not; or to the people.

Mr. JAQUES: I am quite serious when I say that. It is all right to say that we can more or less tie up the banking system in this country for ten years; but at this time, in this day and age—

The CHAIRMAN: We are not discussing clause 5. We are leaving clause 5 until a later discussion.

Mr. JAQUES: I only want to make a few remarks on the opposition by certain members of this committee who want to close off discussion, to pass the bill and get on and finish it.

The CHAIRMAN: Mr. Jaques, we are in our twenty-ninth session.

Mr. JAQUES: Quite so.

The CHAIRMAN: There has hardly been any closing off of discussion.

Hon. Mr. HANSON: Hear, hear!

Mr. JAQUES: They will have ten years—

The CHAIRMAN: We are in our thirtieth session.

Mr. MCGEER: The banking and commerce committee in Washington has been in continuous session since January.

Mr. JAQUES: In the meantime, Mr. Chairman, right at the present time not very many miles from here is an international monetary or finance meeting of all the financial powers of the world, more or less, to settle the policy which will control national financial policies; that includes Canadian policy and hence must include this banking legislation. Personally, I cannot see how we are going to permit this parliament to pass a Bank Act which can be entirely modified by the decisions arrived at in this international meeting which is now taking place.

The CHAIRMAN: Surely, Mr. Jaques, you have not used the words "cannot permit parliament" to do a thing? You have not used the phrase "cannot permit parliament" to enact this bill. It is not the function of this committee to prevent parliament from passing an act, surely; or from passing a bill, rather.

Mr. JAQUES: The statement was made by one of the biggest bankers that banks control the policies of governments and hold the destinies of the people in the hollow of their hands. That is not my statement. That was a statement of the chairman of the Midland Bank.

Mr. MCGEER: You agree with it, do you not?

Mr. JAQUES: Yes. I must say that I am bound to agree with it, after what I have observed. I am not going to mention any particular banks or even national banks, but I do say that international banks control and have controlled the policy of governments since the last war.

Mr. McGEER: Mr. King said the same thing.

Mr. JAQUES: As far as politics are concerned, it is about time, I think, that members of this committee realized that the issue before the country is not, as some of them seem to think, whether Conservatives or Liberals are going to be elected next time. It is the question of whether we are going to become socialists. That is the issue. The whole reason that the country is going socialist is simply that what we call democracy has failed to give them the results that they want.

The CHAIRMAN: Talks too much and does too little.

Mr. JAQUES: I am coming to this conclusion, that I believe it is deliberate.

Mr. MACDONALD (*Brantford City*): Mr. Chairman, if I may, I should like to say a word. I do not agree with all that has been said in this committee this morning to the effect that all our meetings have been in vain. I think we have learned a great deal by being at these committee meetings.

Mr. BLACKMORE: Hear, hear!

Mr. MACDONALD (*Brantford City*): I do not think any one could sit throughout the sessions which have been held and not have had what I might call a liberal education in finance and money.

Mr. BLACKMORE: Hear, hear! Well put.

Mr. MACDONALD (*Brantford City*): I think all the meetings have been very worth while.

Mr. BLACKMORE: Hear, hear!

Mr. MACDONALD (*Brantford City*): But an end must come to all good things. We cannot keep going on and on, day in and day out, repeating our various theories. Mr. Chairman, there are a number of very able members in this committee, and it could well be arranged that each day one of those very able members could address this committee, question the witnesses and take the whole time of the committee for that day. Then next day another very able member could do the same thing.

Hon. Mr. HANSON: And where would we get?

Mr. MACDONALD (*Brantford City*): We could keep on going ad infinitum and we would never end up. I have always enjoyed listening to Mr. McGeer. I think we must all agree that he comes here with his facts well marshalled and he presents his case very well indeed. But he has done this now on numerous occasions before this committee; and with all due respect to him I must say that I have listened to him this morning and from what I could hear very few facts, if any, have been brought out which he has not brought out at several other different meetings.

Mr. McGEER: I never touched the question of inflation before. It was never dealt with by me.

Hon. Mr. HANSON: Oh, oh!

Mr. MACDONALD (*Brantford City*): Well, the question of inflation, as I recall it, was dealt with, if not by you, at least by several other members of this committee.

Mr. McGEER: Do not accuse me of dealing with it. That is absolutely false.

Mr. MACDONALD (*Brantford City*): When Mr. Graham Towers was the witness. Then I will state this. I recall questions which Mr. McGeer has asked this morning having been asked by other members of this committee when witnesses were before the committee.

Mr. McGEER: I do not know of a single one; and I challenge you to show it in the records.

The CHAIRMAN: Order.

Mr. MACDONALD (*Brantford City*): I am not objecting entirely to Mr. McGeer asking these questions. If it were possible to continue these meetings on and on and on, we might enjoy having the questions asked.

The CHAIRMAN: Attention, please, Mr. McGeer.

Mr. MACDONALD (*Brantford City*): I say that we might enjoy it and it might be of benefit to us, to have these questions asked in a little different way by Mr. McGeer. It might be very entertaining and also very profitable. But Mr. Chairman, as you have said, there has been a bill referred to this committee. There have been two things referred to the committee, if I remember correctly: the report of the Bank of Canada and the bill.

Mr. McGEER: Let us get on with it. Why all this interference?

The CHAIRMAN: Order, please.

Mr. MACDONALD (*Brantford City*): Surely we have gone over that day in and day out before this committee. I recall many meetings of the committee in which the Bank of Canada statement was before the committee and considered all day long. Then the other matter that has been referred to the committee is the Bank Act.

Mr. McGEER: What about the Bank of Canada report which has never been dealt with yet?

Mr. MACDONALD (*Brantford City*): Well, Mr. Towers has dealt with it; he has gone into it very fully.

Mr. BLACKMORE: Just incidentally.

Mr. McGEER: I do not think he has touched it.

Mr. MACDONALD (*Brantford City*): He has gone into it very, very fully.

Mr. BLACKMORE: Just incidentally.

Mr. MACDONALD (*Brantford City*): We have come to the Bank Act, and surely, gentlemen, it is time we got down to it.

Mr. McGEER: Pass, pass and pass.

Mr. MACDONALD (*Brantford City*): Some one has said that there is meeting at the present time what is known as an international monetary conference. I ask you, Mr. Chairman, do you think that at that conference, day in and day out, they will discuss the same question, that it will be arranged that at one meeting one member will get up and discuss it in his own inimitable manner, and that at another meeting another member will discuss in some other slightly different way? They would never end up the conference if they did.

Mr. McGEER: They probably will not.

Mr. MACDONALD (*Brantford City*): I am satisfied that if we are going on and on in this committee, we will never end up this committee's business.

Some hon. MEMBERS: Hear, hear!

Mr. MACDONALD (*Brantford City*): We will never report this bill. Parliament has given us a job to do. Parliament has asked us to review this bill and to bring in our report to parliament.

Mr. JAQUES: O.K., Mr. Chairman.

Mr. MACDONALD (*Brantford City*): Are we going to be faithful to our trust? Are we going to continue discussing these questions from the same angle with different words day in and day out? I think it is time we got down to the bill. I repeat I appreciate what has been said in this committee; I have enjoyed being here; it has been an education to me; but now we have finished with that and I think we should go forward and consider the bill and bring in our report.

Mr. McNEVIN: I believe, if my memory serves me correctly, that our first meeting with regard to this bill was on May 16. I came to this committee room satisfied in my mind that we were going to have a long discussion on monetary policy and monetary theories, and I agreed in my mind that I was prepared to sit a full month for those meettings, notwithstanding the fact that I agree with the Chairman that the House of Commons settled monetary policy.

Mr. McGEER: Oh, ho.

Mr. McNEVIN: I want to say that this is the 4th of July—

Mr. McGEER: A great day.

Mr. McNEVIN: It is a great day. My wife is an American and I know more about it than you do.

Mr. BLACKMORE: I was born in America.

Mr. McGEER: Too bad she was not a monetary reformer.

Mr. McNEVIN: To my mind we have spent sufficient time in dealing with monetary policy and monetary theories. I am quite willing, for the rest of this meeting, to allow Mr. McGeer to proceed even though Mr. Towers has dealt with inflation, the minister has dealt with inflation, and so has Dr. Clark in this discussion—

Mr. BLACKMORE: When?

Mr. McNEVIN: It has been discussed many times. I am prepared to go that far, but I am not prepared to go very much farther. I think very soon we must come down to discussion of the clauses of the bill.

Mr. RYAN: Mr. Chairman, as a member of this committee I understood that the bill as presented was read a second time and referred to this committee for study.

Mr. BLACKMORE: For study is right.

Mr. RYAN: Now, we may all agree that there has been repetition, there is no doubt about it; but I as one member of this committee believe that all the discussion and all of the information given here have been very necessary and very interesting. Perhaps Mr. McGeer has repeated his theories on several occasions—

Mr. MACDONALD *(Brantford City)*: No more than anyone else.

Mr. RYAN: Just a minute, Mr. Macdonald, I do not want to be interrupted. I do not interrupt anybody in this committee. Now, I believe that up to now Mr. McGeer has not questioned Dr. Clark. As a member of the House of Commons I have great consideration for the Minister of Finance and for Dr. Clark; I think I have shown that before. I am anxious to have Dr. Clark answer the questions put to him by Mr. McGeer, and I think this committee will gain a lot by having those questions answered. I do not think we should cut off the discussion. We are here to do a job of work, and I think we want all the information we can get to do that work properly, and I think it is necessary for the future of the country that we know where we are going. I would say that we should get on with our work, that is important, but I do not think we should cut off any man who has any knowledge that other members of the committee may not have and which it is necessary that they should have.

The CHAIRMAN: Is it the pleasure of the committee to give Mr. McGeer the balance of the hour?

Hon. MEMBERS: No, no.

Hon. Mr. HANSON: Let us get on with the job.

Mr. McGEER: You are not getting on with the job, and if this interference continues you will sit here until Christmas.

Hon. Mr. HANSON: Not at all.

Mr. McGEER: I will not tolerate that kind of interference from the Tories of this committee.

Mr. JACKMAN: He has threatened this committee.

Mr. McGEER: No he has not.

Mr. JACKMAN: Yes he has.

Mr. McGEER: I am not letting you run it.

The CHAIRMAN: I wonder if you would like to have it suggested that you intend a filibuster until Christmas?

Mr. McGEER: There is no suggestion of that kind. I said if this interference continued. Don't put words in my mouth; you cannot do that. What I said was, if this interference continues, which is a deliberate interference with the work of the committee, then we are going to stay here until the interference is taken care of.

Mr. MACDONALD *(Brantford City)*: It is a question of who is doing the interfering.

The CHAIRMAN: Mr. McGeer, will you please look over the record and see to what extent you have interfered.

Mr. COLDWELL: We have now spent half an hour discussing whether Mr. McGeer should speak.

Mr. McGEER: Interference is all it was.

Mr. COLDWELL: I think we had better allow Mr. McGeer to proceed with his questions. There has been repetition, yet as far as I am concerned I believe the chairman is right when he says that the House of Commons voted on the principle of this bill and the house decided what the principle should be. That is largely the reason why I have refrained from bringing forward the theory I have; but the more this discussion goes on the more convinced I am that the only solution is national ownership of our banking system. I think we might facilitate the business of the committee if we allowed Mr. McGeer to continue his examination of the witness.

Hon. Mr. HANSON: Let us have the vote.

Mr. BLACKMORE: Put on closure; strangle the committee.

Hon. Mr. ILSLEY: I am very much discouraged with the rate of progress we are making in this committee on this bill, because we have not only this bill before us but several other bills which have been referred to the committee. I assume that we all want to make a report on these bills; that we want to report them back to the house either with or without amendments. I am sure of that. I assume that is the case. I must assume that is the case. Now, if that is the case, we must organize our discussion here to keep it within reasonable balance. It is now 12.30, and if this questioning of Dr. Clark could end at 1 o'clock I would not feel so badly about it, despite the views of some members of the committee, but I would ask that we address ourselves specifically to the sections after to-day, and hold to them, and not go off on these general discussions. We have had a tremendous amount of general discussion—far more than I ever anticipated we would have in this committee. I think the views of the members who have very positive views which are at variance—

Mr. McGEER: With orthodox finance.

Hon. Mr. ILSLEY: With orthodox finance, have been pretty well expressed, and I do not believe that a repetition or reiteration of too many of these views would result in educational results, which would be sufficiently valuable to offset the other advantage of getting the bills reported back to the house. It is a matter of balance of advantage. I enjoy listening to this discussion too, but I think we must, as practical members of the House of Commons, try to curtail our discussion within reasonable bounds. As far as I am concerned, Mr. McGeer could keep on until 1 o'clock and then stop. To-morrow I would suggest that we take the sections, and I understand that there is a delegation here which wishes to present the views of the United Farmers of Canada—some views as to the sections. I suggested recently that a representative of the shareholders' auditors be called on the questions connected with duties of auditors. I suggest that Friday we have Mr. Clarkson, who is the shareholders' auditor of one of the banks, before us. That is what I suggest we do. I cannot control this committee at all—

Mr. McGEER: It was not intended that you should control it, Mr. Minister; this is a free committee.

The CHAIRMAN: Mr. McGeer, will you please not interrupt; that is interference.

Hon. Mr. ILSLEY: Now, Mr. McGeer I am not going to answer in the same tone that you use at all. No one suggested that I wanted to control the committee.

Mr. McGEER: I do not think you are even a member of the committee.

Hon. Mr. ILSLEY: No one said I intended to control the committee. I am not even a member of the committee.

Mr. McGEER: I know you are not.

Hon. Mr. ILSLEY: It has been suggested that the minister should take some lead—

Mr. McGEER: But not to control.

The CHAIRMAN: Please, Mr. McGeer; will you please not interrupt.

Mr. McGEER: So sorry, Mr. Chairman.

Hon. Mr. ILSLEY: I do not enjoy having remarks like that made to me. I do not enjoy an accusation with an implication any more than anybody else, and I am not going to pay any attention to you, Mr. McGeer, with regard to things like that.

Mr. McGEER: Mr. Chairman—

The CHAIRMAN: Mr. McGeer has the floor for the next half hour. Now, Mr. Jaques, let Mr. McGeer continue his questions.

Mr. JAQUES: Mr. Chairman, it was agreed by you that I should be allowed to ask some questions of Mr. Towers. I had three minutes, and then Mr. Towers left.

The CHAIRMAN: Mr. Jaques, we must disagree, because I did not agree at that time.

Mr. BLACKMORE: You should have done.

The CHAIRMAN: Maybe I should have done. Now, can we allow Mr. McGeer to go on?

Mr. JAQUES: Certainly, but when Mr. McGeer is finished—I do not care whether it is to-day or to-morrow—

The CHAIRMAN: To-morrow we have a meeting with the United Farmers of Canada, Saskatchewan division.

Mr. JAQUES: I am not suggesting that Mr. McGeer should finish. All I say is that when he has finished I have a few questions I would like to ask Dr. Clark. I think that is a very reasonable request.

The CHAIRMAN: Now, Mr. Jaques, at this time I agree. Mr. McGeer, will you proceed?

Mr. McGEER: Mr. Chairman, before I proceed, in view of some of the remarks that have been made I want to draw attention to certain facts. This committee is appointed as a decennial committee to review each ten years the monetary policies on the banking system of the nation. Let me say at once to the chairman of this committee and to the minister that I challenge them to go upon the floor of parliament to get authority to close this committee up. I know that the Prime Minister will not agree to it.

The CHAIRMAN: There is no necessity for speaking in that tone of voice, Mr. McGeer.

Mr. McGEER: Very well, but I want you to understand what I say.

The CHAIRMAN: I understand you. We understand also that this is a decennial review of the bank charters.

Mr. McGEER: Now, let me say, Mr. Chairman, that I want to call as a witness as to what the work of this committee should be, the president of the Dominion Bank of Canada; and this is the view of the work of this committee that he has presented to the shareholders of that bank. He says:

> A bank charter is issued under a special Act of parliament. The Bank Act of parliament. The Bank Act sets out the conditions under which the bank may conduct its business. The government, from time to time, may amend or alter the operations of the banks, so as to better conform to the then current requirements. Every ten years the government appoints a parliamentary committee to make a careful and extensive study of banks and the banking system; amendments, where required, are recommended and usually enacted. These amendments and intervening legislation are incorporated in the revision of the Bank Act. Such procedure is sound.

That is the procedure I believe we are following. Now, the Governor of the Bank of Canada has agreed that conditions in the past have been bad, and he has agreed with me that the great work of this committee is to secure some type of remedy that will prevent a repetition of these bad conditions. Dr. Clark agreed with me this morning that we are seeking together as members of the government and members of this committee some form of preventative legislation which will prevent the recurrence of conditions from which far too many of our people in Canada have suffered.

Mr. BLACKMORE: Good for Dr. Clark.

Mr. McGEER: I am told because I pursue what I believe is a line of investigation that might disclose a remedy that I am taking up too much time. I want to tell you, Mr. Chairman, that to find that solution no investment of time is too great.

The CHAIRMAN: May I suggest that you tell the committee firstly what you propose?

Mr. McGEER: What I do propose is: (1) a change in the directorate of our Canadian chartered banks; (2) I propose to change the system of indirect controls. Now they are inefficiently operated and ineffective; (3) I propose that the public finance of the nation should be segregated from the private finance and that all public financing of federal, provincial and municipal government should be carried on through the national Bank of Canada; (4) I propose that the right to issue a substitute for Canadian money, now enjoyed by our chartered banks, shall be denied, and that we shall have provided through the Bank of Canada under proper control, in addition to their own capital and the deposits of their depositors which they have on hand, the means of financing the private enterprises of the nation. I propose further that in the new economy which is inevitable in the post war period that more adequate facilities shall be established for the financing of Canadian natural resources development. I think the time has come when we do not have to go either to lenders abroad or investors abroad to find the capital to develop the vast resources of this nation.

I believe further that we must come at once to a time when we can finance that vast section of our population that can no longer find gainful employment in producing and distributing consumers' goods. Those are some of the proposals that I believe the evidence we will develop will support.

Now, Mr. Chairman, the first thing referred to this committee was the Bank of Canada report.

Hon. Mr. ILSLEY: We are not on that.

Mr. MCGEER: We are on that; because it is inevitably involved in what we will decide in the way of amendments to the present Act.

To say to us as a committee that the principle of this bill has been determined in parliament simply because the bill has been read a second time, and that this committee cannot review or recommend qualifying amendments—

Mr. KINLEY: We have had two amendments.

Mr. MCGEER: One on the nationalization of the banking system—

Mr. KINLEY: There was another one by my friend here.

Mr. MCGEER: My friend knows that both of those votes were votes of want of confidence; they were not votes on the principles involved at all.

Mr. Chairman, if the interference has abated—as I think it has, and which has cost this committee more than three-quarters of an hour—I would like to proceed.

The CHAIRMAN: I suggested a long while ago that you should proceed.

Mr. KINLEY: I object to being bulldozed.

Mr. MCGEER: The Chairman is too good a lawyer to know that even in this court—

The CHAIRMAN: This is not a court, and I do not practice law.

Mr. MCGEER: When men are challenged as I have been challenged I have at least the right to reply, even though the minister thinks I am unworthy of attention.

The CHAIRMAN: Mr. McGeer—

Hon. Mr. ILSLEY: You are unworthy of attention when you accuse me of trying to control the committee; it is when you make remarks like that that you are unworthy.

Mr. MCGEER: I say to the minister that he took me up too quickly in regard to control of the committee. I said it never was intended that you should; and I think you will agree with that, won't you. Was it intended you should?

Mr. COLDWELL: The first of the new proposals announced by Mr. McGeer was that the directorates of the chartered banks should be changed. What I want to know is how he proposes to change them, and who the new directors would represent if they were changed.

Mr. MACDONALD *(Brantford City):* Before that question is answered may I raise a point of order? If we are going to consider this bill it comes under one of the sections in the bill, and that question should be discussed when we are considering that section.

Mr. MCGEER: We have the right to have the evidence before us.

Hon. Mr. HANSON: May I suggest you take the voice of the committee as to what we shall do? I should like to see this thing come to a climax and the committee decide itself on its own procedure. This committee can control its own procedure. We have not had a chance to vote on it.

Mr. MCGEER: But not closure.

The CHAIRMAN: I suggest that Mr. McGeer be allowed to continue on until 1 o'clock.

Mr. MCGEER: Leave the 1 o'clock out of it.

Mr. KINLEY: And at the next meeting we go on with the bill?

The CHAIRMAN: At the next meeting we are going to hear from the United Farmers of Canada, Saskatchewan division.

Mr. KINLEY: It is not the intention that we will go on this way through?

Hon. Mr. HANSON: It will never come to an end this way.

The CHAIRMAN: I should like Mr. McGeer to continue.

Mr. BLACKMORE: Oh yes, it will.

Hon. Mr. HANSON: We will stay here all summer and accomplish nothing.

Mr. JAQUES: You will be lucky you do not come to an end.

Mr. MCGEER: You do not need to worry about being here much longer. The people will deal with that the first chance they get.

By Mr. McGeer:

Q. Dr. Clark, before this delightful little interlude took place we had come to the situation that exists to-day where with an enormous volume of money in circulation in wartime, at least, we have found the means to prevent uncontrollable inflation? A.—So far we have.

Q. And the last question we asked you was this, up until the present time in Canada we have not found any condition which indicated an inflation that was uncontrollable?—A. I think I expressed disagreement with that. I think we had an uncontrollable inflation at the end of the last war, inflation that got out of control.

Q. And automatically collapsed?—A. Yes, and to a degree throughout the world, or a very substantial sector of the world. In 1928 and 1929 also you had a measure of inflation that got out of hand.

Mr. MACDONALD (*Brantford City*): To my recollection that question has been asked at least five times before.

Mr. BLACKMORE: Not of Dr. Clark, though.

Mr. MCGEER: When the interference is over I will proceed.

The CHAIRMAN: It seems to me you have interfered with your own question.

Mr. MCGEER: As I say, when the interference is over I will proceed.

Mr. KINLEY: This reminds me of the Bren gun inquiry.

Mr. MCGEER: There was nobody got a bigger reception in parliament than I got for the work I did on the Bren gun.

The CHAIRMAN: Please do not talk about your receptions. Go on, please.

Mr. MCGEER: I knew you would not like that very much, Mr. Chairman.

Hon. Mr. HANSON: He is just making a show of this committee.

Mr. BLACKMORE: You brought it on.

Mr. TUCKER: I object to Mr. Hanson suggesting that a show is being made of this committee. I think he should be made to withdraw that remark. I think it is entirely out of place for a man of his standing in the Conservative party to suggest that a show is being made of this committee. I do not think he should be permitted to make that statement and I ask that he withdraw it.

Mr. McGEER: He has the majority of the Liberals of the committee backing him in it.

Mr. KINLEY: I object to that.

The CHAIRMAN: Go on, Mr. McGeer.

Mr. TUCKER: I think Mr. Hanson should withdraw that remark because I do not think that a show is being made of this committee.

Hon. Mr. HANSON: That is a matter of opinion, and I am not withdrawing anything.

Mr. TUCKER: There, Mr. Chairman, Mr. Hanson says he is not withdrawing anything. He is ready to defy the committee.

By Mr. McGeer:

Q. Now, Dr. Clark, I want to go—

Mr. TUCKER: If the Conservatives—

The CHAIRMAN: Order, Mr. Tucker, please.

By Mr. McGeer:

Q. I want to go to the other side of public finance. Closely related with our issue of money is our increase of public debt. You will agree with that, will you not?—A. Yes.

Q. Now, you will agree with the proposition that there is a danger to the national economy in the issue of too great a supply of money. That is a danger?—A. Yes.

Q. Will you agree with me also that there is a danger to the national economy in the issue of too large debt?—A. I think that the issue of debt in too large or very large proportions does create difficult problems of management. If the debt is held within the country I do not think those problems of management are insuperable at all, but I do think that there are problems of management involved which require very careful handling.

Q. Do you recall what our debt load was in 1914?—A. Oh, it was of the order of $300,000,000 to $400,000,000.

Q. Let us put it at $500,000,000 so there will be no dispute about that. What was it in 1920?—A. Around two billions of dollars.

Q. And in 1930?—A. 1930—I have forgotten that figure; it was probably a billion and a half, a billion six or something of that order. I have not got the figure here. I think it would be somewhat under 2 billion dollars.

Q. I take the figure roughly at 2 billion dollars. What was it in 1936?—A. Probably a little over 2 billion dollars.

Q. Around about $2,500,000,000, was it not?—Are you speaking of the gross debt?

Q. I am talking about the net debt.—A. In 1936 the net debt was $3,006,000,000.

Q. Would you just put the figures on the record of the net debt from that same table? What was 1914?—A. 1914, the net debt was $335,996,000.

Q. 1920 after six years?—A. $2,249,000,000, roughly.

Q. 1930?—A. 1930, $2,178,000,000.

Q. That shows a slight drop in the national debt from 1920 to 1930?—A. That is correct.

Q. So we in Canada were following a similar policy to that of the United States, decreasing national debts with balanced budgets?

Mr. CLEAVER: The big year was 1923—

Mr. McGEER: Let me get this on the record.

Hon. Mr. HANSON: Just before you leave that would you ask him if the indirect debt of the country had not increased?

The WITNESS: The indirect debt had increased.

Hon. Mr. HANSON: Very largely, by government guarantees.

Mr. McGEER: We are dealing with the net debt now for my purposes in this examination.

By Mr. McGeer:

Q. What did you say the net debt was in 1930?—A. $2,178,000,000.

Q. 1936?—A. $3,006,000,000.

Q. That is an increase of $500,000,000 in those four years?—A. That is right.

Q. 1939?—A. 1939, $3,153,000,000.

Q. What was it in 1936 again?—A. 1936 was $3,006,000,000, roughly three billion dollars.

Q. And in 1939?—A. In 1939 it was $3,153,000,000.

Q. 1944?—A. 1944—that figure is not here, but my recollection is—

Mr. MACDONALD *(Brantford City):* Here is the figure. It was given in the house on March 31, 1944, gross unmatured funded debt. If I may read this—

Mr. McGEER: We are asking for the net debt. May I get this net debt and then he can come in?

Mr. MACDONALD *(Brantford City):* The net debt—

Mr. McGEER: May I say, Mr. Chairman, that I do not give way to Mr. Macdonald.

The CHAIRMAN: Mr. Macdonald is giving you the answer.

Mr. McGEER: No. I do not want the answer from Mr. Macdonald and I am not giving the floor away to him.

The CHAIRMAN: Mr. Macdonald, will you please hand your publication to the deputy minister?

Mr. MACDONALD *(Brantford City):* Yes.

The WITNESS: Thank you.

Mr. McGEER: Now, Dr. Clark, without paying any attention to that, will you tell me the net debt?

Mr. MACDONALD *(Brantford City):* I think he shoud be allowed to answer.

By Mr. McGeer:

Q. Will you tell me what the net debt was in 1944?—A. At March 31, 1944, the net debt was $8,842,000,000.

Q. What will be the increase during the coming year? Will it be $3,250,000,000?—A. It is very difficult to say what the increase in the net debt will be. It may be of the order of two and a half billion dollars.

Q. Which would make our total debt at the end of the present year what?—A. The total net debt, $11,300,000,000 or thereabouts.

By Mr. Macdonald (Brantford City):

Q. May I have my document back now?—A. Yes. And thank you very much.

Mr. KINLEY: You had better get a table between those fellows.

Mr. McNEVIN: Better get a ring.

By Mr. McGeer:

Q. As Deputy Minister of Finance, Dr. Clark, what do you say the outlook for the closing years of the war and the post-war period immediately following will be with regard to revenues and national expenditures?—A. Well, taking first to the end of the war: national expenditures and national revenues will be much of the order that they are at the present time, I would presume.

Q. They will continue at the present rate?—A. Roughly at the present rate, I should think. If the German war should end before the Japanese war, there may possibly be some decline.

Q. Yes, possibly some. But if they follow the course that they followed during the last war, they will increase substantially, will they not?—A. Well, the year after the end of the last war there was a substantial increase.

Q. That is, we found after the last war that the cost of rehabilitation, the cost of demobilization and the cost of adjustments from war to peace were even greater than the cost of prosecuting the war?—A. Well, the figures were higher at the end of the war, just after the end of the war than they had been during the war.

Q. Well, I mean your answer to my question is " Yes," is it not?—A. I am not saying or implying any reason for that.

Q. I say if it follows the same course—

Mr. MACDONALD (*Brantford City*): That is the net cost after taxation.

The WITNESS: Prices were rising very rapidly.

By Mr. McGeer:

Q. How are we going to finance that situation?—A. I think we would have no difficulty in financing it.

Q. I said "how?" I did not say whether we would have difficulty or not. —A. Well, are you talking to the end of the war or after that?

Q. I am talking of the closing years of the war and the years immediately following, which we would call the demobilization years.

Hon. Mr. HANSON: Both.

By Mr. McGeer:

Q. I understand it is estimated that it will take about three years to demobilize after this war?—A. Well, I think that is possibly a bit long, but I do not think anybody can tell yet.

Q. No.—A. I would think that the present methods of financing the war would continue until the end of the war. In the period immediately following the war, in the post-war period, the demobilization period as you call it, there might conceivably be a difference between the relative amounts raised by taxation and borrowing as compared with the war period.

Q. What do you mean by that? Do you mean there would be less borrowing?—A. No. There might perhaps be more borrowing, relative to the total.

Q. What you suggest is that there would be a decline in revenues or taxation and an increase in the borrowing of the government?—A. That is conceivable.

Q. That is conceivable?—A. Yes.

Q. Is that the proposal?—A. I am not making any proposals.

Q. I mean, you are the Deputy Minister of Finance whom we are depending upon for advice.—A. Yes. But I do not make policies.

Mr. BLACKMORE: Who does?

By Hon. Mr. Hanson:

Q. May I ask this question? What you are suggesting is that the present policy with a difference in quantum will be followed. That is your suggestion?—A. That is right.

By Mr. McGeer:

Q. We can look forward to an increase in our public debt at the rate of at least of two and a half billion dollars a year, and possibly more, over the closing years of the war and the year of demobiliziation?—A. No. I would not necessarily say that at all.

Q. All right. What I want to know from you is this. There is the situation we have to finance. What is that situation estimated to be and how is it going to be financed?

Mr. KINLEY: That is for the government to say.

The WITNESS: I think it would be very difficult for anybody at this stage to forecast what the costs of war and demobilization are going to be, what the total costs of the government program in the immediate post-war period are going to be. It would, I think, be impossible at this stage to make a forecast.

By Mr. McGeer:

Q. All right. Your answer then, in the face of that statement, is, "I do not know."—A. No. I do not think anybody knows.

Hon. Mr. HANSON: What he has asked you is how you are going to finance it.

The WITNESS: Yes.

Mr. MCGEER: He says, "I do not know."

The WITNESS: I answered that.

By Hon. Mr. Hanson:

Q. You did not answer that fully.—A. How we are going to finance it?

Q. Yes.—A. Well, I said presumably the same methods would be continued.

Q. That is right.—A. Probably with some difference in the ratio between the use of taxation and the use of borrowing.

Hon. Mr. HANSON: That is his answer.

By Mr. McGeer:

Q. In other words, your answer was that taxation will decline, reducing the revenue from that source, and expenditures will continue?—A. No. I did not say that expenditures would continue at the present level, Mr. McGeer. I said nobody could say.

Q. You said you did not know as to that. But I put this to you: if this mobilization period follows the same course as it followed after the last war, in 1920, costs will go up?—A. I hope it will not follow the same course as after the last war, because what you had at the end of the last war was the cumulative effect of the inflationary process that had been going on, with prices rising to twice the heights of the pre-war period, causing a very substantial part of this very high or increased rate of expenditure that you speak of after the close of the war.

Q. Yes. Did you not find this condition after the last war. You had no income tax until 1919?—A. 1917, I think it started. It was very low.

Q. Is was very small?—A. Very low.

Q. You had an enormous accumulation of profits in the last war in practically all of the war industries of the country, and you had enormous expansion of private enterprise. You have not the opportunity for that to the same extent in this war because your taxation policies have prevented that accumulation?—A. I think the expansion of private enterprise has been very substantially greater in this war than in the last war.

Q. Not of the accumulated profits to provide for expansion in the post-war period?—A. Oh, no. That is quite so.

Q. That is what I am dealing with. You have an enormous expansion of capital investment, but you have not got the accumulation of profits in this war because you have taken them away by taxation?—A. Yes, but they lost them after the end of the last war. Business firms had had this tremendous accumulation of profits that you speak of and lost them when the collapse in prices came.

Q. They did not lose them because you had an enormous expansion of industry from 1920 to 1930 across Canada?—A. Oh, no. You had a very substantial decline beginning in the spring of 1920 and going on into 1921, and then you had a period of stagnation in business in Canada in 1922, 1923, 1924, 1925.

Q. I think if you will check the figures you will find that our industrial production increased by almost three times?—A. Very slightly. I think what I have said is absolutely correct, that the decline in 1920 and 1921 was quite substantial. I think if we follow three or four years we have a period of practical stagnation, or stability, at a low level.

Q. Tell me, how far can you go with deficit financing, and how high can you raise the level of the internal debt, interest bearing public debt of Canada, without bringing about a collapse from debt?—A. Well, I do not think there is any specific or objective answer I can give to that question, Mr. McGeer. I think we can go a long way further provided the debt is being created for purposes for which the public approve.

Mr. Blackmore: The interest has to be paid.

Mr. Tucker: It depends upon who holds the debt.

The Witness: Yes, that is another important point.

By Mr. McGeer:

Q. I want to continue this examination at some later date, but I would ask you, Dr. Clark, to look over the budget statements of the Minister of Finance up until 1939 and ascertain if the problem was not, first, to balance the budget, and secondly, to reduce expenditure, and thirdly, to overcome the problem of uncontrollable obligations?—A. The budget was never balanced after 1930, Mr. McGeer—never balanced.

Q. But it was balanced from 1920 to 1929, and we hit disaster; is that right?

Hon. Mr. Hanson: I do not agree with that.

Mr. McGeer: That does not seem to be much of a recommendation for balanced budgets. I think you will agree with me we cannot go on pyramiding the debt, the interest bearing debt of the people of Canada indefinitely?

The Witness: Not indefinitely.

Hon. Mr. Hanson: I would like to ask Dr. Clark some questions.

With regard to the carrying of this public debt, is not the vital factor the temper of the people?

The Witness: Absolutely, I have tried to indicate that several times.

Mr. McGeer: The temper of the people is getting pretty hot.

—The committee adjourned to meet Wednesday, July 5th at 11 o'clock.

July 5, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Tucker has asked for the floor.

Mr. TUCKER: Mr. Chairman, I have pleasure this morning in introducing two representatives of the United Farmers of Canada, Saskatchewan section, in the persons of their president, Mr. Frank Appleby and the head of their publicity and research department, Mr. George Bickerton. The United Farmers of Canada is the only organized farmers' group in Saskatchewan at the present time outside of the co-operatives. It was first organized in 1901 as the Territorial Grain Growers, with the late Honourable Mr. Motherwell as its first president. It has continued under different names right up to the present time. Mr. Appleby who is now the president, was director for four years and vice-president for one year. He is a third-generation Canadian on both sides, and has farmed out west for thirty-three years. He is actually farming 1,760 acres at the present time with the help of a physically unfit son, the other son being in the army overseas. Mr. Bickerton was president of the United Farmers of Canada for three years and, as I have already stated, is head of their publicity and research department. I understand that Mr. Appleby wishes to speak shortly first, and then Mr. Bickerton will present the brief.

The CHAIRMAN: Will you please come forward to the table, gentlemen? We have already published the memorandum which you sent to the committee. It is to be found at page 337 of our record. I understand that you wish to make some comments, and that is your privilege.

Mr. FRANK T. APPLEBY: Mr. Chairman, Mr. Tucker and members of the committee, I am rather pleased that we have had the consideration of being allowed to come down and present our views before you here this morning as representing the United Farmers of Canada, Saskatchewan Section, a very large and fairly well organized body of which I happen to be the head at the present time. I believe we can anticipate having a very fair hearing here because we are absolutely non-political in that we have members of every group that we have in Saskatchewan in our paid-up membership. Therefore we have the views of all our own people. Our brief may not be just as long as you might have expected; in fact, it would have been a little longer only we prepared this brief in May. That was before the argument which took place here. Therefore we have no comment in our brief whatever on that, since it was prepared before that time.

As I have stated, we are non-political. Our brief is there. I will not say very much at the present time, but I just want to remark that we have with us Mr. Bickerton, who is head of our publicity and research department at the present time. He has also served as past president of the organization, and for a number of years was on the War Services Board. I would now ask Mr. Bickerton to take up our brief.

Mr. CLEAVER: What is your membership?

Mr. APPLEBY: Our membership is 32,000, approximately, at the present time.

Hon. Mr. HANSON: Out of how many farmers in Saskatchewan?

Mr. BICKERTON: 142,000.

Mr. APPLEBY: I believe the number was 142,000 at one time, but I think it is listed as 133,000 at the present time.

Mr. CLEAVER: You have 32,000 out of 133,000?

Mr. APPLEBY: That is right.

Mr. COLDWELL: That is a good membership for any organization.

The CHAIRMAN: All right, Mr. Bickerton.

Mr. GEORGE R. BICKERTON, United Farmers of Canada, Saskatchewan Section, called.

The WITNESS: This brief has been entered in the proceedings of the committee, and I am not going to read every detail of it. May I just say at the beginning that, in entering into this brief, we are pretty abrupt by stating that we believe that when the Dominion Government first gave the charters to the chartered banks of Canada, they turned over what we considered was their responsibility to a group of private individuals. As a policy, almost since the inception of the organization, we have considered that the operation and function of money, or whatever is called money, whether it is credit or tokens or anything else, is a medium whereby the people, all of the people, would use whatever was known as money for the purpose of exchanging goods for goods or goods for services; and as such it has no right as a public utility to have ever been turned over to the operation of private enterprise. Some people do not agree with us on that. But do you mind if we continue to say that while we live in a democracy, we will still continue to insist that the mistake that was made in 1871, I think was the year, and repeated six times afterwards, endorsed by subsequent governments, continued to be a mistake. We say that, now that the banks' charters are up for decennial revision, the mistakes that were made in the past should be rectified; provision should be made now to correct those mistakes at this time.

There are a few things that I want to go over as to how bank operation in this country has affected the people that we are mainly interested in, and I will come to that. I have a few copies here. We say:—

> Dealing with the problems that have from time to time confronted farmers in the prairie provinces: In the early stage of agricultural development it required that a considerable amount of credit be made available for that purpose, and as there was no other sources from where such credit could be secured, than that of the chartered banks, farmers had no other recourse than to secure credit from that source at rates of interest far in excess of that which the law of the country allowed them to charge.

Hon. Mr. HANSON: That is a very important statement.

The WITNESS: I want you to remember that. Continuing:—

> These excessive charges imposed for the use of bank credit and also for farm machinery and other necessary materials which in those pioneer years ranged from eight to twelve per cent and higher in some cases, soon forced the early settlers to recognize the handicaps under which they were operating, and as a result a farmers' organization was formed in Saskatchewan, with the late Honourable W. Motherwell as the first president. Those farmers hoped that by organized effort, many of their difficulties could be overcome in an intelligent and orderly manner.
>
> They proceeded to make inquiries into various matters then affecting their industry, such as credits, interest charges, freight costs, marketing, custom duties, etc., all of which in reality affect their operations as farmers.
>
> As they arrived at their conclusions, after study and due deliberation, they would from time to time make representations to the government but our records show that very little consideration in those early years was

ever given to the many proposals for changes which would have made it possible for agriculture to obtain legitimate credit requirements at a reasonable rate of interest and suitable terms of repayment.

By Mr. Coldwell:

Q. May I ask a question? Do I see that Mr. Bickerton has copies of that brief?—A. Yes.

Q. I wonder if we might have them distributed.

Hon. Mr. HANSON: It is all in number 11, page 338.

The CHAIRMAN: Are you reading this brief? I understood you were going to make comments on it.

The WITNESS: I want to go over it.

The CHAIRMAN: We do not want it reprinted again.

Mr. MCGEER: Let the delegation proceed.

The CHAIRMAN: Mr. McGeer, please do not interrupt. I think we have read it but I am speaking now about reprinting it. I doubt if we should go to the expense of reprinting it again.

Mr. COLDWELL: Is that the same brief?

The CHAIRMAN: This is the same brief we have already printed. I understood you were going to comment on it because we have printed it, we have studied it, and it seems to me unnecessary to take up the time of the committee in re-reading the brief, but if you have something to add we will be glad to hear it.

Mr. COLDWELL: Could the witness not proceed in his own way? He probably wants to read the brief and make some comments on it. I think he should read the brief and comment on it as he goes along.

The CHAIRMAN: You would not ask it should be reprinted?

Mr. COLDWELL: Just a moment; the comments will not be intelligible unless the brief appears with the comments.

The CHAIRMAN: If it is Mr. Bickerton's desire to comment that is all right.

Mr. MCGEER: He has been commenting.

The CHAIRMAN: Please, Mr. McGeer; if it is your desire, Mr. Bickerton, to comment on it that is one thing, and I think that is your privilege, but simply to re-read it and have it reprinted I think is a waste of time.

Mr. MCGEER: We do not think it is a waste of time.

Mr. TUCKER: Mr. Chairman, I suggest there is no necessity of having it reprinted, but I do suggest that what evidence this witness gives, whether it is reading from his brief or comments he makes, should be taken down. I suggest that after all the time we have spent studying this and are going to spend surely this witness should be able to give his evidence in his own way this morning without any interference on the part of anyone whatsoever. I suggest that should be the attitude towards this farmers' organization.

The CHAIRMAN: Mr. Tucker, I quite agree with your comment.

Mr. MCGEER: Mr. Chairman, I should like to disassociate myself as a member of the committee from the remarks of the chairman that any manner in which the farmers might present their evidence to this committee could be a waste of time.

The CHAIRMAN: Mr. McGeer, I am simply protesting against reprinting something that is already on our records. I agree with Mr. Tucker's statement. Proceed, Mr. Bickerton.

The WITNESS: Mr. Chairman, I hope you will not think that I want to presume to advise or dictate, or even consider that I want to say anything about parliamentary procedure. I hope you will just look upon me as an ordinary hick farmer who came down from the province of Saskatchewan.

The CHAIRMAN: Farmers are not hicks in my part of the country.

The WITNESS: That is what we call ourselves, anyway.

Hon. Mr. HANSON: That is an under-estimation.

The WITNESS: But we like to present a thing in the manner we like to present it.

The farmers then proceeded to make inquiries into various matters then affecting their industry, such as credits, interest charges, freight costs, marketing, customs duties, and so on. I mentioned that before.

As they arrived at their conclusions, after study and due deliberation, they would from time to time make representations to the government to try and get the use of credit at reasonable rates of interest and on reasonable terms of repayment. That is what they were trying to get.

"As early as 1908 our annual convention presented the following resolution to the federal and provincial governments." I want to bring this point out because it is fundamental, and I want to show we had a problem as far back as 1908. The resolution that we presented at that particular time was:

> That great loss and inconvenience to farmers having been occasioned through the banks refusing advances on stored wheat and bills of lading, the government be urged to devise some remedy.

Now, keep in mind all the time what we were trying to get. Then we cite a case here to illustrate the point, that despite the fact we may have ever so much security on many many occasions we could get no credit whatever. We cite this case.

By Hon. Mr. Hanson:

Q. Mr. Bickerton, are you suggesting that no bank would lend a shipper on a proper bill of lading for wheat?—A. We are not suggesting; we are telling.

Q. I see. You are telling us that in 1908 your convention presented a resolution in which you say among other things that great loss has been occasioned through banks refusing advances on bills of lading. I never heard of such a thing. Can you prove that statement?—A. There is a statement right underneath there. "A farmer near Saskatoon had wheat in the elevator which could not be moved out on account of car shortage. The wheat had a market value of $900. The farmer in question was being pressed by a mortgage company for a due payment of $300. This wheat was in the elevator. He endeavoured to secure that amount from the local banks. This particular man went to four different banks in the city of Saskatoon and they all told him the same thing, 'I am sorry, but we cannot advance you the $300 credit you want until the wheat is on track'."

Mr. CLEAVER: Until he had a bill of lading.

By Hon. Mr. Hanson:

Q. He could not get a bill of lading?—A. He could not get a bill of lading.

Q. Then, the statement in your resolution is not technically correct?—A. The resolution is technically correct.

Q. As applied to that case?—A. We can bring proof to show bills of lading had been presented.

Q. Just confine yourself to my question. You make an allegation in this resolution that you could not get credit on a bill of lading. Then you illustrate that by a case where a man could not get a bill of lading and was refused credit because he could not load the stuff?—A. Just a minute; we also say—

Q. Just confine yourself to that question. Is that not an improper statement?—A. No.

Q. All right.—A. We illustrate one point of the resolution, and that one point of the resolution was refusing to advance credit on stored wheat. This was the stored wheat illustration.

Q. And bills of lading.—A. "In 1910 we urged upon the federal government that steps be taken to have the banking laws so revised as to enable the farmers to develop the country by securing credits at reasonable rates of interest and on longer terms of repayment. As no action was taken by the federal government upon that resolution farmers began to see the futility of negotiating with the federal government.

In 1913 a resolution was presented demanding:—

> That the provincial government should, without further delay, formulate a scheme whereby a farmer may obtain from the security of his land, money at a lower rate of interest than is now charged by the existing financial institutions.

As a result of that resolution and continued pressure, the provincial government in that year, 1913, appointed a royal commission of inquiry into agricultural credits. The commission held sittings in Canada and proceeded on their inquiry to the United States and many European countries.

Their report was filed with the Saskatchewan government on October 13, 1913, and we recommend that report for perusal by your committee, because it showed that even at that time agriculture was in a precarious position, largely through an unjust and expensive banking and credit system.

On page 65 of the report it states that:—

> All thoughtful citizens will regard the present situation as calling for serious attention,

and on page 216 we find that in the opinion of the commission,

> present banking system is inadequate.

And, incidentally, the Minister of Finance, the Hon. Mr. Dunning, was on that commission.

Hon. Mr. HANSON: He was afterwards Minister of Finance in the Federal government.

The WITNESS: Yes, Minister of Finance in the dominion government. I will skip the next paragraph.

> In spite of continued refusals by governments to take action necessary to meet our just requirements, we nevertheless continued with the task to secure credits at lower interest rates. We recommended amendments to the Bank Act whenever same was before parliament for revision. In this effort we were ably supported by farm organizations in other provinces. We have repeatedly requested that the Act be amended and necessary legislation be enacted which would make possible that municipalities and provinces obtain credit at cost by placing securities with the Dominion Finance Department....

I suppose we could include there "or the Bank of Canada".

> ...and had requested that the Bank Act should provide a penalty when banks charge more than the interest rate established by law and contained in the Bank Act.

> The justice of the need for such penalty action is well proven by a district court judgment given by Judge McLorg in the case of the Royal Bank *vs.* Pete Perapalkin, *et al* of 1924 which is recorded in the Saskatchewan Judicial District as No. 528.

We have a copy of the judgment that was given by Judge McLorg, and you can read that, but it simply cites the case of where the bank had charged 2 per cent higher than the rate of interest allowed by the Act. In consequence, when they had the matter before the judge he not only decided that the bank had violated its position under the Act but he said that the defendant was entitled to costs on the application.

> While it can be seen from the above that there is recourse at law in such matters, it is nevertheless well known that court proceedings are costly and generally beyond the pale of the average farmer. It is, of course, well known that until recent years farm machinery companies charged eight per cent on current credit debt and nine and ten per cent on overdue accounts; mortgage companies, eight and nine per cent on first mortgage on farm property with one or two per cent interest rise on renewal after five years.
>
> However, in the cases of these companies there was no recourse at law, as was the case with banks. Those years were simply good hunting for private enterprise and open seasons on the western farmers. It must stand out in history as the eighth wonder of the world that western agriculture survived the exploitation of those days of rugged individualism.
>
> It would be interesting to search the bank records to find the entire amount of illegal interest exacted from borrowers of credit. It is our opinion that the government owes such search of records to the public and the amount involved in such discovery should be returned to the rightful owners.

We have learned that there has been a lot of discussion with regard to hidden reserves. I do not know about that, but I do know that we paid this.

Gentlemen, I was at a picnic just one week ago to-day. I think there were possibly 400 people attending that picnic, listening to me, along with a lot more. I asked if there was any man there who had had the use of credit from the chartered banks from the years that they started in as homesteaders—there might have been different years; some may have started in 1906 and others in 1910—but up to, say, 1930—I asked was there anybody there who had borrowed credit from the banks at 7 per cent interest, and there was only one man who raised his hand—one man out of about 500. I know that I carried on banking transactions—

By Mr. McIlraith:

Q. You say there was one out of 500 who borrowed at 7 per cent, but there is no evidence that the other 499 had borrowed at all? A. No, there wasn't any evidence.

Q. There would be some who had not borrowed at all, would there not—some of the 500? A. You do not know western agriculture.

Q. I assume that there were some women in the 500 whose husbands had done the borrowing.—A. There may have been half a dozen women there, but in a general way women are not sitting around at a picnic and listening to the speakers.

By Hon. Mr. Hanson:

Q. Is the inference that that was a low rate or a high rate? A. Was it a low rate or a high rate?

Q. Had these others paid more than that, or what? A. The usual rate of interest of banks was 8 per cent.

Q. What you are suggesting is that he was the only man who ever got below that? A. He was the only man who said he had secured interest at that rate. How many of the other 499 there were, is another matter. I said there was a crowd of about 500 listening to me. There might have been twenty-five women or six women. I did not count the women. But whatever the number was all but one did not raise their hands. Now, let us suppose there were 350 men there, your guess is as good as mine; but I know western agriculture and Mr. Graham does also, and I would just make a wild guess and say that 80 per cent at least—and I think I am right—of the other farmers that were there had at some time borrowed credit from the bank, and I believe I am conservative in saying that.

Q. What I am interested in finding out is as to this number. One out of 500 is a loose statement. I wanted to know how many were borrowing and what rates they were paying. When you say 80 per cent that is more helpful.—A. I am suggesting this that even at this late date I consider that the government of this country owes it as a duty to the people of the country to search back into the records. I cite one case here. There may have been many cases. I think there was one man that went as far as the privy council in citing the case as against excessive rates of interest charges. You have better access to the records than I have. I am saying that I believe there was such a case. Mr. Blackmore could possibly find it out because this man was an Alberta rancher.

Hon. Mr. HANSON: What is the position today? What rate of interest is charged the farmers?

The WITNESS: Seven per cent.

By Mr. Coldwell:

Q. How is that 7 per cent charged? Is it on a per annum basis?—A. Oh, no, no.

Q. Or for a short term, and then renewed and a charge of 7 per cent compounded, or how is it done? Explain that to the committee?—A. No. If you go to any banker he will tell you, and rightly so, that he does not compound interest; but what happens is this: a farmer goes to the bank. I am just taking an ordinary transaction. Any of the western men sitting in this room will understand it. He goes to the bank to get a line of credit. It does not matter how much the amount is. He goes to the bank to get a line of credit, and it is usually around the middle of March. He gets a line of credit for whatever the amount is, $1,000 say. He signs a note for three months, but the banker knows full well that it is beyond the realm of possibility that the note will be paid then, except possibly in the case of a dairy farmer or some one who has a mixed farm and who may have revenue coming in at different times of the year. But gentlemen, I want you to understand that in the province I come from, the average size of the farm in Saskatchewan is 433 acres. They farm in a large way and it is largely wheat production or grain production. Whatever credit they borrow, it is almost impossible to pay that back until possibly the last of October or the beginning of November when the crop is sold. Yet despite that, a man comes into the bank and gets a line of credit for $1,000 or whatever the amount is, and he signs a note for three months. The banker knows full well that he is not going to get it back until the fall. The farmer is called in again at the end of three months and the note is renewed. He cannot pay and the unpaid interest that is accumulated is put on top of the principal, and he then has a new note written up as of that date, and he goes on for another three months. He may sign that note twice after originally

[Mr. G. R. Bickerton.]

signing the first one. While the banker, in making the statement as a banker that "we do not compound interest," is probably telling the truth, I would say it is very much like compounding.

By Hon. Mr. Hanson:

Q. What you are objecting to is that he is charged interest on the interest?—A. Well, we have always thought it was unfair. If a man knew that he was not going to be able to retire this debt that he contracted until the fall, then for the love of goodness be sensible about the thing and make the note out for somewhere around the time it could possibly be paid, within a reasonable period.

By Mr. Coldwell:

Q. When he borrows this $1,000 and he uses that credit, how much of that may he use? May he use the $1,000 and pay the $70 or is the $70 deducted from the $1,000?—A. Oh, no. The interest amount that is charged against that is for the three months. It is fairly easy to compute it. He borrows $1,000. He is obligating himself to pay whatever the three months' interest is, and that three months' interest is deducted from the amount that he receives.

Q. Yes.—A. He receives $1,000 less the first three months' interest.

By Mr. Cleaver:

Q. Do I understand you correctly that the banks, knowing that the loan cannot be paid in three months, will only extend three months' credit?—A. That was the usual practice.

Mr. KINLEY: Are there not six months' or four months' notes? Will they not give you a six months' note?

By Mr. Cleaver:

Q. I am referring to today's conditions.—A. Let me say this. The practice has been changed, I would say, in the last few years; and I know that you can go to a bank now, or a farmer can go to a bank now and he will say, "I want a line of credit and I will not be able to pay it until say October, October 15." Now he can get a line of credit arranged up to the date. But the general practice was, over the years that I am talking about, that nobody could get a note for any further length of time than three months.

Q. Do I understand that there is no complaint about the current practice that has been in vogue in the last few years, but your complaint is based upon past performance going back to the twenties?—A. Have you any idea—

Q. No. I am asking the question.—A. Yes. We still have complaints.

Q. What is your complaint to-day?

Mr. KINLEY: Speak to that.

By Mr. Cleaver:

Q. What is your complaint to-day?—A. We still have complaints about 7 per cent which is a higher rate of interest than the farmers can pay.

Q. Is there any complaint as to the period of credit?—A. Yes. There is one complaint that I want to make in case I may forget it. I do not want any one here to run away with the idea that we have ever had any criticism of the operation of the local banking end of it. Our criticism has been of the policy of the banks. You take your local bank: you have your manager, your accountant, your teller and so on. We have never had the slightest criticism in regard to the service we have got from them. But the bank lays down a policy to the manager and says to the manager, "When you grant a line of credit to a farmer, you must only grant it for three months."

By Mr. Fraser (Northumberland):

Q. That has been modified now. has it not?—A. To some extent.

Q. You say now you are getting six months.

By Hon. Mr. Hanson:

Q. You have no complaints on that score now?—A. No. I say that has been moved away a great deal.

By Mr. Cleaver:

Q. Then what are your complaints in regard to current practice at the present time?—A. Oh well, I will get around to that in a few minutes, if you do not mind.

By Mr. Blackmore:

Q. Before you leave that point, may I ask you, Mr. Bickerton, this question? Was the change in policy or practice brought in when the war broke out?—A. Well—

Q. I am just wondering if the banks had begun to become reasonable before the war broke out in the matter of the length of term or is this a war policy which might be abolished as soon as the war is over?—A. I would say not immediately.

By Hon. Mr. Hanson:

Q. What is that?—A. I would say not immediately.

Mr. FRASER (*Northumberland*): We had the same thing in eastern Canada. It did not apply only to western Canada. It applied to eastern Canada as well.

The WITNESS: Yes.

Mr. KINLEY: May I ask a question, Mr. Chairman?

The CHAIRMAN: Yes.

By Mr. Kinley:

Q. This case of injustice that you quote in 1908 is thirty-six years ago. That is ancient history. Have you no case of more recent injustice in the banking system in western Canada?

Hon. Mr. HANSON: He says there is the 7 per cent.

Mr. KINLEY: Well, the 7 per cent of course.

The WITNESS: That 7 per cent has continued—that 8 per cent has continued until you come to the time when you began to insist from Ottawa here that the banks had to charge only the legal rate of interest.

By Mr. Kinley:

Q. Tell me this. When you go to the bank for money—and, say, you want $100—does the banker discount the note and give you the amount less the discount or does he give you the $100 and collect the interest when the note is due?

Hon. Mr. HANSON: No. He discounts the note.

Mr. FRASER (*Northumberland*): He discounts the note.

The WITNESS: They are beginning to get away from some of those practices now. Mr. Blackmore brings up a point here. I should like to refer to it.

By Hon. Mr. Hanson:

Q. Would you answer Mr. Kinley's question?—A. I think Mr. Blackmore spoke first.

Q. Oh, well.

Mr. KINLEY: All right. Go ahead.

The WITNESS: I think Mr. Blackmore asked if, in my opinion—I expect that is the way he put it—the banks loosened up on credit at the beginning of the war. I would say "No." I say this, that the people stepped into the effort in this country despite the banks.

Hon. Mr. HANSON: Well, I do not think we want to hear opinions.

Mr. TUCKER: Mr. Chairman, I suggest that Mr. Hanson is—

The CHAIRMAN: Mr. McNevin has the floor.

By Mr. McNevin:

Q. I just wanted to ask the witness if the provision in the amendments to the Bank Act this year that reduced the interest from 7 per cent to 6 per cent will be of advantage?—A. Yes, certainly.

The CHAIRMAN: Mr. Tucker has the floor.

Mr. TUCKER: Mr. Chairman, twice now within the last minute Mr. Hanson has said, "I do not think that the committee wants to hear this" and "I do not think that the committee wants to hear that." I suggest that you point out to Mr. Hanson that he is not the chairman of this Banking and Commerce Committee, and that the other members have just as much right regarding what they want to hear as he has.

Hon. Mr. HANSON: I think we ought to hear facts, not opinions.

Mr. TUCKER: I have the floor. Mr. Chairman; and if he wishes to interfere with the witness, he had better do so through the chairman and not directly.

The CHAIRMAN: Mr. Perley has the floor.

By Mr. Perley:

Q. May I ask Mr. Bickerton one question to get this straightened out. You stated when a farmer goes to the bank and he gets a line of credit of $1,000, for instance, he does not want to use that all, the full amount. Six months may be mentioned. He expects to pay it out of the crop. But he wants $500 right away to provide for seeding and so on. Is not the general practice that they discount the three months note then? Is that not at the present time 90 per cent of the practice that is in vogue, that they discount that $500 at 7 per cent. That is the general practice now?—A. Yes.

Q. 95 per cent of the time?—A. I agree with the speaker that it is the practice now.

By Mr. Kinley:

Q. Is it the practice?—A. Yes. I think that is the practice now. I am quite sure.

By Mr. Blackmore:

Q. Mr. Chairman, I was not able to get just what I wanted in reply to the question. I am not sure that Mr. Bickerton understood. But I was just of the opinion that the bankers began to allow the farmers to have more than a three months' term since the war broke out and not before.

Hon. Mr. HANSON: He says no.

Mr. BLACKMORE: I am wondering if they began to do it say in 1938, or if in his opinion that is so.

The WITNESS: Mr. Blackmore, I can only have in my mind the western farmers. I do not know what the practice was among eastern farmers. I have not any knowledge of that. I can only state what was going on in regard to western farmers, and to some degree the Alberta farmers. After about 1932, from 1931 to 1932, the banks closed the lid on credit so far as the farmers were concerned, and they did not get off that lid until after the war started.

Mr. BLACKMORE: That is right.

The WITNESS: You can go into the province of Saskatchewan and collect up the men, the farmers, who were able to continue to secure credit from the chartered banks in the years that I mentioned—that is from about 1932 to 1939—and you will find that they were about as scarce as hen's teeth. The whole farming community stagnated during those years. True, we were not getting crops. But if you have a credit instrument that is designed to function and supply the needs of any group of people, they must be prepared to take the good with the bad. Events proved that they were only willing to take the good and not the bad.

By Mr. Kinley:

Q. I wonder if that is wholly true? Have you any idea of the losses in western Canada during those years?—A. The losses in western Canada?

Q. By the banks?—A. The banks absorbed a lot of loss. There is no question about that. But they did not voluntarily take their licking.

Q. Oh, no.

By Mr. Fraser (Northumberland):

Q. Whose money did they lose?—A. Their duty and responsibility is to protect the interests of their shareholders. I have heard people saying, "All right. It is their depositors." But gentlemen, you bring me a group of business men— and I mean business men—who will continue to carry on any type of business and not make a profit out of it.

By Hon. Mr. Hanson:

Q. Yes. I can show them to you during the depression. I can show you a company that went six years in the red and continued to employ people.—A. Will you tell me if there was any year during that period of time—and I am speaking of what is known as the depression period—when the banks were not able to pay shareholders some interest upon their capital investments?

Q. That is another question. I answered your question.—A. Yes, I know. You can take a multiplicity of concerns that entered into business and carried on. Brazilian Traction and many others could not pay dividends during some of those years. I know they could not.

Q. Take the paper business in this country.—A. I beg your pardon?

Q. Take the paper business in this country. They carried on but at a loss.—A. Yes. They carried on, but not the banks.

Q. Well, the paper companies did.

Mr. MCGEER: And the credit dealers made a clean-up on the paper companies.

Mr. SLAGHT: The paper companies were inflated 100 per cent.

The WITNESS: I think we are all foolish if we cannot agree that any group of private individuals, I do not care who they are, will not continue to maintain a business unless there is a profit accruing from that business. They may suffer temporary loss, but they can see profits ahead.

Hon. Mr. HANSON: They hope so.

The WITNESS: Or they would not continue.

Hon. Mr. HANSON: They hope that there will be profits.

The CHAIRMAN: Continue on with your argument, Mr. Bickerton.

Mr. KINLEY: Mr. Chairman, I should like the witness to answer my question.

The WITNESS: What was is?

Mr. FRASER (*Northumberland*): When the banks lost money in western Canada or any other part of Canada, whose money did they lose?

The WITNESS: Whose money did they lose?

Mr. JAQUES: They did not lose their depositors' money.

Hon. Mr. HANSON: Let him answer.

The WITNESS: If they actually lost money, if it is money, real wealth, I could only say that they lost some of the shareholders' money.

By Mr. Fraser (Northumberland):

Q. You think they lost some of the shareholders' money?—A. Yes.

Mr. SLAGHT: No. Their reserve never fell below their capital except for \$10,000,000. They have had for twenty years \$135,000,000 reserves disclosed, velvet.

Mr. FRASER (*Northumberland*): I agree with the honourable member's point. But continuing the same line of thought and on the suggestion of the witness that they should have carried on loaning money in western Canada and other parts of Canada during the years of the depression and continued to lose, then whose money would they have lost?

The WITNESS: Well, if they had continued to lose in proportion to all the rest of the people in the Dominion of Canada, they would have been just the same as the rest of the people in the Dominion of Canada; they would all have been broke.

Mr. FRASER (*Northumberland*): And would have lost their depositors' money.

Mr. PERLEY: Mr. Chairman, may I ask that Mr. Bickerton be allowed to deal with the brief. We can follow it and then question his afterwards.

The CHAIRMAN: That is my suggestion.

Hon. Mr. HANSON: All right.

Mr. FRASER (*Northumberland*): All right. Go to it.

The WITNESS: If I may I should like to make a suggestion here. Mr. Appleby and I happened to sit in here yesterday and you fellows seemed to be a little anxious to get through. In fact, I rather sensed that, but I do not know.

Mr. FRASER (*Northumberland*): Hear, hear!

Mr. BLACKMORE: The same men are not so anxious to-day.

The WITNESS: But I thought that Mr. McGeer brought up a moot point when he said that you only have a chance to deal with it once in ten years. Another point that I want to bring out is that not only was bank credit denied to western farmers during that time, but the bankers further demanded and got second mortgages on farm property as additional security; also mortgages on tools by which the farmers made their livelihood, on their chattels. That is a point that is, in my opinion, very important. Here you have a business concern that enters into a transaction and takes a statement from a farmer and upon that statement they advance him a line of credit. In other words, the security they have got is his assets over his liabilities. They turn around and to further secure this, they ask and they get in many, many cases second mortgages on the property; and in many, many cases as well, demanded and got chattel mortgages—that is mortgages on his chattels, on the tools of his trade; his horses, his tractors, his tools and his implements. That is what he had to work with. He was working and he continued to work with those tools of his trade that were hypothecated and put under pledge to the bank. That is a very difficult position for a man to be working under. We also say:

> When our wheat pools overpaid the growers of the 1929 crop, the banks refused to be satisfied with the security they had advanced the necessary credit upon, and demanded further security, governments then stepped in and cleared the banks from any danger of loss.

The point I want to make there is this. I have noticed from time to time that government leaders like to speak glibly of the sound and solid position of the banks in the Dominion of Canada, of the chartered banks, as compared with the banks in the United States and other places. As long as we have a government that will come to the protection and assistance of the banks when they enter into transactions themselves, of their own volition, and they become questionable, they will not have anything else but sound and solid banks; I can tell you that.

By Hon. Mr. Hanson:

Q. Did the government not go to the resuce of the wheat pools?—A. The government came to the rescue of the banks.

Q. Of the wheat pools.—A. You can call it the wheat pools or not; the wheat pools would have finally had to meet the obligations anyway. Whether it was to the bank or to the wheat pools does not matter. They still had to meet that obligation and they are still meeting it. If the government did not come in, the wheat pools would still have had to pay it to the banks, and the question arises then who did the government come to the protection of? Was it the wheat pools or the banks? The wheat pools would still have had to pay, and it does not matter to them whether it was the government or the banks. That is one of the points we resent, and we say that when the chartered banks of this country enter into transactions that the government does not force them into, which they enter into of their own volition, they ought to stand by the security they have accepted. In that particular case they accepted wheat as the security for credits that were advanced, and then when they found themselves in a jam, as everybody else was, they were unsatisfied with that security and they wanted more security. The wheat pools in the final analysis decided that they might as well hypothecate the elevators as security to the governments rather than to the banks. The banks would have had the elevators as security, anyway.

I mention here that we did not blame the private banks for refusing to advance further credit, regardless of the fact that they were largely responsible for the situation. Viewing their position in the cold light of reason their first responsibility and duty is to protect the invested capital of their shareholders. If service to the public can be administered without jeopardizing the interest of shareholders then such service would be administered. However, regardless of what may be said to the contrary, circumstances have proved that the investment of shareholders is paramount over service to the public by Canadian private banks. Do you mind if we continue to think that? We will anyway.

> We submit that the record of the bank policy in Canada has been a primary factor in retarding the great economic potentialities of our nation, which has now been proven by the astounding industrial and agricultural production, and which is without question the highest per capita production achievement in history. With some assistance from government workers, farmers stepped into this gigantic task in 1940, not with the assistance of banks.

In the case of western farmers they had lost confidence in the present chartered banks, and I say that without hesitation.

> The working portion of 11,500,000 Canadians have during the past four years shaped a new economic pattern upon the languid foundation of the past. Every step in developing this new pattern involved an element of risk; it called for inventiveness and initiative, it required vision and the spirit of venture, which is not lacking in the men and women of our country if given the opportunity to display their skill, arts and talents. This high quality of incentive and the will to do must be maintained and encouraged to further heights to make Canada the great nation it can be.

It is our considered belief that the no venture policy of our chartered banks will prove to be an obstacle in the way of such economic and social advancement.

We believe that.

> The Canada we envision can only be developed with freedom to individuals to apply themselves to the labour or service of their choice; freedom to develop many new enterprises; freedom of governments to administer the affairs of provinces or the dominion without fear or favour, and freedom of the intelligent use of the credit instruments of the nation which is essential and vital to such development. We have refrained from submitting a maze of figures in this memorandum and have also refrained from submitting a lot of technical banking phraseology.
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> We consider the only matter that has to be decided is whether or not the men responsible for the operation of Canada's banking and credit system are fit and proper persons to be entrusted with such important responsibility, and our considered opinion is that the present operators are not fit and proper persons to be entrusted with the operation of the nation's money and credit instruments for the following reasons:—
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> (1) Many of their past transactions have been questionable in character, and have been a transgression on the privileges allowed them under the Bank Act.
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> (2) They proved inefficient during the years from about 1924 to 1929 inclusive in that during those years they did not or would not foresee the effects of their inflationary action. I want to say this, that if the banks, with all the resources they have at their fingertips, could not see what would be the culmination of their spending spree in those particular years then they were not fit and proper persons to be in charge.
>
> (3) They failed the nation in the subsequent years of extremity. What happened there was that for a period of time after the crash of 1929 and 1930 the whole of this country was in a state of stagnation. It did not move. The economy of the nation just simply did not move. I think the first move that was made was when the hon. R. B. Bennett went across to Great Britain in 1931 and he, along with others, was able to devalue the gold content in the dollar. If I am not mistaken we had $32,000,000 running wild in this country without any gold backing. I may not be exactly correct in that figure. Then later, when the hon. Mr. Dunning came in, by consolidation and refunding at lower rates of interest the nation's economy began to move.

(4) They refused to assume voluntarily their proportionate share of the loss suffered by almost all Canadians, individually and collectively.

(5) They refused to stand by their accepted securities for loans advanced and demanded further security on many occasions.

(6) They called upon governments to assume responsibility for transactions entered into by themselves where the ability of the borrower to pay had become questionable.

(7) Because no private individual or corporations are fit and proper persons to operate a nation's money and credit instruments.

Gentlemen, that is our brief.

By Hon. Mr. Hanson:

Q. Mr. Bickerton, having regard to No. 7 of your recommendations, "Because no private individual or corporations are fit and proper persons to operate a nation's money and credit instruments", and coupling that with the opening paragraph of your brief, "As an organiaztion of farmers we have for many years consistently held that the money and credit instruments used by the people of a nation have no right to be owned, controlled or operated by private individuals or corporations", am I to deduce from that you want to nationalize all banking institutions?—A. I do not care what you call it.

Q. You must have an alternative. You condemn the present system in no unmeasured terms.—A. We say here what we mean.

Q. Of course, I understand English, and I have read those two paragraphs of your brief, the first and the last. I ask you this question; having condemned the present institutions in no unmeasured terms what do you suggest, nationalization of the banks? I ask you that?—A. I suggest just exactly what we say.

Q. No you do not suggest. Will you answer my question? Do you suggest nationalization of the banks, that the government take over commercial banks? —A. Would you mind explaining what you mean by nationalization?

Q. I would rather you would ask Mr. Coldwell that question. I think I know what he means but I am not quite certain.

The CHAIRMAN: May I just suggest we are not discussing in this committee the nationalization of banks.

Hon. Mr. HANSON: If I may be permitted, I am directing cross-examination to the witness based on two statements in his brief.

The WITNESS: According to what you say you would have to explain, or somebody else would, what is the meaning of nationalization, because you say that you would have to turn to Mr. Coldwell to get an explanation.

By Hon. Mr. Hanson:

Q. I ask you, do you favour nationalization of the banks?—A. I am asking you what you mean by nationalization.

Q. That is just a clever way of doing it. I congratulate you on your cleverness, but I should like to know in view of the two statements you have made what your alternative is? Is nationalization of the banks one of them?

Mr. KINLEY: Or anything else.

The WITNESS: We therefore recommend that bank charters be extended only one year and that steps be taken by the government of Canada to administer the banking and credit system of the dominion with the least possible disruption, and that except for the elimination of unnecessary duplication the present service structure be maintained. That is what we say.

Mr. FRASER (*Northumberland*): The government could only do that by nationalization of the banks.

The WITNESS: If you say that is nationalization, gentlemen, that is nationalization.

By Hon. Mr. Hanson:

Q. You are asking us to take our own interpretation of that remark?—A. Certainly.

By Mr. Coldwell:

Q. May I ask a question? How widely do you feel that farmers in general share your opinions regarding the banks?—A. How widely do farmers in general?

Q. Yes.—A. In the three western provinces this has been a fairly moot question with farmers for a long number of years. I think Mr. Blackmore will bear me out when I say that for many, many years the farmers of the western provinces have believed that the credit and money instruments of the nation ought to be the responsibility of the nation. There are a great many people in the western provinces believe that, a great many.

Q. I was going to ask you if you consider that the proposed amendments which are contained in the bill now before this committee will eliminate the weaknesses of which you complain?—A. You are asking me something, and you chaps are down here; you have the bills. I got a copy of the bill the day we left. I have not had very much chance to peruse it. I think there have been certain fundamental recommendations there that move in the right direction. I think that just with the cursory glance I took of it. I noticed also someone had moved an amendment in the house that the charters be extended for two years. I do not know what was done with that.

Q. That was moved in this committee.—A. I think that is a fair suggestion. Sitting in here yesterday I can say that I think the most worried man in the city of Ottawa at the present time must be Mr. Ilsley because he not only has this to get rid of but many other things that are in the budget. I think that is a fairly good suggestion, and this investigation should be continued.

Q. You mentioned a report, which I believe is called the Haslem report, in 1913. I think Mr. James Haslem— —A. I think Dr. Oliver was the chairman. Mr. Haslem was on the committee.

Q. Mr. Dunning was on the committee. Were those recommendations not to some extent in line with what you are suggesting?—A. Quite, a great deal in line.

Q. Was anything done about those recommendations by the Saskatchewan government?—A. No.

Q. Or the federal government?—A. No, except the Saskatchewan government shortly after did bring in the Farm Loan bill, the Saskatchewan Farm Loan bill. Mr. Graham would remember that.

Q. I believe that commission travelled rather extensively. It went to Denmark and other European countries where agricultural credits were extended?—A. Yes, they had quite an extensive piece in it in regard to the Landschaften of Germany. They were very much taken up by the Landschaften scheme of Germany. They reported quite extensively on that.

Q. I just wanted to ask a few questions without going into a lot of detail. I was going to ask what you meant in your brief when you said, "Perhaps the most extensive educational service that has ever been conducted upon the subject is that which has been performed and dramatized over the air and the widely distributed publicity material of the Canadian chartered banks". Are you referring to the bank broadcasts that have been conducted across the country?

Hon. Mr. HANSON: What page is that?

Mr. COLDWELL: It is on the first page right at the beginning of the brief.

The WITNESS: Yes, I would say that the banks have carried on quite an extensive campaign during the past two years by means of short dramatizations, possibly only five minutes, telling a little story, but I do not need to go into that. They dramatize a little story of the benefits of the chartered banks.

Mr. KINLEY: I thought it was very good.

The WITNESS: For the banks.

By Mr. Coldwell:

Q. Has your organization made an application to radio stations to put on similar dramatized broadcasts?—A. From time to time we have broadcasted. I think our president here gave a broadcast on the money system and banking in the early part of this year. I think it was in the month of February. I drafted the broadcast and he delivered it. He dealt with matters of debt adjustment, and so on, various farm problems.

Q. That was not quite the question I asked. Have you asked for permission to put on dramatized broadcasts? I am asking this question because I know of dramatized broadcasts that were no more political than the bank broadcasts which were refused on the ground that political dramatized broadcasts were not allowed over the radio. I wanted to know if you had any experience in that connection with your work?—A. No, we have not. The only broadcasts we have put over, and they were fifteen-minute broadcasts were just straight broadcasts. We submit a copy of it to the broadcasting station, and then usually give it two or three days afterwards.

Q. I was going to ask you this: since the nationalization of the banks, and banking generally, has become a political issue in Canada are these dramatic broadcasts not political in nature to that extent?

Hon. Mr. HANSON: That is a matter of opinion.

Mr. COLDWELL: I have heard something of them. I think they are.

The WITNESS: I think I will have to leave you to answer that yourself.

Mr. COLDWELL: Well, I have answered it. I wonder if Mr. Bickerton would elaborate his remark about private individuals and private corporations not being the proper organizations to control and direct credit relationships between lender and borrower?

The WITNESS: Since the time we began a study of the matter we have always got our pattern from the operation of the post office. I think we will all agree that you could not have a more efficient service operating for the community of Canada than the postal service. I think we took our pattern from that in the early years, and I am thinking back almost twenty-five or twenty-six years ago. We believe that there is no place that we can see where profit or interest should be taken off the operation and administration of the medium of exchange of the people. It is not a matter that only involves a few of the people or sections of the people. It involves all of the people, and it is the life blood of the people. In fact, it is the heart that must pulsate to continue to maintain the economy of the nation or the state or whatever it may be. We cannot see that it ever had any place, ever had any right to be in the hands of private individuals. In our opinion it is definitely the people's own responsibility to decide what their medium of exchange will be, how it will function and what policy will be applied to enable it to function. We have never been able to see that private individuals ever had any right to that. We could only assume that when the Dominion of Canada was a young country—and I think this country has been a good country to illustrate the point—there was a group of people came into Canada from wherever they came and they settled in this country. When it was found a great deal of wealth was in this country somebody came in and said, "All right, we will do the banking for you". I think they just established themselves there, and then when the government was formed the government naturally said, "Here is a group of people who have undertaken of their own volition to set up a banking system, a system whereby medium of exchange will be distributed. Let us grant them a charter". We consider that the first government that decided to do that was wrong.

By Hon. Mr. Hanson:

Q. Mr. Bickerton, I gather from page 341 of our proceedings that you favour freedom of enterprise. You say, "The Canada we envision can only be developed with freedom to individuals to apply themselves to the labour or service of their choice; freedom to develop many new enterprises; freedom of governments to administer the affairs of provinces or the dominion without fear or favour, and freedom of the intelligent use of the credit instruments of the nation which is essential and vital to such development.."
You believe in free enterprise. You believe if a man wants to be a farmer that it is his right. I agree with you. Therefore, if a man wants to go into the banking business do you deny that right to capital?—A. Yes, I do.

Q. That is a fair answer.

The CHAIRMAN: Mr. Coldwell has not given way yet.

Mr. COLDWELL: I am not quite through yet. I allowed Mr. Hanson to ask a question as I thought he might bring out some point.

By Mr. Coldwell:

Q. Mr. Bickerton, I would like to ask you this: can there be free enterprise when the legal exchange of the credits of production are controlled by private individuals?—A. That is the whole argument. We talk about freedom of enterprise, but if that freedom of enterprise is guided and controlled by a group of private individuals who say, in effect, "we will allow enterprise to develop in accordance with the policy we have maintained to inject credit into the system or withdraw credit from the system," then, surely the controlling factor is whether there will be free enterprise, whether there is freedom of action, whether there is restriction through the controlling bank which by a method of restriction and expansion can decide if, when and where. We know that. I will illustrate again, because I always like to illustrate by using a farmer: a farmer decides that he will get another quarter-section of land. This was quite prevalent in the last war. He decides to buy another quarter-section of land, and after buying that he would break that land up and he would put that land into a crop, and so on. In actual fact, he has very little to say with the decision. He has to borrow credit in order to go ahead with the increase of production—he has to get credit.

By Mr. Kinley:

Q. Who had that quarter-section of land before he had it—the quarter-section that he wants to buy?—A. Maybe nobody had it. There were plenty of quarter-sections around at that time—this happened on a great many occasions—land held by a speculator, and a farmer could possibly get the quarter-section for $2,000 or $2,500. He just did not have that much money, and the banks in the last war encouraged the farmers to the limit to borrow credit, increase production—that was the whole cry—increase production, more livestock, more milk, more everything.

By Hon. Mr. Hanson:

Q. That was the suggestion of the government of the day, was it not?—A. Yes, but the banks elaborated on it. They said, "come to the banks and see us"; and so the man went in and saw the manager.

Q. You are not condemning the suggestion that they should have had increased production during the last war?—A. Oh, no.

Q. But you are condemning what followed?—A. That is what I was coming to.

By Mr. Coldwell:

Q. I was going to ask you to elaborate on bank loans, methods adopted in lending money to the farmers. As I understood you, the farmer goes to a bank and borrows $1,000 and takes the money. That note is discounted. Thereafter it is for three months. He gets less one-quarter of the interest—one-quarter of $70—and the interest he actually pays is on the amount he received rather than on the $1,000. If he has to renew that note—and I want to be clear on this—then the interest is in effect compounded; is that so?—A. Well, the actual transaction——

Q. Because it is not a rate of interest; it is a rate of discount, is it not?—A. That is right. In other words when he renews the note, if it was for $1,000 and the interest has been taken off before he got that $1,000, he would renew the note at $1,000 in spite of the fact that he had only got the $1,000 less the three months' interest.

Hon. Mr. HANSON: He had the use of the money.

The WITNESS: Yes, he had the use of the money.

By Mr. Ryan:

Q. I understand, Mr. Bickerton, from what you stated this morning that you are satisfied with the service rendered by the branch banks throughout your province. Now, do I understand you aright that you are referring to the service rendered by the local managers and their staff. What I gather is that your objection is to the cost of this service. You are in no way stating that you are in favour of the nationalization of the banks, according to my understanding, because you have said you are satisfied with the service rendered by the banks. I noted that your objection was with regard to the cost of this service. Now, as regards bill 91, I would ask you if you have read the bill through and if you have read the speech made by the Hon. Minister of Finance when he was submitting that bill to the house? You have spoken concerning costs, which is, perhaps, perfectly right with regard to the past; you have not referred to what may happen in the future. Now, I understand that the system is completely changed to-day. We have not got the same system as we had in 1929. The Minister of Finance gave a lot of useful information, and there is a lot of useful information contained in the bill which, I think, would assure you that in future things will be conducted a little differently. I gather that what you are anxious for, and I think rightly so, is more freedom of credit; that is, that credit will be easier. You state that the government of the Dominion of Canada should take over the issue of all money and so on. That is your opinion; and the government, I think, has stated, or the Minister of Finance has stated, that the government has to-day full control over the currency and credit of the country.

Mr. SLAGHT: Oh, no.

Mr. RYAN: The Minister of Finance made that statement in his submission when he brought down the bill. If I rightly read his speech I understood it that way.

The WITNESS: There is one thing that you are not correct in. I think you made a statement something like this, that we would be satisfied with certain changes that have been made. There is one fundamental, the main fundamental of the same thing. I am sorry I have not read Mr. Ilsley's address, but regardless of what Mr. Ilsley says—and he is a much younger man than I am, or at least I think he is—he and I will never agree on this particular fundamental as long as he lives, and I think he may live longer than I will. I believe that the bank should be administered and the policy of the banks should be administered directly through the dominion government.

Mr. RYAN: You are in favour of nationalization?

The WITNESS: Unless Mr. Ilsley has changed in the last little while I do not think he is going to agree to that. At least, Mr. Ilsley, I can disagree with you on that point, but I hope we can be pretty good friends.

Mr. BLACKMORE: Certain questions were asked, and I think the witness should be given an opportunity to answer those questions. There were about four questions involved.

The CHAIRMAN: Mr. Ryan, are you satisfied with the answers?

Mr. RYAN: I am satisfied that this gentleman or his organization is not in favour of the present system. That is what I understand. Now, we cannot get away from it that if he is not in favour of the present system he is in favour of the chartered banks of this country being controlled in every way by the Bank of Canada. That is what I want to make clear on the record. The members of the house are on record by resolution that we are against the nationalization of the banks and that we are in favour of the present system of commercial banks. There are changes being made in the Bank Act, bill No. 91, which will make credit easier and cheaper. If you are not in favour of that system, you are in favour of the next system, which is that the government take over these commercial banks, and that falls into nationalization of the banking system.

Mr. BLACKMORE: But the meaning of the present system is not made clear in the hon. gentleman's question.

The WITNESS: There are one or two questions I would like to refer to. I do not want to leave the impression that we believe that you should just have free credit. You know what I mean, that it be floated about as freely as everybody would like to utilize it. I believe it ought to be sensibly and intelligently administered. I do not agree with men who say you can administer credit at the rate of one-half of one per cent. I do not think that can be done. I think there is a level at which you can operate and administer credit, because of the cost of administration. I think there is a certain amount of headway coming up. I remember appearing before the McMillan commission prior to the inauguration of the Central Bank of Canada, and at that time I said it almost looked like locking the door after the horse was stolen; but I am satisfied that the Bank of Canada has been a very very useful instrument. Keep in mind what I think of bank policy, not of the banking system, because there are certain parts of the banking system as a system—the service end of it, the country end of it that are all right in so far as the people administering that service in the local banks are concerned. They are decent people and they are good people and are willing to give you service, but they are controlled by the policy; and we are not satisfied with the general policy and have not been.

I have mentioned a number of the reasons. In regard to what has taken place with the Bank of Canada medium that has been used since the beginning of this war, I almost fear to think just what would have been the position of the Dominion of Canada to-day, in 1944, if we had not had the Bank of Canada.

By Mr. Graham:

Q. In the questions put to you by Mr. Hanson and by Mr. Coldwell you used a certain interpretation of the nationalization of banks, and you since elaborated, and we have all gathered what you reasonably mean by that phrase; but I take it from your answers to those two gentlemen that you are in favour of the nationalization of banks in the way you use the term?—A. Yes.

Q. To encourage free enterprise?—A. That is right.

Q. You would be opposed to the nationalization of banks, I take it, if the nationalization of banks were to be used to crush free enterprise?—A. Very definitely.

Mr. Jaques: I should like to say to Mr. Bickerton that up to within a very few years I was ranching and farming in western Canada since the year one, a considerable time.

The Chairman: Do you mean A.D.?

Mr. Jaques: 1901. Now, I am not quite sure of your general views of this question, but I would like to say that coming from Alberta the financial end of these matters has always been of very great interest. Now, would this be your general idea, that the general financial policy of the country should be administered and controlled by the government in trust for the people; but the actual administration of the policy should be left as it is now in private hands?

The Witness: Well, no. I would say this: the men who would be in charge would be men under the control and supervision of the government—administrators. I will put it this way: if you wanted men to operate banking, whether by private bankers or nationalized bankers, you would still have to have bankers. You would not go to the stock yards or the lumber yards to get bankers. In other words, as I envisage the matter, so far as the service part of banking operations is concerned I can see very little disturbance in it. That is, you would need service branches all over the country; you would still maintain those service branches and possibly maintain the same fellows in them. As I see it, putting the matter briefly, you remove a little group of men at the head. You might even take some of those men and put them into positions of administration. There is that little group of men who say, "We are the controllers of the banks".

By Hon. Mr. Hanson:

Q. You would substitute government officials?—A. Yes, I would substitute government officials. They would all be government officials.

Q. Will you permit me to ask one question? Do you think it would be a proper thing for the people of Canada if the government of this country had the function of saying, "John Jones shall get credit, but Tom Brown shall not"? —A. I would say that it would be the function of the man who was in charge of the branch bank to say whether John Jones would get credit or whether he would not.

Q. He has to be responsible to somebody.

Mr. Jaques: Apparently your experience with local bank managers has been pretty wide, as mine has, and I am glad to say that in spite of, shall I say, the painful interviews I have had in my time I remain very good friends with every local bank manager with whom I ever did business; but the point I wish to make is this: I think you said there was no complaint about the local bank managers?

The Witness: Local service.

Mr. Jaques: Now, someone has to determine who is fit to receive credit, because the view we take of banking is this, that when a bank lends it is lending real public credit; it is really administering the credit of the country. Someone has to be responsible. If I go into a bank and the bank manager does not know me, but I have a good idea—or at least I think I have—and I put this idea up to the manager, the first thing he has to determine is whether I am an honest man and then whether I am a competent man and then finally whether having produced whatever it is that I wish to produce there will be a public demand for it at a price which the people are willing to pay and, of course, which will leave a profit with me.

Mr. FRASER (*Northumberland*): So that you can pay back the money.

Mr. JAQUES: Don't you think if that man has to make a really responsible decision, if he makes a mistake he should be penalized for the mistake? You could not make a real judgment unless you knew that if you made a mistake your misjudgment would cost you something.

Mr. FRASER (*Northumberland*): He would probably get fired.

The WITNESS: Well, I would say this. Show me the man who does not make a mistake, and I do not know that I want him.

Hon. Mr. HANSON: Hear! hear! I agree with you there.

By Mr. Jaques:

Q. That is true. But he cannot continue to make mistakes.—A. Oh, no. We are not going to allow him to make a repetition of them.

Q. That being so, I must say that I do not know any other test of a man's fitness to form a judgment as to who should and who should not receive public credit than the man who knows that, when he is making that decision, if he guesses wrong he is going to pay for his mistakes. That being so, would you not agree that, if he guesses right—and what I mean by guessing right is that the enterprise results in a profit to the community as a whole—then having taken the risks of loss, he is entitled also to a profit when he is right?—A. You are speaking of the man in charge?

Q. Well, of the banker.—A. Yes. Well, I think this. Take the case of the ordinary transaction, and the local banker. A man goes in and he wants to make his first bid to get a line of credit. The banker may not know him. They have a certain safeguard or did have and I think they still maintain it. He says, "Now, John Jones, you are coming and asking me for a loan of $500. I do not know you from a load of hay. I have seen you around town, but that is all I know of you. But I will endeavour to find something out." In the meantime John Jones needs this $500 fairly quickly, and he simply says to him, "If you can fetch a backer in who will back the note for you, I will let you have it." But that banker, in ninety-nine cases out of one hundred, got to know John Jones afterwards.

Q. Yes, quite so.—A. You know that. He found out what scale you were farming on. He found out how many head of cattle you were running, what was your annual sale, and how you were managing your affairs. The local banker nearly always found out that. I have always found that the local banker almost knows everybody in a community, and he can tell you about their affairs and all that kind of thing. I still maintain, you know, that as far as the service within the confines of the policy that is laid down for the local bankers to carry out is concerned, in my opinion it has been very, very fine. I have always said that.

Q. Yes. I am glad to hear you say that, because that has been my opinion. Then really your quarrel—and it is mine too, I might say—is not with the local management?—A. No, no.

Q. Or even perhaps with the bank management itself. But it is due to the financial policy which possibly is beyond the control of the chartered banks; and you would be satisfied if that general financial policy was controlled by the government in the interests of the people and not of the financial interests, whoever they may be?—A. I do not want to go into the causes and all that kind of thing.

Q. No.—A. We are not going into the causes of what happened in 1929. But I would say this. I think it was a clear illustration of where private corporations could not stand the strain. The only way it could have been intelligently handled was by the whole of the people of the whole nation assuming the responsibility that rested with them for the next few years; and administered by an intelligent government, I think they could possibly have stopped a great deal of the stagnation that existed. I think that the policy of the banks has been a retarding factor. When I first came to this country in 1910, if I am not mistaken, there were somewhere in the neighbourhood of between 8,000,000 and 9,000,000 people. We had a huge country. The province of Saskatchewan is nearly three times the size of Great Britain and Ireland, and we have less than 1,000,000 people in it. I think that from time to time we have seen that we have had people in administrative positions who have had vision, but there is something that has held the nation back. Had we had the natural increase in population from 1910, our position would be very different today. I remember sitting down in the city of Winnipeg within six months of my being there, because I wanted to envision what would happen. I came here with the intention of staying here, and I wanted to envision what kind of a country I was going to be in twenty-five years from that time. I envisioned the population we would have in the Dominion of Canada, by retaining the natural increase of population; and I was not taking into consideration the influx of new settlers that came in from 1910 on. I did a little figuring, because I like to do that, and I came to the conclusion that we ought to have had by twenty-five years after 1910—that would have been 1935—over 25,000,000 people in this country. Something has held it back. Let me tell you gentlemen that where industrial development does not progress you will not get that. Increase of population will follow where industrial progress takes place.

Mr. FRASER (*Northumberland*): We have not done a bad job in Canada after all.

The CHAIRMAN: Mr. Jaques has the floor.

Mr. FRASER (*Northumberland*): In that twenty-five years.

Mr. JACQUES: I have just one more question.

The WITNESS: For the few people we have here.

Mr. FRASER (*Northumberland*): We have done as good a job as you have at home.

The CHAIRMAN: Let Mr. Jaques continue.

By Mr. Jacques:

Q. I have one final question. It sums up what I have been saying. Your quarrel, and I might say mine, and I think I can say the same on behalf of nearly all the farmers in western Canada, is not with the administration but with the general financial policy, which policy should be controlled by the government.—A. That is correct.

Mr. PERLEY: Mr. Chairman—

The CHAIRMAN: Mr. Slaght asked for the floor.

Mr. PERLEY: May I ask a question of yourself, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. PERLEY: If we cannot conclude with Mr. Bickerton by 1 o'clock, is he going to be available tomorrow?

The CHAIRMAN: I think we will try to conclude by 1 o'clock.

Mr. PERLEY: I do not think it is possible.

The CHAIRMAN: May I suggest that we sit this afternoon?

Mr. PERLEY: I was going to suggest that as there is no sitting of the house this evening, we might adjourn until 8 o'clock this evening instead of sitting this afternoon.

Mr. TUCKER: I suggest we adjourn until 4 o'clock this afternoon.

The CHAIRMAN: 4 o'clock. All right, Mr. Slaght.

Mr. PERLEY: May I interject that there are two or three men in this committee who expect to speak this afternoon.

Mr. KINLEY: There are lots left.

Mr. PERLEY: I do not see how we can be in two places at once. As there is no sitting of the house tonight, I think that 8 o'clock would be a good time, and it would not hurt any of us.

The CHAIRMAN: Are you speaking this afternoon? What is the pleasure of the committee?

Some Hon. MEMBERS: 4 o'clock.

Mr. BLACKMORE: Can Mr. Bickerton be here tomorrow?

The CHAIRMAN: We will try to sit this afternoon if we can. They have to get back as soon as possible. All those in favour of sitting at 4 o'clock please raise their hands? Those in favour of 8 o'clock? I declare that those in favour of 4 o'clock have it. All right, Mr. Slaght.

By Mr. Slaght:

Q. I was interested in your historical statement about men with money coming forward and desiring bank charters and receiving bank charters. I take it that you agree with me that under the British North America Act the power over public debt, currency, banking, the incorporation of banks and issue of paper money is all vested in the Dominion of Canada under our constitution. I am reading to you from the exact language of the Act. My suggestion to the committee is, or will be when we come to section 59, that that being a power vested by our constitution in the federal government, we have given away that power to the private banks, the right to create new money. My suggestion is that we should retake from the private banks, back into the power of the people of Canada, the right to create all new money that is to be created in this country. I gather from following you closely that at least you would go that far with me, and that your organization would favour the government, and the government alone, being capable of creating new money that the people might need. Am I right in that?—A. Just what do you mean by money? Do you include credit in that?

Q. I do, and as you have not been here I will give you in two or three sentences what the evidence discloses. The evidence discloses that we allow the banks under their present charter powers to create new money themselves. I am reading from the evidence of Mr. Graham Towers, page 161.

> Q. You told us yesterday that the banks create money. When the finance minister takes a bond for $1,000,000 to a chartered bank and they receive the bond and credit him with a million dollars you told us that in doing so they were creating money; is that correct?—A. That is true. The moment it is credited, however, it becomes a loan from the depositors of the bank.

From the question you ask me I see that you thoroughly appreciate that perhaps 90 or 95 per cent of what we call money nowadays, perhaps better called medium of exchange, consists not in the paper or metal money we can feel but in what are known as bank credits. You would agree with that?—A. Yes.

Q. We have also heard here that the Dominion of Canada have borrowed from the chartered banks so that they owe the chartered banks today $2,700,000,000 at varying rates of interest, and that the loans of the chartered banks today have shrunk so that they are about one billion dollars to private individuals, including your western farmers, and to industry, so that the Dominion of Canada, as we have heard in the evidence, are the best customers of the chartered banks to the extent of perhaps twice all other loans they have made put together.

Mr. McNevin: At an average of 1 per cent interest.

Mr. Slaght: No, it goes a little higher than 1 per cent.

Mr. McNevin: Roughly.

By Mr. Slaght:

Q. The Dominion of Canada are paying annually to the chartered banks—and that is the taxpayers—about $40,000,000 as Mr. Graham Towers told us, and are carrying that load of interest. I suggest to you that we should so amend this Bank Act—and I want to see if you agree with me on this or whether you do not or if you have not considered it sufficiently—so as to take away from the chartered banks this right to create new money by merely making bookkeeping entries in the books, and that when Canada needs for her taxpayers new money, as the war has forced us to need it, that hereafter we should borrow that money through the medium of the Bank of Canada and issue it for the public need interest free. Would you agree with that?—A. I think you are certainly taking a step in the right direction. We realize it is going to take a good deal of time possibly before people will reconcile themselves to the nation taking over its own affairs. Instead of taking that two billion dollars, or whatever it was, from the charetred banks they would simply do what you say in regard to any borrowing for public matters whatsoever, or even for private matters. You are taking steps along the road and you are getting there. We are satisfied that the time will come after you have decided to issue new money, or whatever you care to call it, for the operation of public affairs of the dominion, of the provinces, of the municipaltiies, when you will have to take other steps along the road of progress and then you will begin to administer for private individuals as well. Yes, I would go along with you all the way.

By Hon. Mr. Hanson:

Q. May I ask one question? Have you considered the other alternative, the effect on the millions of savings depositors in this country who represent half the total citizenship in this country? Have you thought this thing through?—A. What is the matter with the savings depositors? There is nothing the matter with the savings depositors. They have got savings deposits in the banks. I think the dominion government uses some of them. The banks have loaned some of them to the government. In the old country they have the post office savings bank. That is one of the oldest institutions you can possibly think of. I do not see any danger to the depositors in the savings banks under public administration any more than under private administration. There is no difference.

Q. You have not thought the thing through.

By Mr. Slaght:

Q. I think, Mr. Bickerton, you have put it very nicely to my friend. We have had that bugaboo of being careful not to injure savings depositors in the banks put forward almost every time we ask to retake for the people the right to create new money. Can you see any objection to taking back what our constitution gave us originally, that is, the right to create new money where somebody has to create new money?—A. Definitely not.

Mr. McGEER: Which Mr. King described as our most sacred and conspicuous responsibility in government.

By Mr. Slaght:

Q. May I call your attention to this? I am going to give you the language of the Minister of Finance himself in the House of Commons when he described what bankers do at the present time. He says:—

> That lies at the base of their whole profit-making activities; the way they make money is by lending more money than they have. What they have is their cash reserves; and unless a bank has out several times—six, seven, eight, nine or ten times, its cash reserves—it is not being profitably, or from a banking point of view, properly conducted.

Do you speak for a crowd that are prepared to permit the banks to go on lending, and to the Dominion of Canada, mark you, seven, eight, nine, ten times more money than they have bearing in mind what the minister meant by more money than they have, that is, they had more money than the cash reserves they have behind their loans? Are you in favour of our perpetuating that or could you fairly say you would be behind some of us who believe that ought to be done away with as far as the right to lend money to this country is concerned?

Mr. McGEER: To the government.

The WITNESS: I would say this, that with an institution being operated under a national administration you would supply credit needs, whatever those needs were, and you would be doing that at a reasonable cost price under national administration. We will call it national administration, if you like, but if it is done by private individuals, by corporations, then I say simply they are getting a profit on something that does not exist.

By Mr. Slaght:

Q. You are right. I see it is 1 o'clock.

Mr. McNEVIN: Do you think it can be done for less than 1 per cent?

By Hon. Mr. Hanson:

Q. Before the committee rises, I cannot be here this afternoon and I want to ask one question. You refer in one of the opening paragraphs of your brief to the fact that the leaders of Canada in 1871 when they passed the first Bank Act conferred charters which allowed them the sole right, and so forth. I suggest your history is wrong. That was already there, and the government of the day, the parliament of the day, just continued the system that was then in force. But that is not what I wanted to say. In the paragraph beginning "It is not enough to merely say that the public would not approve," and so forth, you make this statement, "Parliament has never requested a direct mandate from the people, for which negligence we consider parliament representatives have been remiss in their duty as servants of the people." Do you mean that statement?—A. Yes.

Q. You do?—A. Yes.

Mr. BLACKMORE: One hundred per cent.

The CHAIRMAN: We will adjourn until 4 o'clock.

The committee adjourned to meet again at 4 o'clock this day.

[Mr. G. R. Bickerton.]

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Mr. Slaght, had you completed your examination?

Mr. SLAGHT: Yes, Mr. Chairman.

The CHAIRMAN: Mr. Perley has asked for the floor.

Mr. PERLEY: I should like to take a few minutes to refer to this brief that was presented this morning and make one or two comments on it. Mr. Bickerton read from page 338 as follows:—

> As early as 1908, our annual convention presented the following resolution to the federal and provincial governments:—
>
> > That great loss and inconvenience to farmers having been occasioned through the banks refusing advances on stored wheat and bills of lading, the government be urged to devise some remedy.

I want to make a little reference to that, because I may say that I speak with some experience in this matter, and I feel that a great many of the members of this committee do not know every feature of the marketing of grain in western Canada, and certainly the question of getting advances on grain. I happened to be in the grain business in 1908, as a dealer and as an operator of an elevator. I am just going to recite to the committee what took place under the terms of the permit and licence that is granted to grain dealers who handle grain, and also what are the rules, under the laws, with respect to getting advances against grain in elevators. This case that was cited here by Mr. Bickerton is quite correct. But may I say this was the practice and has been the practice: once a farmer has his grain in an elevator, there may be storage tickets issued against it. If it is shipped, there is a bill of lading. If it is weighed up in the terminals, there is a warehouse receipt. The farmer, as Mr. Bickerton says, in the early stage could not get an advance against that grain in the elevator. But from what did happen and prevail—and I am speaking from experience and know what I am talking about—I think there was a great injustice done to the farmer in this way. He could not take his storage ticket to the bank and get advances. He could not go to the bank and get an advance on that grain when it was in the elevator. But here is what happened. Under the licence system under which the elevators were operating through the grain companies, they could hypothecate that grain to the bank and get an advance and have that hypothecated as security against the advance, and they in turn could make advances to the farmers. I want it to be understood. The elevator companies have the right and privilege of hypothecating the grain to the bank in any stage in order to get their line of credit, and it applies in that way. Then the grain company in turn can issue a cheque to the farmer and he goes to the bank and chashes the cheque and it is charged up to the grain company's account, if they happen to have an account in that bank. It does not matter if they do not. The grain company's cheque is good practically in any bank, because they generally have that arrangement made. That is, it goes in most cases at par. Then also the grain company can hypothecate the bill of lading and do the same. When it is weighed up, they can hypothecate the warehouse receipt and get an advance and apply that on the line of credit from the bank to carry on business as a grain man. Then in turn, as I say, if the farmer wants an advance, he goes to the grain man and gets it in that way. But here is where I want to inform this committee; there was a great injustice done to the farmer because there was nothing in the rules and regulations in any shape or form whereby the grain company can only charge a certain rate of interest, say even the bank interest;

and in many cases in the early days from 1908 on, the farmers had to pay a greater per cent of interest to get money in that way through the grain company than the bank under the Bank Act, is allowed to be charged. So I say, and I want to make it plain, that that is the system that prevailed for a great many years, and that is how the farmers got advances on their grain either in elevators, in transit or while it was weighed up and they had the warehouse receipts, or the elevator company had. There was, I say, an injustice done the farmers for many years, because many of the grain companies did not confine themselves even to charging the bank rate of interest. They charged more in many cases, and sometimes the loans were for short periods and they charged so much—in fact, I know of cases where the farmers paid as much as 10 per cent to get loans in that way.

Mr. Kinley: From the elevator companies?

Mr. Perley: Yes.

Mr. Kinley: Is that what is known as the wheat pool?

Mr. Perley: The wheat pool is one great elevator concern. They have a great many elevators in western Canada. I know what was the law with respect to what the elevator man could do in hypothecating the farmer's wheat to get an advance and what it meant. I might say that there were a great many cases in which the wheat would be hypothecated, and an advance given to the grain company for a whole lot more than the farmer had asked in the first place as an advance against his grain. In many cases the elevators did not advance the amount that went to their credit when they hypothecated the wheat. They only advanced part of it and used the other for I am not saying what. But I know what happened because I was in business. I had the competition of five other elevator concerns in my own town, and I know the competition I had to meet in that way. That is one thing.

Mr. Cleaver: What interest rate did you as an elevator owner have to pay to the bank?

Mr. Perley: You paid the bank interest. That was between you and the bank. They could only charge you so much. I am not saying they charged the elevator man more. That is not my complaint. What I am saying is that the elevator man hypothecated the farmer's wheat to get the advance with the proper rate of interest. But as to the interest that the elevator charged the farmer, there was nothing to control that.

Mr. Kinley: Did you borrow from the banks in those days?

Mr. Perley: Yes, I did. I may say that as far as I was concerned you can take the expression of opinion among the farmers in the district that I served, and I do not think they were ever over-charged. In fact, considering that there were six elevators in town, I think the amount of business done by us spoke pretty well of the accommodation we gave and the way we treated the farmers.

Mr. Kinley: You did borrow from the banks?

Mr. Perley: Yes.

Mr. Kinley: Were your relations with the banks satisfactory?

Mr. Perley: Yes. I am not complaining about that. But I am saying that the banks refused to deal directly with the farmers, and forced the farmers to get advances from the grain companies. I think Mr. Bickerton will bear me out in that. I think he has had similar experience, as well as many farmers in his district. There is another matter I wish to refer to.

Mr. McNevin: Before you leave that, Mr. Perley, may I ask if that condition prevails to-day with the wheat board? Does the same condition prevail to-day?

Mr. Perley: As which?

Mr. McNEVIN: As the grain is handled at the present time.

Mr. PERLEY: Surely. I am not saying it does not prevail now, but I do not think to as great an extent. I do not think there are any elevators now charging as exhorbitant a rate of interest as they did in the early days, in the first ten or fifteen years.

Mr. McGEER: Why would the banks not lend to the farmers?

Mr. PERLEY: They could not take the grain on the farm as security under the law, I do not think. In the amendment to this Act now I think they are going to give them the privilege of taking security of the grain even on the farm.

Mr. KINLEY: How has this grain been financed during the last few years? There is a lot of legislation in the house about it.

Mr. PERLEY: It has been financed in the ordinary way, practically as I have outlined it. The farmer can get an advance now from any elevator company. If he holds the grain in an elevator, he gets his storage receipts and can finance on that now, at the present time. I am speaking of the period that is mentioned in this brief.

Mr. CLEAVER: You say the offenders were the banks?

Mr. PERLEY: I do not say the offenders were the banks at all. I say they did not advance the money readily to the farmer and the farmer, in order to get an advance on his grain when it was in the elevator or in transit, had to use this way of doing it.

Mr. McGEER: Before you leave that, you say the bankers could not lend to the farmer on the security of the grain?

Mr. PERLEY: The bankers could not take it as security at that time.

Mr. McGEER: Why?

Mr. PERLEY: There was nothing to permit them in the Bank Act to lend and take security of the grain under those conditions.

Mr. McGEER: There was certainly no prohibition.

Mr. GRAHAM: The farm was not included.

The CHAIRMAN: Mr. Perley, may I make a suggestion?

Mr. McGEER: No. It was only a special privilege. Pardon me, Mr. Chairman, but I want to deal with this.

The CHAIRMAN: All right.

Mr. McGEER: Section 88 only provided a special privileged security to the banks; but apparently it was because grain was not included in that special security that the farmer was excluded from the benefit of the Bank Act or banking facilities and was forced to go to the elevator companies and pay whatever rate they charged him which was uncontrollable and which was, as I take it from you, Mr. Perley, excessive and exhorbitant.

Mr. PERLEY: Yes.

Mr. McGEER: But the banks could lend money on the security of grain or to the farmer on his notes.

Mr. PERLEY: Well, they did not.

The CHAIRMAN: Mr. Perley, I want to shorten the argument if I can; and suggest that later on we take the evidence of the bankers as to their practice.

Mr. McGEER: Yes.

Mr. PERLEY: There is another matter, Mr. Chairman, that I want to refer to. On page 340, Mr. Chairman, about the middle of the page, Mr. Bickerton referred to this:—

> When our wheat pools overpaid the growers of the 1929 crop, the banks refused to be satisfied with the security they had advanced the

necessary credit upon, and demanded further security. Governments then stepped in and cleared the banks from any danger of loss.

I just want to review that for the benefit of some of the members of the committee. I happen to have been a member when that situation arose in 1930, when the situation became such that the banks did not consider the security good enough and refused to carry the pools any longer. As Mr. Bickerton said the pools first had difficulty with the banks. Grain was going down and had gone down even below the advances made to the farmers. Then the pools went to the provincial government and somehow or other the provincial government could not get a guarantee from the banks that would permit them to assist the pools. In turn the provincial government came to Ottawa. I was here at that time and a member of the Banking and Commerce committee. I know what difficulty Mr. Bennett had. Finally when it had reached a certain stage as you recall Mr. Bennett took over the whole assets and operations of the wheat producers at that time. He insisted on taking it all over if he had to advance the money, and he did so. It is within the knowledge of all members of the committee what happened when he took that over and put Mr. MacFarlane in charge. It is not necessary to review that.

All I am saying is the dominion government were forced to take full control and administer it until we had the Canadian Wheat Board Act passed which set up that board.

Mr. Cleaver: That was brought about by a fall of prices?

Mr. Perley: Sure; the pools had taken the grain in when the price was high in 1929. The price started to drop and kept dropping until the advances they had made to the farmers were practically done so that there was no equity in the grain as far as the pool was concerned. The banks had avanced that money and they refused to carry it any more. As I say, after dealing with the provincial government they had to come to Ottawa.

I was a member of a committee of five appointed by the government when I was supporting Mr. Bennett then that had to deal with that matter. I recall very well what happened when he insisted on taking it all over as he had to advance the money. He did it and I think he did a fair job. What I want to bring out is this, that the banks refused to carry the load until the government came into the picture. Mr. Bennett carried it and it resulted in the pool being financed and carried on until to-day they are one of the strongest co-operative organizations in western Canada, one of the strongest grain companies. If you will review the report of the Agricultural committee of just a few days ago you will see that Mr. McIvor answered questions by myself and said that they handled almost 50 per cent of the grain. So that organization being salvaged at that time by the government has resulted in what we have to-day.

I might say here they have done wonders also in taking up the victory loan each time and are a great credit to the whole west and a great example of what real co-operation means.

What I want to say is that the grain companies, other than the pool, grain exchange members were figuring on what might happen to this extent that they continually tried to break the market. I know for a fact, because I had membership and know whereof I speak, that they expected that pool would go out of business. Talking with some of them I know they went so far as to have a great many of the elevators—at that time they had about five hundred elevators—divided up among certain members of the grain exchange because they thought they were going to go out of business. That is how serious it was.

What I am complaining of is that the banks at that time were willing to finance grain companies other than the pool and would have done so if the government had not come into the picture and salvaged that grain company, the pool. I am just putting that on the record. I think I am giving what are facts. Mr. Bickerton can be questioned about it. There may be other pool members sitting around this table. There are members from Saskatchewan who know the picture pretty well, Mr. Tucker and Mr. Graham.

All I want to say is that the banks at that time did not play with the bulk of farmers who belonged to that organization, and if it had not been for the government of the day coming in after the banks refused and the province refused and taking it over and salvaging it I say that the picture would have been a very serious one. There is just one other matter.

Mr. KINLEY: What could be the amount of the business of the pool? It is big business?

Mr. PERLEY: The pool handles nearly 50 per cent of the grain grown in western Canada.

Mr. KINLEY: I suppose they have big reserves?

Mr. PERLEY: I do not know about their reserves. There may be some way of finding that out. We think they have a safe reserve now because they have taken a very splendid share of the victory loan each time. I might say that when Mr. Bennett took it over he took it over on the basis that they continue in business and pay so much over a period of years. I think it was ten or fifteen years. They have met their payments and become solvent in that way. I do not think they are behind in their payments at all now.

Mr. MCNEVIN: By making deductions on the farmers wheat, of course.

Mr. PERLEY: They handle pool members' grain. They take off elevator fees; they take off commission charges; they take off freight charges, and then I might say there is participation in what is left over. That is handed back to the farmer. I suppose they put a certain amount away for a reserve to take care of these annual payments they have to make to the government, and in that way salvage the company.

Mr. KINLEY: Their revenue must be large because all they have got to do is charge the government for storage on grain.

Mr. PERLEY: As to storage of the grain they are charging the government just the same rate as the other grain companies are, and why should they not?

Mr. KINLEY: The government owns most of the grain.

Mr. PERLEY: The government owns 50 per cent of the grain that was delivered to the government in the last three years. A great share of that grain went through the pool; about 50 per cent or more of that grain went through the pool and on that grain they charge just the same rate of commissions, elevator fees, brokerage fees against the grain as the other elevator companies do. Why should they not?

Mr. KINLEY: And pay no income tax.

Mr. PERLEY: They do not pay income tax. Organized as they are as a co-operative organization I believe they are exempt, but that matter is being considered by the government, or is before the courts now and will be decided later.

Mr. CLEAVER: Did I understand you to say, Mr. Perley, that during that crisis the banks declined to extend credit to the pool on the same basis and for the same type of security as they would extend credit to the private elevator companies?

Mr. PERLEY: What I said was that the difficulty they had on this grain was that the banks would no longer carry it with the drop in the price of the grain.

Mr. CLEAVER: I may have misunderstood you but I understood you to say that the banks were sort of in collusion with the privately owned elevators and the banks declined to extend credit to the pool where they were quite willing to extend credit to the privately owned elevators holding the same type of security?

Mr. Perley: You see the situation was a little different. Advances had been made on the pool grain. There is no way of telling what advances had been made by independent grain dealers or grain companies to their farmers, but it was not to a very great extent. Most of their grain would be bought outright, but the idea is they were speculating and using the option market, and so on. They were in such a position anyway that they thought they could take over these elevators. They thought the elevator pool was going to go into insolvency and the elevators would be sold or distributed. What I am saying I know for a fact. I do not know what arrangements the private elevators or grain companies had with the banks at all. I know what one had. I know they were talking that way and as I knew them they thought that company was going to go into insolvency, that the assets would then be divided up and there would be elevators distributed.

Mr. McNevin: At that time the pools practically were insolvent. That is the true situation.

Mr. Perley: You can say that, surely. I will admit that.

Mr. Kinley: The government came to their aid.

Mr. Perley: Yes, and what have you got to-day? You have got one of the greatest grain handling institutions in western Canada, a credit to that province and an example of co-operative organization such as I do not think you can find anywhere else in Canada. The government came to the aid of the pool. They took over the whole thing, the handling of the grain, the warehouse receipts and started to carry on.

Mr. Cleaver: Every grain grower participated in the advantage from that action.

Mr. Perley: Every pool member would.

Mr. Cleaver: If this pool grain had been thrown on the market do you know what would have happened?

Mr. Perley: Yes, there would have been a calamity.

Mr. Kinley: I suppose a lot of trouble was caused by the years of drought when you had no crops.

Mr. Perley: Yes, to a certain extent, but this is a different situation.

Mr. Kinley: How did you go through the years when you had no crop? Who sustained your province then?

Mr. Perley: That is a question.

Mr. Kinley: The rest of Canada?

Mr. Perley: You should ask that question of some of our witnesses, or of Mr. Wedd when he was representing the banks here. Put that question to them.

Mr. Kinley: I am asking you as a member.

Mr. Perley: There have been years when we have had losses. There are certain conditions which I do not think any government can control. I might say to you that in 1915 I threshed on our farm one of the largest crops we ever harvested. In 1919 I had 1,700 acres of wheat and did not thresh a bushel, because I was hailed out on the 1st of July, and never took out a binder. Again in the depression period, in 1932, on my farm, we never took out a binder. In 1933 we never even took out a mower. Then we come along to another year and have a fine crop. There are questions in respect of farming in western Canada that no banking committee or government can do much about.

Mr. Kinley: You had a difficult time.

Mr. Perley: Sure, and lost a lot of money.

Mr. Kinley: And the banks had a difficult time too.

Mr. PERLEY: Yes, I am not saying they did not. I am saying that that took place in 1929 and 1930.

Mr. NOSEWORTHY: Mr. Chairman, on a point of order, I understand that we have representatives here from the Saskatchewan section of the United Farmers of Canada, and I should like to suggest that we spend what little time we have with them in questioning them. I am sure they will be able to read the speeches of members of the committee later.

The CHAIRMAN: We spent our time with them this morning, Mr. Noseworthy, and they were questioned very extensively.

Mr. NOSEWORTHY: I wonder if we might continue questioning them this afternooon?

Mr. Bickerton recalled.

By Mr. McIlraith:

Q. I am going to try to clear up a small point with the witness. Mr. Bickerton, as I understand your brief, after listening to it this morning, you as the representative of the United Farmers of Canada, Saskatchewan section—I am reading particularly from the middle of page 341 of your brief—seem to condemn out of hand the men responsible for the operation of Canada's credit system, banking and credit system. I am interested at the moment in the part concerning the credit system. Then, in examination by one of the members of the committtee, you made your position clearer about the Bank of Canada and, apparently, released it from part of the condemnation—a publicly owned institution. Now, in the early two and one half pages of your brief you deal with questions about farm credit in the quite distant past, and you come to a point where you use this sentence dealing with the recommendations made in 1913 and so on: "However, after further representations to the provincial government the Saskatchewan Farm Loan Board legislation was passed in 1917, but unfortunately it could not at that time function for lack of capital." Now, has that legislation been in existence since?—A. Oh, yes. Shortly after that—the legislation was passed—and shortly after that there was an issue of bonds put into circulation, and farm loan bonds to a considerable extent were sold mostly within the province. I might say that we as an organization have a fairly reasonable quantity of them, and we are paid 5 per cent interest on them.

Q. What loans do they have out in your province?—A. Saskatchewan farm loans. We have federal farm loans.

Q. Yes, but I wanted to deal with just the Saskatchewan farm loan legislation; what loans do they have out there?—A. On first mortgage on farms?

Q. Yes, can you tell me the amount?—A. I could not. I have looked over the statements of the Federal Farm Loan Board; I have not seen the statements of the Provincial Farm Loan Board for some time.

Q. What rate of interest does the Provincial Farm Loan Board charge on its first mortgage?—A. I think it is 6 per cent. I am pretty sure of that, on the first moratgage. I would ask Mr. Graham if my statement is correct.

Mr. GRAHAM: I am not certain whether you are correct or not; I think you are right.

The WITNESS: I think I am right.

By Mr. McIlraith:

Q. Do I understand that the men who are responsible for the administration of that provincial legislation can be included in the condemnation in the last part of your brief?—A. That has not anything to do with banking; that is a mortgage matter.

Q. It has to do with credit systems; it has to do with credit?—A. It has to do with credit.

Q. I understand you now condemn the men responsible for the operation of Canada's credit system?—A. Yes; and generally to use one phrase, the policy of the system.

Q. Let us get it clear. That would be part of the credit system, would it not?—A. There is a little difference. The provincial government creates an issue of bonds. We, the United Farmers of Canada, have purchased some of those bonds. We have turned the money over to the provincial government and they, in turn, have turned around and advanced a line of credit to the farmers on first mortgages upon those respective farms.

Q. That is a publicly owned institution?—A. Yes.

Q. Directly responsible to the provincial legislature?—A. Definitely.

Q. What I am not quite clear on from your own brief is where you draw the distinction between those you condemn and those you do not condemn. The language in the condemnation sentence is very wide?—A. I think you have got to go back and keep your mind focussed upon the main thing, and that is that we believe that credit instruments and money instruments of the nation should be the responsibility of the nation.

Q. That is precisely my point. Here is an example of one of the credit instruments—that is the responsibility of the public at large—and I just wanted to know if it was part of the credit system condemned by you?—A. Certainly not.

Q. The Canadian Farm Loan Board—

Mr. SLAGHT: Did you record the rate that the bond bears?

By Mr. McIlraith:

Q. What is the interest rate on the bonds?—A. Five per cent.

Q. Then we come to the Canadian Farm Loan Board. I want to deal with it. In part of your brief you deal with the grievances and apparently you include all credit, mortgages and otherwise, but you do not follow through in the report with the farm mortgage situation. How many Canadian Farm Loan Board mortgages are there in existence in Saskatchewan today; do you know?—A. No, I could not say. I would not dare say because I might be wrong.

Q. Have you any information as to the gross amount of those mortgages?—A. No, we have, but I have not got it included here.

Q. Now, the rate of interest of the Canadian Farm Loan Board mortgage is 5 per cent?—A. Yes, I think it is 5 per cent and 6 per cent on the intermediate loan. They have the first mortgage loan and the second mortgage loan on farm property, and the first mortgage is 5 per cent.

Q. And the second is up to 60 per cent of the value and is 6 per cent. The second mortgage loan is taken in cases where people own up to 60 per cent of the value. The second mortgage bears interest at 6 per cent and the first mortgage bears interest at 5 per cent?—A. Yes.

Q. Now, that is a credit institution directly controlled, as you suggest, by the government of Canada?—A. Yes. I might say that at the time of the McMillan banking commission—at the time they sat in the city of Saskatoon—we recommended to the McMillan commission at that time that the dominion farm loans be extended into the province of Saskatchewan, but it did not function in the province of Saskatchewan up to that time.

Q. What year did it start to function in the province of Saskatchewan?—A. I think it was in 1934. The McMillan commission sat in 1933, and I think it was the following year that the Mortgage Act came in.

Q. I take it you would not have the date it started to function in the other provinces?—A. No, I have not got the date.

Q. Now, what about that part of our credit system; is it included in this condemnation?—A. Certainly not. We would rather like to see it extended. As a matter of fact, this is a publicly operated service to the people extending mortgages to them where they have to have mortgages, and we would rather that that be done through that particular medium than through any other medium.

Q. So that, I take it, it really comes to this, that this condemnation now narrows down to the commercial banks?—A. Yes.

Q. That is really what it comes to?—A. Yes, that is right.

Q. And while the early part of your brief raises the question of all farm credits in your province, the latter part of it is only concerned with the commercial bank?—A. Yes. If you will follow that through you will see that we went through a struggle to try to secure credit in order to develop the country and carry on our operations. We had difficulty in getting it. That sets it off.

Q. I think I have got the point clear now. You set out all the difficulties and I was not able to follow through each branch of the difficulties you set out in the early years, and I wanted to get it on the record.—A. If you start at the beginning you will see we had no thought at that particular time of the idea of having the nation or the state take over the operation of it. That was driven home to us—the necessity that ultimately that would have to be done.

Q. My point was that you had not followed through in the latter part of your brief with the things that had been done, and your position with respect to them?—A. Yes.

By Mr. Cleaver:

Q. Mr. Bickerton, you have read over the proposed new bill with amendments to the Bank Act, I presume. What criticism have you in regard to the bill as it now stands? Do you believe it will work satisfactorily in the interests of the western farmers, or have you criticism still?—A. No, I said this morning that I have not had an opportunity of reading over the new bill. I think there is a bill No. 121 that refers to part of it and there is bill 91, I know that. The day before I came away we got some copies of this bill and I threw one of them into my grip but I have never had a chance to look at it.

Mr. McNevin: Bill 91 and bill 134.

The Witness: Yes, I have learned something since we came here. It would appear as though some of the steps that are being taken are taken in a direction that will ultimately get to the place where we set out in this brief we want to get.

By Mr. Cleaver:

Q. I wonder if you would be good enough to read over the provisions of the new Act and then present to the chairman any criticisms or suggestions which you have to make based on the new bill?—A. I will.

Mr. McNevin: I want to refer to one section relating to the difficulties with regard to securing credit on grain. In the amendment to section 88 of bill 91, clause C says:—

> The bank may lend money and make advances to any farmer, upon the security of threshed grain grown upon the farm.

That provision, I think, will be an advance.

The Witness: That is one of the amendments.

By Mr. McNevin:

Q. That is one of the amendments of the bill?—A. Yes, that will certainly be a great improvement.

Q. Bill 134 is described as: "An Act to encourage the provision of intermediate term and short term credit to farmers for the improvement and development of farms, and for the improvement of living conditions thereon." There is a very long list of purposes for which the bill provides that the banks may lend money to the farmers: for the purchase of agricultural implements, for refrigerators, heating appliances, installation of electricity—there is a very long list of purposes. Now, would it be your opinion that that will be a provision that will be of advantage to the farmers in western Canada?—A. I wonder if I might say a few words? That is referring to a proposal that the banks, upon the request of the dominion government, will release approximately, I think, $250,000,000—am I right in that? They may lend more if they wish, but the government will guarantee the loss up to 10 per cent on $250,000,000. Again I say it is a case of the banks not taking too many risks. They have got the government's guarantee to safeguard them against loss. As a private business I think that is good business, and if I were a banker responsible to my shareholders, I would try to get 20 per cent guaranteed from the government, but I would like to say a word or two upon that particular thing. I do not know what has been responsible for the arrangement or whatever discussions took place as between the banks and this arrangement—

Q. It is an extension of the same provisions that provided housing accommodation in the cities—it is extended to the farmers?—A. That has already been done, I know, to some extent in helping people to get houses and to improve their houses; but I want to say this, and Mr. Perley has mentioned one of the dangers, this unquestionably could make available to farmers credit that they possibly could use, and I am inclined to say it is possibly an inducement to encourage them to have a little more confidence in the banks than they have had recently. Now, I hope you will excuse me for saying that. That is my feeling in the matter.

By Mr. Kinley:

Q. Would you object to that?—A. Eh?

Q. Even if that were true?—A. No, no. In other words, what is the good of having a bank if you do not have business coming to it? But there is one thing that I want you to give some attention to, in all sincerity, even the banks. There will be years when you will have crop failures; and if there are any of you here who want to learn about crop failures, sit down and have a talk with Mr. Graham there, because he has lived right in the heart of it, year after year after year. Thank goodness that does not happen too often; but there is hardly any part of the province of Saskatchewan that has the same growing conditions. I think I mentioned this morning that it is nearly three times the size of Great Britain and Ireland. It is a great big place, and it is hardly possible that the same growing conditions can prevail all over the province. Mr. Perley mentioned one year that they did, 1915; and in some parts of the province of Saskatchewan they still talk about 1915. I think that was one year that there was not a part of the province of Saskatchewan that enjoyed a favourable growing condition. This year the crop condition in the province is very, very good. But our president here, Mr. Appleby, knows pretty well now that he is going to suffer almost a failure. That is one part of the province.

By Mr. Graham:

Q. Where is Mr. Appleby located?—A. Outside of Kindersley, at Pinkham.

Q. Oh, yes.—A. They have had lack of moisture up there, and that situation is going to hit them there. In making this provision with the banks, or the banks making their contracts with the farmers to advance this credit to that at what I would say is, in accordance with the history of the past, a reasonable rate of interest—because when you think of some of those rates of interest, and think of the farmers being able to get credit at 5 per cent, I do not know; it seems somewhat strange.

By Mr. McNevin:

Q. Like getting money from home?—A. Well, I hope they do not get foolish about it. I hope that the bank, or the local bank representatives will not allow them to get foolish about it.

By Mr. Blackmore:

Q. Will not allow whom, Mr. Bickerton?—A. The borrowers.

By Mr. Kinley:

Q. Will not lend uneconomically?—A. I do not think the local bank managers will allow them to run away. They are usually fairly thrifty fellows and fairly sensible fellows, and I do not think they will allow them to run away with themselves. The point I wanted to make is this.

By Mr. Graham:

Q. I was just going to say this. It has nothing to do with your argument at all, but I want to put in a plug for the victory loan. The victory loan to a farmer in a district such as mine or Mr. Appleby's is a great asset upon which to borrow. You can borrow at any time at $3\frac{1}{2}$ per cent. I think that is something which should be kept in mind by those of us who come from districts that are visited with drought conditions.—A. That is a very good point.

Q. We could forget about assistance to farmers borrowing if we could each have a bond.—A. I would say, just digressing, that we have stressed that upon the farmers in every way we could.

Q. I know you have.—A. To get that little nest egg, whether it is war savings certificates or whether it is a bond; to get something that is there—a cushion to fall back on is the way we have been telling them—and to hang on to it, just hang on to it. Because when the time comes of the change from the war economy to the post-war economy, regardless of what anybody may try to do, there will be a time of shock. Unless the people—that is, the people who are fundamentally responsible for the maintenance of the economy of the nation, and when we revert from a war-time economy, the farmers will become the basic people of the economy again; and I mean the farmers on the land—have something to absorb that shock, then the rest of the economy of the Dominion of Canada is going to feel it. I am glad you gave me an opportunity to say that.

By Mr. Kinley:

Q. That is good philosophy for them.—A. I want to say for the benefit of the bankers here there will be years of crop failure, and I am speaking particularly of our province. Unless you have got some arrangement or some provision made, a crop failure clause or something of that kind—I do not care what mechanism you use—or unless something is done to disallow the action being taken, the position of the borrower will be difficult. I have not noticed in that particular thing whether there is any action being decided to be taken in regard to foreclosure or whatever it may be. Unless there is an escape clause, you might as well figure out the type of foreclosure material you will use; because without any shadow of doubt there will be men who will borrow, and those men will have crop failures, will have failure years. Unless something is done to protect that man against anything untoward happening, you are going to put him in a very difficult position. I might make this suggestion. I do not agree, but I have seen it in one of the papers. I think somebody made a statement in the house here that, if you enter into a year of crop failure, the interest that had accumulated for that particular year should be cancelled. I do not entirely agree with that. The obligation still stands. But if the contract entered into is spread over ten years, and a crop failure season comes to this particular man—it may come to one and not to others—I would suggest that you will set the years onward, that you make it eleven years instead of ten. The obligation still stands. I think fundamentally there is no farmer who wants to renege upon any of his obligations, but he wants the opportunity to fulfill them. You may turn around and say, Who is going to be the judge, to say that there is a crop failure? I do not know.

By Mr. Kinley:

Q. Are there moratoriums? Can the dominion government declare a moratorium on foreclosures in the west?—A. No. They have the power on individual moratoriums. They cannot declare a blanket moratorium. That is a power of the dominion government.

Q. That has been invoked, has it not?—A. Yes, it has been invoked; but not so very often. Well, I will even take that back. I believe it has been threatened, but I do not know that the individual moratorium has ever even been invoked. It has been threatened and it has had the desired effect. I think that is one thing that you ought to take into consideration. If a farmer borrows a certain amount of this credit, I think he is borrowing it in good faith. He wants to pay it back. He will want to pay the 5 per cent interest. If he has a crop failure year, if you can find the necessary machinery to decide what is a crop-failure year, provision could be made. We used the sheriff in the judicial district in Saskatchewan under the Farmers' Creditors' Arrangement Act for a little while; and then some of the mortgage companies said it was *ultra vires* of the Act.

By Mr. Kinley:

Q. How did the Farmers' Creditors' Arrangement Act work out?—A. We think it worked fine.

Q. You still have it in force there?—A. Yes. Only, unfortunately, we think not sufficient farmers did take advantage of it. A farmer is a rather peculiar animal. He feels that he has worked damn hard to build up that debt, and he wants to hang tenaciously on to it. He has the machinery available if he will make use of it.

Q. He has relief from debt under the Farmers' Creditors' Arrangement Act? —A. I want you to keep this in mind. Whatever people may think, farmers have an obsession to pay their debts, however impossible it is for them to pay them. They will even get to the point where they will actually be evicted from their farms because they would not take advantage of the legislation which could possibly help them.

Q. If they were insolvent, they have the right to take advantage of that, or if they cannot pay?—A. It is very difficult to encourage them to do that. The farmer, above everything else, does not want to let his neighbours know what his debt involvements are.

Q. That is so of the business man too.—A. That is a peculiar part of it. But gentlemen, when you are considering that particular angle, that particular thing we have been discussing, I ask you give some consideration to protection in the years of crop failures; and I say that on the part of the bankers just as well as on the part of the farmer and the government.

The CHAIRMAN: Mr. Noseworthy has some questions, Mr. Bickerton.

The WITNESS: Yes.

Mr. NOSEWORTHY: Mr. Chairman, I was going to suggest first, before I asked the witness a few questions, that it would be very helpful to the committee if by any chance we could discuss the terms of Bill 134 while this delegation is here. Quite evidently they could give us good advice on that particular clause of that bill.

The CHAIRMAN: What is the wish of the committee?

Mr. KINLEY: Yes. I think they are interlocked.

Some hon. MEMBERS: Hear! hear!

The CHAIRMAN: I think you might ask your questions until there is a protest.

Mr. NOSEWORTHY: I wanted to ask a few questions arising out of the brief presented by this delegation. I note in the first of it that they maintain that this particular organization of farmers, "Have for many years consistently held that the money and credit instruments used by the people of the nation have no just or moral right to be owned, controlled or operated by private individuals or corporations." A little later on they recommend that parliament "take the steps necessary to assume responsibility of operating the money and credit service of the nation as a public service to Canadian citizens." Governments of earlier days are criticized in the brief for having shifted that responsibility to private corporations without a mandate from the people.

The CHAIRMAN: Mr. Noseworthy, may I just interrupt to say that matter was canvassed very thoroughly this morning, in your absence, by Mr. Coldwell.

Mr. NOSEWORTHY: I shall just take one minute. I note that the chief reason for that assumption is that the banking institutions in particular have failed to serve the general public and to serve or meet the needs of the farmers in particular. There are a number of examples quoted prior to 1917, and some up to 1924. We were told here in the committee by the Governor of the Bank of Canada, and by the President of the Bankers' Association, that the trouble during those depression years was not a case of the banks being unwilling to lend but that farmers in particular, with business men, were unwilling to borrow. I should like to have your comment on that, if it has not already been given.

The WITNESS: I think any one who made that statement was stretching his imagination.

Mr. BLACKMORE: Hear, hear! Entirely out of contact with realities.

The WITNESS: There is not any doubt about it, the farmers had got into the practice, along with other people, of going to the bank and making their credit arrangements periodically, regularly. That was their means of carrying on and doing business.

Mr. BLACKMORE: Hear, hear!

The WITNESS: And when something happened at the end of 1929, the average run of farmers, and I would say the average run of business people, did not know what had happened. But they still continued to try to do business in the same way, and they went to the banks. I can tell you of farmer after farmer who went to the banks to try to get credit again, and the first thing he was met with when he went to the bank to get his regular little line of credit to carry on with was, "I am sorry, but not only can I not lend you any more, but I have got to get more security for the amount you already owe."

Mr. BLACKMORE: Hear, hear! That happened everywhere.

The WITNESS: And they demanded and got second mortgages on some of the property and chattel mortgages on the tools that they had to work with. I do not care who the bankers are, if they make the charge that credit was available, freely available to the farmers, it is not true, except in one way. A banker may say to you, "We have credit available as long as you can show us the same security that you could show us in 1928 or 1929."

Mr. BLACKMORE: Hear, hear!

The WITNESS: When the bottom had dropped out of everything, when wheat had dropped from $1.47 a bushel, as it got to at one time, and where by the middle of March it was down to a dollar a bushel, and within twelve months of the end of 1929 it was down to 50 cents a bushel, then the security that could be provided for the use of credit had gone; and there was not a farmer in the country who could show the same security in 1932 that he could show at the beginning of 1929; not anybody.

Mr. BLACKMORE: Hear, hear!

The WITNESS: Then it was simply a case, as I have stated before, that the banks consistently operated the way the umbrella man did. You could get the loan of an umbrella when the day was fine, but when the day was wet he needed it and you could not get it at all.

By Mr. McNevin:

Q. You would not suggest that any institution could lend as much money to a farmer in western Canada when wheat was only 40 or 50 cents a bushel as they could when it was $1.40 or $1.50 a bushel?—A. Oh, no.

Q. That is a point I want to be clear on.—A. What the banker wanted was the man's statement, and the man's statement involved his land, his chattels, his integrity to work and everything else. It involved all that.

Q. The point that I wished to make, in fairness to the bankers, was this. It was a condition that the bankers did not create or were not responsible for the depressed grain prices.

Mr. BLACKMORE: They were responsible for it.

The WITNESS: I merely repeat this. You can go back into the evidence of the Macmillan Banking Commission, and I said were I a local banker and my responsibility first was the protection of the investments of the shareholders, if a farmer came to me, I would not loan him one dollar. Why? Because that farmer could not show that he had any equity in anything. He had not any equity in anything. His asset over liability was shown with a great big round "O". It had dropped to zero. He had nothing. If the first charge against a local bank manager was the protection of the investments of his shareholders, then I say that he would have been remiss in his duty if he endangered those investments. Then it comes to this: are these people not in charge of servicing the people of the Dominion of Canada with whatever the medium of exchange is to the extent that the dominion government exercised their power over them? I say this. The proof is there. It did not function.

By Mr. Blackmore:

Q. You mean the banking system?—A. The banking system did not function for a period of time, however short that period may have been. Where was the dominion government? They were not in the position, apparently, or did not take the position that they could enforce the functioning of the credit and money system of the country. They did not, anyway.

Mr. KINLEY: They closed up in the United States.

Mr. NOSEWORTHY: Well, we are not discussing the United States now.

Mr. KINLEY: I know, but I am.

By Mr. Noseworthy:

Q. There is another point I wanted you to comment on. It has been brought up in the committee that there is a great deal of interlocking of directors between the banks and corporations. It has been pointed out, for instance, that ninety-four bank directors, of three banks, which control about 70 per cent of the total banking assets, hold about 799 directorships in 484 corporations, including a great many corporations across the country. Has your association given consideration to that and its effect on the opportunity of the small business man, the farmer, to get credit? I ask that question because again we were told by the banking authorities that these interlocking directorates have no influence or effect whatever upon the lending policy of the banks. I should like to know what the opinion of your organization is.—A. I do not know that I would be prepared to go into that angle of the thing. I remember that we had a complete chart of interlocking directorates. I think I saw something the other day; I forget the name of the man but he was around speaking in the western provinces. He was the president of the Canadian Chamber of Commerce. Some of you may know his name. I do not remember it. In the invitations which were sent out requesting people to come and listen to what he had to say—I think they called him Dobbie—he was listed as a director, vice president, president, and so on, and was inter-mixed in a great many concerns. I do not know whether that is a healthy thing or not. I do not see where anybody gains a great advantage in it. I do not know what particular effect that has unless the people who have control of the money medium also control the implement concerns and other things that are involved in the life of the people of the dominion. The question may then arise as to whether it is a good thing that that should be centralized in the hands of a comparatively few people. There are certain things that seem to be glaringly inconsistent. Talking to Mr. Tucker just yesterday I happened to say that there seemed to be a lot of inconsistencies. Here is a man who is the head of a concern that is developing one of the natural resources of our country. He has a salary of $195,000 a year with a retirement pension of something like $50,000 a year, and the man who is considered as the head man of our nation, the head man of that part of our country that has to do with establishing laws, rules and regulations, has less than $25,000 a year. I am speaking of the Prime Minister. There seems to me to be an inconsistency there. I do not know whether that relates in any way to your question, Mr. Noseworthy.

Q. You indicated in your reply to Mr. Maybank that you had had considerable experience with borrowing both from privately owned credit institutions and publicly owned, and I took it from your answer that you felt that the publicly owned were more satisfactory to the farmers?—A. Yes, I would say so. I think that the Canadian Farm Loan Board, the Provincial Farm Loan Board, carry on the business in a very efficient way. I think that possibly they are even a little more careful in their selection of advances in credit on the particular farms than the average mortgage company is. They are a little more particular in their selection. So far as I can see there are very few defaults take place. From my own knowledge I have heard very little dissatisfaction. Under certain circumstances and at certain times you get the odd one that grumbles that the Saskatchewan Farm Loan Board is just as tough as any other board. Personally we would not expect that it was going to be a kind of self-admiration society; it would have to function in a proper business way, and they do. I think generally speaking there is a great deal of satisfaction.

If you will allow me to digress for a moment I heard of a case just a few days ago. It was an appeal case against a decision that had been given by the district court judge under the Farmers Creditors Arrangement Act. This is what happened, and I point this out to show you that although some people say that under public operation of certain things you would have favouritism and one thing and another it is not necessarily so. I do not agree with that.

In this particular case the man homesteaded some land away back in 1906. He was not a very young fellow then. He is seventy-six years of age now. He borrowed $1,400 to buy a threshing machine. By 1919 he had not been able to pay all of that $1,400 back but he had paid it up to about $600. He had paid a good deal on it and had possibly paid a lot of interest. Then, from private sources, a man who had some surplus capital in the city of Saskatoon loaned him $3,000 on the same property. That enabled him to pay the balance that he owed on the first $1,400 mortgage. He was not able to pay the new mortgage off and time went on and he did not get that whittled down to anything below $2,400 or $2,500 up to 1929. In 1929 he went to one of the mortgage companies—I do not want to mention the name—and got a loan of $5,500. The only way he had been able to pay the first loan was by getting the second loan, and the only way he was able to pay off the second loan was to get the third loan, and the third loan was three times as much as the first loan and twice as much as the second loan. The judge who was presiding in the case rapped the representative of the mortgage company over the knuckles. He said, "You want me to give you consideration. You are the one who is to blame for this man's position." He wanted this man to give a quit claim on the place to them and he would make a deal with the sons. The sons were operating the place. He said, "No, I will not." He said, "Old age and maturity are no reasons to evict a man." He said, "There may be other reasons but one of the reasons that caused this situation was your fault."

Mr. KINLEY: Too much money.

The WITNESS: Sure, he said, "The record of this land showed you had no right to advance $5,500 on it," and they hadn't. Now, do not turn around and say it is the farmers that are wholly to blame for these things. The mortgage company in that case, and in many other cases, is to blame.

Mr. BLACKMORE: Mr. Chairman, would Mr. Noseworthy permit a question? Is the witness now advocating a restriction of credit policy?

The WITNESS: No, I would rather put it this way, that I would like to advocate an intelligent credit policy.

By Mr. Blackmore:

Q. How would you define an intelligent credit policy?—A. By the individuals who have control of advancing credit using a little of the gray matter, if they have any, and seeing that the amount of credit which is advanced is commensurate with the possibility of it being paid.

Q. If governments owned the institutions they would do that?—A. If you had government controlled institutions they would make mistakes. There is no question about that.

By Mr. Hill:

Q. Were you not just advocating that these farmers should have more credit than they could get back in 1930? A few minutes ago you were advocating that. You said that the banks would not do it and the government would not step in to see that it was done. Now you say they loan them too much credit. I cannot understand that.

Mr. KINLEY: He thought they ought to be salvaged.

The CHAIRMAN: Proceed, Mr. Noseworthy.

By Mr. Noseworthy:

Q. I have one further question. A few moments ago you suggested Bill 134 should carry a provision for crop failure. Quite evidently that would involve a temporary loss to a bank. My question is, can this be properly handled by any other type of bank than a government-owned bank, or a loan that is backed by a government guarantee? Could you expect a privately-owned bank to accept that temporary loss for crop failure unless there is either one of two things? Either it is a government-owned bank or secondly there is a government guarantee to reimburse the privately owned bank for the loss?—A. I am not asking that that loss would be sustained except they would lose the use of a certain amount of capital and the interest which should be paid in that particular year. It would be a loss to the bank to that extent. My suggestion is you put the payment back one more year. It is true in that particular year they would sustain a certain proportion of loss in that they did not get the due principal for that particular year, and the interest amount due in that year. There would be a loss of the use of the amount that should be paid in. Whether the government has taken that into consideration in this 10 per cent limit they confine themselves to in dealing with that particular angle I do not know.

Mr. SLAGHT: We allow them to write that loss off and charge it to operating expenses in the current year. They have been doing that regularly and going along with a good reserve.

By Mr. Noseworthy:

Q. I noticed in your brief that you likened the banking system to the postal service in that they both render a very necessary and very important public function. I should like to call your attention before I close to the fact that in 1943 the banking system had on loan to private enterprise $970,000,000 whereas their holdings of public securities in the same year were $2,627,000,000 which would mean, according to my way of thinking, that the banks already have practically somewhere between 28 and 30 per cent of their business in government business.

The CHAIRMAN: Have you concluded your examination?

Mr. NOSEWORTHY: Yes.

By Mr. Tucker:

Q. Mr. Bickerton, I suppose you are aware that a penalty clause was placed in the Bank Act in regard to banks charging higher than the legal rate in the last revision. I think that is correct?

Mr. TOMPKINS: In 1934.

By Mr. Tucker:

Q. You were aware of that, were you?—A. Yes.

Q. And I think once that penalty clause was placed in the Act the banks ceased their practice of violating the law?—A. Yes.

Q. So that there is no objection on that score for the past ten years?

Mr. KINLEY: It cancelled the debt they charged.

Mr. TUCKER: Now there is a penalty clause they cannot recover the debt but before, although it said very specifically they should not charge more than 7 per cent, because there was no penalty they could collect the debt plus interest at the legal rate, and the banks took advantage of that up until 1934 but since that date there is no complaint on that score?

The WITNESS: No, I do not think there is. It has altered in the last number of years.

By Mr. Tucker:

Q. What do you say, Mr. Bickerton, about the 6 per cent that is proposed in this bill as the maximum legal rate which should be placed in an Act like this? Do you think that is a fair rate or do you think that it should be lower?—A. I think it should be lower. Harvard University made an investigation into rates of interest that could be carried on farm property some years ago. if any of you men want to get information upon that you can get it from the farm economic branch of the University of Saskatchewan through Professor Van Vliet. I know he has figures on that. We have often discussed it. They concluded that on an average type of soil the maximum rate of interest that could be borne was $3\frac{1}{4}$ per cent. If the soil quality is below the average the possibility of carrying that rate of interest is such that it could only be done by a reduction of their standard of living. Land that was possibly higher than the average quality of land could carry a higher rate of interest and still maintain operations on a decent standard of living. There are many things that go into all that. As you all know you can be provided with all that information and you know that no quarter-section of land can maintain any debt whatsoever unless it is a very high quality and bring up a family, too. From that point on land can begin to carry a debt.

By Mr. Blackmore:

Q. From what point on? You said, "From that point on". From what point on?—A. From the point on of a quarter of a section, if you have a half section of average quality.

Q. You mean more than a quarter section?—A. Yes. If you have a half-section or three-quarter section you can begin to maintain debt but no quarter-section farmer on average type soil, carrying on in the ordinary way that a quarter-section farmer does, can carry any debt whatsoever or pay interest upon it.

By Mr. Jaques:

Q. He could not pay for his land?—A. No.

By Mr. Tucker:

Q. Mr. Bickerton, if the cost of extending credit is higher than the amount of interest that farmers under present conditions can pay, the amount of interest which the land can carry under present conditions is higher than the cost of providing that credit, then it is not a matter of banking; it is a matter of improving the condition of the farmers, is it not?—A. It depends upon the debt position he may be in. There are many farmers that have carried on, that have maintained debt and have fairly well kept up the payments so far as that is concerned, but their situation is reflected in the condition of their buildings, the condition of their equipment, and so on. You can see that wherever you go.

Q. You would grant the point that anyone, government, farmers, or anybody else, should pay the actual cost of providing credit?—A. Yes.

Q. And that if they need credit and cannot pay it is then a matter of improving the lot of the person needing credit rather than finding fault with the banking system, is it not?—A. Yes, in a good many cases you possibly have got to improve the farmer. There is no question about that. I have often said you can put four farmers on four respective pieces of land, you can provide them with an equal opportunity but you will find the development stage of the farms in four different stages. There are none of them alike. There are none of us alike at all.

Q. What I am getting at is the average position of our farmers in the west has been such that during the last twenty years, as a matter of fact, he probably could get by and raise his family if he had no debt but if he had to pay interest of any kind whatever that interfered and brought his standard of living lower than what it should be?—A. That is exactly what has happened.

Q. And that has been due to recurring low prices and crop failures, but largely due to prices being lower than they should be to maintain him in his occupation having in mind the adversity he has to meet from time to time?—A. Yes. That is true. It is not always entirely the inability of nature to be kind to him that has caused the situation. Back in 1933—I know that Mr. Tucker would remember it well—the farmers got a good crop, but the prices they received for the wheat—

Q. 1932, I would think.—A. I beg your pardon?

Q. I thought you said 1933.—A. 1933.

Q. No, 1932.—A. Yes, 1932. The price that he got for it was 23 cents and 25 cents a bushel.

Q. Yes.—A. Well, to all intents and purposes it was worse than a crop failure for him, because he was involved in the cost of harvesting the crop.

Q. So here is the situation we get. I am bringing this up because of the apparent discrepancy. Somebody said that at one time you said that the farmers needed credit badly and could not get it and the banking system failed them; and then again that you spoke of another case where a man got credit with no hope of repaying it, and should not have got it. I say that is an illustration—and you can make a comment on this statement—of the state of mind of most of us in western Canada. We needed credit and we found we were under such circumstances from time to time, due to recurring drops in price and crop failures which must be taken into account, that we could not carry the cost of the credit. We could not carry credit at practically any cost, no matter how low. Is that not right?—A. No. It was impossible. In 1937 there were 65 per cent of the farmers in our province that had a definite crop failure. The average production of 65 per cent of the farmers of the province, according to the figures that were compiled by the Minister of Agriculture, Mr. Gardiner, was 3·4 bushels per acre; and the prices were not high. Breaking that all down and adding the amount that was provided by way of relief that came in to the farmers, and allowing a certain amount per farm for the disposal of a few eggs and things like that, I computed at that time that the total income for this 65 per cent of the farmers of Saskatchewan worked out at $232 for the year. That had to take care of all of their operations and everything else. To talk about paying interest upon credit at that particular time—well, it was impossible. Yet if they were going to go through the motions, they were going to have to decide upon one of two things. They could say, "Here, this country is through; let us give it back to the Indians and get out of it." But they did not lose that confidence. Yet they needed credit facilities with sufficient flexibility in them that could continue to be used in order that they would continue to go through the motions and hope that the next year would be the year that they would begin to come back again. Do not make any mistake about it: the province has come back and has become very, very productive again. We have never lost confidence in it, and I think it will stay for some time.

Q. What I am getting at, Mr. Bickerton, is this. Our solution does not entirely lie in the realm of reform of banking and money. It lies in the direction of guaranteeing a minimum standard of living, in the way of a floor under farm prices and the Prairie Farm Assistance and so on, guaranteeing a minimum income to the farmer. That I suggest to you holds out more hope to the farmer than any question of getting rates of interest down another 1 per cent or half a per cent.

Mr. Slaght: What about the $16.000.000.000 of taxes?

The Witness: You mean, Mr. Tucker, that so long as he has some assurance or some reasonable assurance of getting a crop and growing products?

Mr. TUCKER: And getting reasonable prices.

The WITNESS: And a reasonable price return for them, that he can meet anything that comes.

By Mr. Tucker:

Q. No. Meet reasonable rates of interest such as we are getting now, I suggest.—A. Well, I am not quite so sure that that is a reasonable rate of interest yet.

Mr. BLACKMORE: Could government ownership of the banks help the situation. They could not loan at a loss.

Mr. TUCKER: That is what I am getting at.

The WITNESS: Only to this extent; that is, by government operation you would be there to perform a service.

By Mr. Blackmore:

Q. Even at a loss?—A. Even at a loss, if necessary.

Q. Year after year?—A. To meet an emergency.

Q. Year after year?—A. Year after year, if it was necessary.

By Mr. Tucker:

Q. Would it not be more straightforward, Mr. Bickerton, to actually help the individual to the extent of his need rather than to put the burden upon the financial system, either publicly-owned or privately-owned?

Mr. MCNEVIN: You mean Prairie Farm Assistance?

Mr. TUCKER: Such things as Prairie Farm Assistance, a floor under farm prices and so on. I suggest to you that to a certain extent we in western Canada have been blaming the banking system and claiming that it should be changed more than we should have done consistent with the situation. In other words, the thing that has ruined us has been the recurring low prices—and I am speaking of the last ten years—and crop failures.

The WITNESS: Yes. By subsidies and other things to take care of exigencies, you could possibly meet certain situations that could occur, and all of that kind of thing. But we still come back to the place where we say that this is a public utility.

By Mr. Tucker:

Q. Yes.—A. And we stand on that.

Q. Have you studied the cost of providing credit in small amounts to farmers?—A. Studied the cost?

Q. The actual cost—that is what I am getting at—either in this country or in any other country in the world, including Russia where they have a publicly-owned system.—A. Yes.

Q. I ask you to say what you think about the maximum limit of 6 per cent on the sort of loans a bank makes to farmers, short term loans for small amounts, because the 5 per cent is on the intermediate loans.—A. Yes.

Q. But on the short term loans, in small amounts—I am not speaking of mortgage loans or anything like that—I should like to know whether you do not think that 6 per cent is getting down fairly close to the cost of the loan?—A. No. I still must insist that you come back to what our original intention in this was, and I would say this: If the administration of this credit to provide the people with the use of it, and whatever the medium of exchange is, can be done at 1 per cent, then that is the amount. If it cannot be done under 10 per cent, then that is the amount.

Q. That is what I am asking, Mr. Bickerton. Have you made any studies as to the actual cost of providing this credit to our farmers?—A. I have made a little study. My humble opinion is that for one section of the people you could possibly provide a credit service a little cheaper than for another; that is, if you had a big corporation, a big business, that was handling big sums of it, I think you could administer the use of credit to them much more cheaply than you could to individuals. I do not think that you could tie it down to any one particular thing. I think you have got to have sufficient flexibility to be able to advance huge sums of credit to, say, such institutions as the wheat pool. I think you could certainly handle credit for the use of the wheat pool much more cheaply than you could by giving me a line of credit. It is going to cost more to service me as an individual than it would to service the larger institution. My humble opinion about the general run of credit is this. To take it over-all, I think the general run of credit, and whatever is used as money, could be administered for the benefit of all the people of a nation, at a cost somewhere close to 3 per cent; I think a little under that. That is my opinion.

Q. If you lend the government, as the banks are doing to-day, at 1 per cent approximately or a little over 1 per cent, then you are going to run your actual cost of credit to individuals accordingly higher than 3 per cent in order to get your average cost?—A. Well, you probably would, because there is more service having to be given. You have to run a service branch at different places to service a number of individuals. It has been mentioned here that the government is using about $2,600,000,000 worth of credit from the banks. Well, it certainly would not cost nearly as much to service that as it would to use that amount of money over a multiplicity of individuals. It certainly would not cost nearly as much to service the government with that particular type of credit as it would to service a multiplicity of individuals who would each require a certain amount of time and service to be devoted to them.

Q. According to the figures which Mr. Ilsley filed in the house, the average cost of providing credit by our banking system was 2·28 per cent. That is on all their assets. The cheaper you provide your money to government, then obviously the more you have got to charge private individuals in order to get your average? That is one of the things that bothers me. You have considered that?—A. Yes. I can quite see that. It is possible you would have to go in accordance with the value of the service that is rendered by the institution. So would the cost be regulated. I do not know. I know that there are people who believe that you can just simply start away and turn out money or whatever you use as money, and circulate it around and it does not need to cost anything more than the printing press, the paper, the ink and so forth. I do not agree with that.

Q. No. That, Mr. Bickerton, brings up the question whether you have any information as to the cost of providing credit in any other countries, intermediate or otherwise, or do you think you could get that? For example, we have heard that the Scandinavian countries have been very good in providing intermediate credit to their farmers. I just wondered if you knew what the cost of credit was in any of those countries—A. I understand that Finland, before the war started, was providing credit to their farmers at a cost of something around 2 per cent. I do not want to be quoted as being actually accurate on that, but it was a low-level cost. We have a good deal of material upon what has taken place in Sweden. I would suggest that this particular committee—

By Mr. McGeer:

Q. Go to Sweden?—A. Yes; if you like, go to Sweden, Mr. McGeer. I do not think it would do you any harm.

Mr. SLAGHT: It is rather inconvenient to travel there now.

The WITNESS: I have been very interested. I have read and intend to reread some of the things that took place there, and how they coped with their situation in the period that we call the depression period here. They were faced with quite a problem. They were not faced with the same problem as we were faced with. In fact, all nations were faced with problems. Italy was faced with the problem at first, and she stuck a black shirt on the young men who were a dangerous element, and promised that they would give them fighting some day. Then in Germany there was a fellow across there who stuck a brown shirt on them and told them he would give them fighting. But Sweden, which could not continue the outlet that they had always had, the outlet to the United States and Canada of that young rising population, decided to put a work shirt on them and take them into what they called woodland camps and teach them crafts and trades—electricity, woodwork and so on and so forth. Then they began to straighten out their financial economy to enable them to do that. They had a distinct cleavage between the money medium that they were using as between what they required in order to maintain their domestic economy and what was required for their international trade. I would say that it would be beneficial to any of you men to get the books that relate to that; I am sure that it is quite interesting reading and you could do much worse things than to send Mr. McGeer and somebody else across there.

Mr. BLACKMORE: What interest rate did they provide?

The WITNESS: Maybe Mr. Blackmore would go with them.

By Mr. Blackmore:

Q. What interest rate did they provide?—A. I think their interest rates were somewhat along the line of 3 or 3½ per cent.

By Mr. Tucker:

Q. We were told that the cost of operating banks in the United States was just about the same as in Canada, and if our government sees to it that the banks are prevented from making undue profits as they can by their control through the Bank of Canada in issuing more currency and driving interest rates down, then you will admit it is quite possible under our present system to provide interest as cheaply as you could under a system which was publicly owned, would you not, Mr. Bickerton, for all practical purposes—A. I do not know what you are getting at.

Q. The point is your present banking system is trying to earn a return on its investment in the system of less than $500,000,000. It is actually administering assets far in excess of that, and the small extra amount necessary to earn a reasonable profit, the same as is earned in other industries, the small extra cost of providing that extra profit would make very little difference in the cost of extending credit? You would grant that?—A. Yes, I think that is a fair statement.

Q. And there would also be this possibility, that your private system might work harder at the job of making a success of it than if it were under public ownership? In other words, they might actually even charge no more for their credit, and by economies that would not be exercised by a government-owned system they might actually save the equivalent of their profit? That is conceivable?—A. That is supposing it is not possible to get as good service out of public administration as out of private administration. I do not know. You know, I am going to give the government a little credit for having done a pretty fair job during the last four years.

Mr. McGeer: They seem to think quite a lot of it in Quebec. They have taken over the power plant there and followed after Ontario. Then there is the Canadian National and the post office.

The Witness: In many places they have done a pretty fair job, and if you cling to that, Mr. Tucker, you are going to indicate to me you have lost a good deal of confidence in the power of government.

By Mr. Tucker:

Q. I would ask you to compare the Manitoba Telephone System which is administered from Winnipeg with our telephone system in Saskatchewan which is run by the farmers themselves in small companies. I suggest to you that the cost of operating a telephone in one province is just about half what it is in the other province. In other words, the farmers themselves where they have got control over their own small bit of business have watched over it more carefully in regard to expenditures than it could possibly be watched over when it is run from a central point such as Winnipeg as is done in Manitoba.—A. That is a semi-public ownership idea.

Q. But when you give an incentive to a person to run his own affairs he is going to put more energy and thought into it than if he has nothing to lose whether he does an extra good job or not.—A. No, I will not concede that at all.

Q. You do not agree with that?

Mr. McGeer: Who gets the cheapest phone rate, Saskatchewan or Manitoba?

Mr. Tucker: Saskatchewan; Saskatchewan by virtue of having local companies in local control gets a much cheaper rate than Manitoba.

The Witness: I think it is fundamentally true. After you have got the debenture paid for you can administer the line at very cheap cost.

By Mr. McGeer:

Q. You do not think for a moment it would cost us as much to supply our own public finance through a national banking system dealing with public finance as it does to supply it through the chartered banks?—A. No.

Q. We would have more and have it cheaper?—A. That is what I am maintaining all the time.

Mr. McNevin: Nobody has been able to demonstrate that yet to this committee.

By Mr. Tucker:

Q. I have dealt with the cost of providing credit. Now there is the question of where the credit is provided and there I should like you to comment on the attitude of western Canada towards the extension of credit for the advancement of industry in western Canada as compared with where bank directors are mostly situated.

Mr. Slaght: Before the question is answered will you permit me to ask one question?

The Chairman: Mr. Blackmore has asked for the floor following Mr. Tucker.

Mr. Blackmore: He has got permission to ask one question.

Mr. McGeer: I consent, too.

By Mr. Slaght:

Q. I was interested in a statement you made a few moments ago. Before you leave the question of cost as I understood it you put it to us that if the banks were nationally operated they could then go on lending to the western farmers year after year if they were unfortunate enough to be incurring losses and having disasters, and that they should go on year after year. In putting that to us do you appreciate that the taxpayers whose money would be lost year after year would be, for instance, the taxpayers of my district of Parry Sound, settlers and fishermen who are carrying their own load in the boat plus small business men in Canada; they would be paying their taxes year after year and financing the western farmer. That is what troubles me about your suggestion of a national institution which would continue to lend to one class or type, and a very worthy class, at the expense of the other taxpayers. I cannot see that philosophy.—A. There is no other way out.

By Mr. McGeer:

Q. You do not admit there is any part of western Canada that is going to go on losing money forever?—A. Not forever; I hope to God no.

Q. The hypothesis is ridiculous.—A. I hope that we will never go through a period like we went through in what is known as the hungry 30's. I would not like to see that.

Q. Or back to the hungry 40's.

By Mr. Tucker:

Q. The other way out is the one I suggested, to put farming on a proper and fair basis in the national economy. Is that not the answer?—A. Yes.

Q. That is the answer?—A. Yes, and it would be a national responsibility. In other words, the same thing applies if there is some havoc wrought somewhere and you have a bunch of people who are caught in it. The whole nation has to rise to that national calamity and has to provide the wherewithal to support those people and maintain them until circumstances have been rearranged to put them back where they can become productive again. There is not any question about that.

Q. Is it not a more straightforward and satisfactory policy to help a community and an industry as a whole than to say you are going to give loans that may never be repaid to certain individuals who go to a bank? That is what I think Mr. Slaght was getting at.—A. Well, I come back again to the point of saying that under certain circumstances of calamity there is no private enterprise that could take the responsibility, and I do not think that anyone should look to private enterprise to take the responsibility. That is enterprise which is owned and controlled by a few individuals. There is no one should take that responsibility.

Q. Suppose it were publicly-owned and controlled and handing out the nation's money? Would it not be fairer to put the whole industry on to a basis on which it can look after itself than to say the answer to this thing is to be ready to lend public money to various individuals who apply for credit at a loss? In other words, is not the onus on your whole economic set-up rather than upon the banking system, whether it is publicly-owned or whether it is privately-owned?—A. It does not matter which it is or what circumstances you have to meet. Here is a credit instrument that is used. It is something that we consider as a utility that should be there for the purpose of being used by all of the people. As such in good times and in bad times that credit instrument should function and continue to function regardless of what the circumstances are. Taking the law of averages you would naturally recoup yourselves in better conditions and better times. If you met adverse conditions you would have to face them. I mean the whole of Canada has got to face it if one section of the people of Canada through no fault of their own meets with adverse circumstances.

Q. You are suggesting, Mr. Bickerton, that the solution of our problems from 1930 to 1939 would have lain in a publicly-owned banking system, and I am suggesting to you, as Mr. Slaght did, that you would ask that banking system to make loans that might not be repaid due to adverse conditions, and that is not what you should expect of a banking system. The cure would lie in a proper system of crop insurance, in reasonable prices to your farmers so that their industry is on a basis where it can hope to get credit and pay the cost of that credit?—A. Yes, I hope we can come to that time. The Prairie Farmers Assistance Act is a step towards the idea of crop insurance. There is a certain amount of payment exacted from the delivery of grain for that purpose. My hope is that will be increased and extended. I should like to see that come, and that would take care of some of your times of extremity, but if you take your mind back to the 30's again there is no insurance amount that could ever accumulate, in my opinion, that would take care of a situation such as we had during all those years.

Q. It would be a matter for the nation to look after, but what Mr. Slaght is getting at is this, that if you are not going to take care of the fundamental conditions of the farmer and are going to say the answer to it is a nationalized banking system which will go on making loans whether they can hope to be repaid or not, you are going to run into the fact that banking system would be controlled perhaps in another part of the country and they would say, "We object to money being handed out under such a system". Do you not visualize that possibility?—A. Yes, but I hope you will not run away with the idea that I am saying whether the banks are nationally owned or privately owned that immediately cures all of the ills of all the farmers. It does not. There are many many other things that come into it in the ordinary way of running a business. That business has got to be run efficiently.

Q. And, in fact, under the conditions which our farmers were in from 1932 to 1938 or 1939, whether the banking system had been publicly-owned or privately-owned, unless it was going to go in for a policy of risky loans, it could not have helped the situation very much?—A. It could not have helped the situation. I think the Prime Minister said coming over on the boat as he was on his way from the old country, when he was notified in regard to the condition in one of these particular areas, the situation has got to be accepted as a "national calamity", and that is what it was.

Mr. McGeer: It was not only confined to Saskatchewan, to the farmers of the west. It also included the C.P.R., some of the banks and all of the industrialists in the east and the great industrial population of Ontario.

The Chairman: It is 6 o'clock, gentlemen.

The Witness: Everything was caught in the vortex of it.

Mr. Appleby: I think that part can be easily answered. I have refrained from entering into the debate.

The Chairman: I think we will give you the opportunity to answer it to-morrow morning.

Mr. Appleby: I think we will have to go to-night.

The Chairman: Well, if you have to go to-night we had better stay on. They have to go to-night.

Mr. Blackmore: Cannot something be done so that these men can stay on until to-morrow? We have only got halfway through with them. We have not heard Mr. Appleby at all yet. There are a great many things to cover.

Mr. McGeer: Do you have to go to-night?

Mr. Appleby: Unless I can catch an airplane; it is necessary that I be in Regina on Saturday, and I am told you cannot catch airplanes nowadays.

Mr. McNevin: You cannot run after them and catch them.

Mr. Blackmore: Is it more important that Mr. Appleby be in Regina than here?

The Chairman: Let us wait for ten or fifteen minutes.

Mr. BLACKMORE: I think we have been here long enough. Four hours is plenty for any committee to work.

Mr. MCNEVIN: Oh, let us stay a while. We do not have to sit in the house to-night.

Mr. TUCKER: I will only be about five minutes longer myself.

By Mr. Tucker:

Q. One of the questions about any nationally controlled institution is that, if it is nationally controlled the centre of gravity and control would, in that institution be in central Canada, and would there not be the thought at times, on the one hand, that other parts of Canada were not getting a fair deal because they did not have a majority on the board of control; and, on the other hand, might it not become very true that political power would be used at the expense of the minority even worse than it is under the present system?—A. How much trouble have you had with the post office?

Q. The difference between the post office, where you give the same sort of service to every part of the country, and a system where different parts of the country want an industry established there and will be asking for credit; where it will be a matter based on the honesty and integrity and ability of one particular group as compared with another, and the thought that political influences were being brought to bear, and sectional influences and so on were being brought to bear. I just wondered if you had considered the possibility of the west going to the board that runs this national bank and taking the attitude, "here, we want money to get this particular industry established; if you do not grant it we will say it is a political decision". And is not practically every decision we have made under a nationally owned banking system—is it not going to be either a political decision or at least alleged to be one?—A. Well, I think the answer to that is that you and I, Mr. Tucker, have got to get more people into the province of Saskatchewan, and some of the other fellows have got to get more people into the province of Manitoba and into the province of Alberta in order that we can get greater representation. You know, I have not entirely lost confidence in a democratic form of government, and I still believe that a democratic government can administer the affairs of the nation, whatever those affairs may be. I will take an illustration. It has not to do with the loaning of money, I know; but we have in the city of Regina a concern that has been promoted and put into operation by the dominion government to manufacture guns, and I think they have shown that they have manufactured guns as efficiently and effectively as has been done in any other part of the Dominion of Canada. That is a government-owned institution. I believe that we can administer anything that the nation wants to administer in the interest of the people just as efficiently and just as effectively.

Q. But that brings up the point that we, being a minority in western Canada, might be absolutely under the control of a government which has its centre of gravity here in eastern Canada and which might be inclined to find work for the people in central Canada and would always be claiming that industry could be established much more efficiently here than in western Canada; and would not the tendency be by having a board that was run by a national government to further centralize things in central Canada—even more so than to-day?—A. It is up to you and to me to prove that it can be done just as effectively and as efficiently in our places as it can be done anywhere else. I cannot have any tolerance with the thought and idea that you could not have a great deal of manufacturing enterprise take place in western Canada. I know we will continue to have the opposition of eastern Canada because they want it—

The CHAIRMAN: No, no.

The WITNESS: It is there. We are not getting the development out west that we ought to, but I am not giving up hope that it cannot be done.

By Mr. Tucker:

I suggest to you this possibility, that if you have nine or ten leading banks and put western Canada on a proper economic basis and make those banks come back to parliament more frequently than is done to-day to give an account of their stewardship, that that competition is more likely to get a fair deal for outlying parts of this country than you would ever get by a politically controlled bank in Canada.—A. Well, you see, all the difference there is, Mr. Tucker, is that you and I disagree on a certain point; and we could certainly chew the rag and continue ad infinitum.

Mr. BREITHAUPT: You have been doing quite a bit of that.

The WITNESS: I still contend that this is a utility that should be rightly administered and operated by the nation. You do not agree with me on that point.

Mr. TUCKER: Well, do you not think that if you had a nationally owned and controlled bank, you would there and then have a government monopoly in regard to the extension of credit?

The CHAIRMAN: I think you should drop the question, Mr. Tucker.

The WITNESS: Well, yes.

The CHAIRMAN: I think it has been answered.

The WITNESS: I want to answer that.

Mr. TUCKER: This witness is contending for the national ownership of our banking system.

The WITNESS: Yes. I want a monopoly of it.

Mr. TUCKER: I want to discuss that with him.

The WITNESS: I want a monopoly of it. That is what I am saying. But I want a monopoly, if you care to call it a monopoly, in the hands of the entire people of the nation.

By Mr. Tucker:

Q. Yes. But when it is in the hands of the entire people, they appoint a government which in our country will be a party government. It will not be a dictatorship. That is correct, is it not?—A. Well, we hope so.

Q. It will be a party government which will, in turn, appoint certain people to administer those affairs. In other words, the people cannot administer it themselves?—A. Oh, no.

Q. They have to appoint a party government. I put it to you that the average individual would be more likely, if you put him on a proper economic basis, to get a fair deal from a competing bank if he happened to be of the opposite political complexion from the government in power, presuming he wanted to get a substantial loan, than he would be from a banking monopoly owned and controlled by a political government?

Mr. McNEVIN: Hear, hear!

The WITNESS: Well, I cannot say I agree with you. I know a good many civil servants, and I think that they give very fine and adequate service. I think that the people in general have a lot of confidence in them. They are not men who come into office one time and go out of office and then some other group comes in. They stay. I think there are men in the city of Ottawa here who have been civil servants of the nation for a good many years, and I think that the people have a great amount of confidence in them. I still think that this thing could be administered, and the people could have a great amount of confidence in it.

By Mr. Tucker:

Q. You will admit, at any rate, that there is a danger of something like that happening, from a banking monopoly that favoured the place where the majority of the government in power are. It might discriminate against its political opponents and that would lead to an individual being at the absolute mercy, if he wanted credit, of the government of the day.—A. No. I will not agree with that.

Q. You do not agree with that?—A. No. I do not agree with that.

Q. Why would he not be at the mercy of the government of the day, if you had the government controlling the only means whereby he could get credit?—A. Well, you are not suggesting, are you, Mr. Tucker, that any one who is connected, let us say, with the Liberal government of the present time, would not be fair in administering anything that they wanted to administer that was under their jurisdiction? I would say you ought to have confidence. I can only gain from what you say that there is a possibility that another government may come in and they might not be as fair. Do I take that to be what you mean?

Q. I have in mind an article written by the leader of the party that does believe in the national ownership of banks, stating definitely that the first step in getting control of your entire system was to get control of your banking system. He said that in *MacLean's* magazine of September 1 of last year.—A. I do not want to discuss what some of the party leaders say.

Q. I think there is just one other point I want to suggest and that is this. One of the things being complained about is the lack of vision on the part of the private banks. I suggest this, that a civil servant is less likely to be venturesome than a person running his own private business because if you take a chance in your own private business you have a chance to benefit by it and get a profit out of it but if the civil servant takes a chance and it goes right that is taken for granted but if it goes wrong he never hears the end of it, so that you get the civil service temperament, do not take a chance, pass the buck, on no account take any chance because we have got to answer for that some day, perhaps before a committee of parliament. Is that not one of the troubles of bureaucratic control of anything?—A. I do not agree with you there. I think you have got to establish a policy under which that civil servant will work, and if the governing body has not got sufficient vision and initiative in it to establish a policy under which the administration of money and credit would function in the proper way that it ought to function then I say that the people themselves will decide that it is time there was a change.

Q. In conclusion, Mr. Bickerton, I suggest to you that having taken control of the system to the extent we have under the Bank of Canada we have the machinery now to drive down the cost of credit to our country to a pure service charge, and the cost of credit to our people to a reasonable payment for it without taking it over into the hands of an all-powerful state?—A. Just let me conclude by saying this, and I think Mr. Tucker is finished, too. I think that you are making considerable advancement at this moment. I believe it might be a fairly considerable length of time before people will get to the place where we think they ought to get to some time. When that time will be I do not know, but we believe that, and I hope you will excuse us for believing that. I think the members of our association will continue to believe that, but any steps which are taken, and such as are being contemplated at the present time, I believe are wonderfully good steps leading up to where we think this thing will get to.

The CHAIRMAN: Mr. Appleby has a short statement.

Mr. BREITHAUPT: Will he be here to-morrow? I have not had the floor at all. It is only a small group has the floor in this committee.

The CHAIRMAN: You will have it all day to-morrow.

Mr. BREITHAUPT: Nobody else gets a chance to speak around here—

The CHAIRMAN: We will let you have it to-morrow.

Mr. APPLEBY: I will not take more than a couple of minutes because Mr. Bickerton has answered many of the questions. I should like to deal with one matter which was raised, and that is as to one section of the community paying for another section. I would like to give you some of the thoughts of our association on that. There was something said which did not seem to fall in line with the thoughts of our association, that year after year any point in our province would be taxed to pay interest and keep on paying for another part. We had a system that was entered into whereby a portion of our province which continually proved that it would not supply its own needs and its upkeep was taken out and placed in the government community pastures. It all goes to keep up our whole dominion. You can put into a little community pasture a part of the province which has proved that it never will support itself under any policy. I think it can be explained in that way. It has worked in our province in large areas. Thousands of acres have been withdrawn. Mr. Tucker knows that. That part can be taken out. I think that would eliminate a lot of this argument. When we come down here with our association it is an honest endeavour, an appeal to you people to do something about conditions out in Saskatchewan. There is tremendous unrest out there in the prairie provinces. Saskatchewan has shown that there is tremendous unrest. The leaders in the farm movements have pretty well lost their faith in the banks and the government administrators because they just have not shown them the way out. They don't know why particularly, but their condition has progressively got worse over the last number of years, and they have produced and produced.

Mr. McNEVIN: Is it not a fact that if you take the reports, there have been very substantial reductions in the mortgage indebtedness in the province in the last two years?

Mr. APPLEBY: Yes. I said progressively. Don't take any two years. It is twenty years or thirty years, and the debt has piled up and up.

All this serious unrest is another thing, and they are looking for something. I do not think we want to enter into any discussion, and I want to avoid that, but there is a way out, and we are honestly looking to this committee for a solution; and if the solution is not found here unrest is going to grow and grow, and what is going to happen is going to be laid at the feet of this committee where it is going to be placed. You are responsible for giving us a position in Canada that will push us forward, and if you fail in your commission then Lord help us.

The CHAIRMAN: Gentlemen, on behalf of the committee I wish to thank you for your attendance here.

Mr. TUCKER: Perhaps Mr. Bickerton could remain for to-morrow's meeting. There are members who wish to ask him questions.

Mr. BICKERTON: Yes, there is really no reason why I should go. I could stay over.

The committee adjourned to meet Thursday, July 6, at 11 a.m.

JULY 6, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Bickerton, will you come to the head table? Mr. Blackmore and Mr. Breithaupt both asked for permission to examine the witness. Mr. Breithaupt is not here. Do you care to proceed, Mr. Blackmore?

Mr. BLACKMORE: Mr. who?

The CHAIRMAN: Mr. Breithaupt.

Mr. BLACKMORE: Yes, I would be glad to proceed.

The CHAIRMAN: Go ahead.

GEORGE R. BICKERTON, United Farmers of Canada, Saskatchewan Section, recalled.

Mr. BLACKMORE: Mr. Chairman, may it be fully understood before we start that I have no antipathy or opposition to Mr. Bickerton or Mr. Appleby.

Mr. CLEAVER: Nor has any member of the committee.

Mr. BLACKMORE: None of the committee have. We are facing serious times. We all want to find a better way of doing things than we have had if there is a better way to be found. The only way we can hope to find it is by conducting a careful investigation.

By Mr. Blackmore:

Q. I should like to direct Mr. Bickerton's attention first of all to the passage in his memorandum which reads as follows:—

> We consider the only matter that has to be decided is whether or not the men responsible for the operation of Canada's banking and credit system are fit and proper persons to be entrusted with such important responsibility, and our considered opinion is that the present operators are not fit and proper persons to be entrusted with the operation of the nation's money and credit instruments for the following reasons.

Then, seven reasons are given. Now, that statement is undoubtedly a considered opinion and therefore requires a good deal of attention. Let me get the exact words again, "whether or not the men responsible for the operation of Canada's banking and credit system are fit and proper persons to be entrusted", and "that the present operators are not fit and proper persons". I wonder if he would mind elaborating on that in answering the following questions. Would the objection be to these men because of lack of integrity in these men? Do you believe that the bankers at the present time, managers of the banking concerns, the Governor of the Bank of Canada, and other men who are responsible, lack integrity, that they are not honest?—A. Mr. Blackmore, I will have to take you to the last clause wherein we say they are not fit and proper persons because no private individual or corporations are fit and proper persons to operate a nation's money and credit instruments. As I have said many times that has been the policy of our organization that it ought to be administered as a public utility. That is the answer to your question.

Q. You would assume then just as soon as a man becomes a manager or operator of a private concern something goes off in him. He ceases to be as good a man as he was before. I am just desirous of getting your point of view. I am not opposing it or supporting it.—A. No, not necessarily, Mr. Blackmore.

I think they operate their particular enterprises with all of the efficiency and integrity that they can within the confines of the policies that are set out, provided they stay with that policy, but they did not stay with that policy as enunciated and set out by the Act as has been said many times in that they charged more than the rate of interest that they were allowed to charge. We know that has changed in recent years, but that is what has happened. I think a good many of the men who were at the head of those concerns are still at the head of those concerns. The same people are there that did things that are in contradiction of the Act.

Q. That fact was the reason for your making this statement?—A. Yes.

Q. It was not that they lacked integrity or efficiency or willingness to work in the interests of the Canadian people as a whole?—A. There are a few more things contained within it. We contend that if they had administered the system which was fundamentally under their control in the efficient manner they should have they should have foreseen what was going to take place, accelerated greatly by their own inflationary action, from about 1925 to 1929. They should have foreseen that, but when they get to the end of that time with the lid completely closed and enter into a state of stagnation I could not for one minute relieve them from all blame and responsibility for that. If they were not able to see what this action they took part in was going to culminate in then I say they were not proper people to be there.

Q. Would you feel quite sure if these men were managing government owned institutions they would have any better judgment?—A. I would naturally expect that if ever the time came that it was taken over as a national responsibility that it would be under the supervision of a commission which would be set up for that purpose. The danger of political interference, political influence, and all that kind of thing, has been stated here. The more that is said to me the more confidence I begin to lose in democratic government. I do not want to lose that confidence. I am trying to struggle against losing confidence in democratic government. If this were operated as it naturally should operate under an impartial commission then the supervision would be in charge of that commission. Your commissioners would probably be judges of the superior court. My relationship with them is that the average judge of a superior court cannot be influenced by any man. That is my experience with them. They do not care who the political leader is who may try to influence them. They will not be influenced. If it were under an impartial commission so far as supervision is concerned I still have sufficient confidence in the government being able to administer through the medium of a commission.

Q. Of course, it is necessary for us to examine the whole field with a good deal of care. May I bring up as an example of the kind of thing that may help us in our thinking what has been done with respect to our railway freight rates? Do you feel that the people of Saskatchewan and Alberta have received justice in the matter of railway freight rates?—A. No, I do not; not quite; although I recognize the difficulties there are in the long haul, but we still think that the freight rates are too high. I say that if you are referring to the nationally owned railroad compared to the privately owned railroad if you take the watered stock out of the nationally owned railroad and bring it down to the actual use value of the actual assets of the nationally owned railroad I think you will find that the operating returns compare very favourably with those of the privately owned concern. I think the nationally owned railroad has been operated quite efficiently.

Q. Let me use as an illustration, as a point of departure, one simple fact of many that could be named. I am speaking from memory because I did not expect to use this, but I believe my memory is accurate in this respect. To bring 100 pounds of barbed wire from Montreal to Vancouver by freight it costs 75 cents. But to bring the same 100 pounds of barbed wire along the same route and drop it off at Edmonton, hundreds of miles short of Vancouver, costs $1.98. That is over twice as much. Our whole freight rate structure is shot through with glaring inequities of this sort which are militating against the economic wellbeing of Alberta, Saskatchewan and Manitoba in a way which it is almost impossible to believe could be brought about. You would grant that?—A. Yes. There is a lot of inconsistency there.

Q. Something that has an interesting bearing on this statement you have made thus far before the committee is this. There is what seems to be a competent Board of Railway Commissioners set up in Canada, whose business it is to act as referees, shall we say, over the whole matter of railway freight rates; and yet these men have allowed conditions of that sort to develop in the country. I would hesitate to go further into the matter, because we might get off the track. But if you will take the Saskatchewan submission to the Rowell-Sirois Commission and the Alberta submission, you will be greatly impressed by the inequities from which those people suffer. Yes, as you see, the whole thing has been put under a government railway commission. What assurance would we have, if our banking concerns of Canada were under such a commission, that the results would be any more equitable?—A. Mr. Blackmore, if I stay here long enough, I will almost begin to lose faith in the powers of government altogether. I do not want to.

Q. I do not want to either.—A. Along that particular line, you know, I can think of a man away back in 1927, 1928 and 1929, who was putting up a valiant fight for a group of people up in British Columbia. They had a mountain differential freight rate on feed grain. I am speaking of our friend here, Mr. McGeer.

Q. Yes, I know.—A. That thing dangled on for quite a number of years. I stepped into the office of the Board of Railway Commissioners one day and had a talk with Mr. Stoneman. I asked him, "What in the name of goodness hangs this thing up? He said, "We can get that rate reduced on feed grain at any time it is wanted to be reduced if a bill is brought in asking for that." "But," he says, "the dickens of it is, according to the manual that guides us, there is something else in it." That was mill feed. I said, "Do you mean to tell me if we eliminate mill feed, then a bill would be introduced there and there is no trouble?" He said, "You will not need a bill." He said, "The regulations are already here where we can make it apply." However, I think there was a bill brought in by one of the members for Vancouver; I do not remember who it was. He brought a bill in and cut out the mill feed, and the rate was reduced on feed grain. That does not say it should not be reduced on mill feed. There are a lot of inconsistencies; and I believe that there will continue to be a good many inconsistencies. But I believe, as you believe, Mr. Blackmore, that a good many of these things ought to be definitely overhauled, and that wherever there are glaring inconsistencies in these things, they should be removed. The unfortunate part of the thing is this. Our western farmers, Mr. Blackmore, seem to be very good fellows when we produce a tremendous quantity of wheat and produce a tremendous lot of products of different kinds. But if ever we get into a time of extremity, well, we seem like poor little sisters. That seems to be the general attitude, taking it over a period of time. I wonder if ever an investigation was made to find out to what extent the products of the west have been responsible for helping to build up the economy of the east. I think it would be quite a story.

Q. All that is quite correct, Mr. Bickerton. I agree with you. I think if you had occasion to examine the situation which obtains with respect to the three maritime provinces, you would find that they have a set of grievances just as painful as our own.—A. I agree with you.

Q. And while we do not wish to be sectional—I have no desire at all to be sectional, and I have endeavoured in parliament not to be sectional, because after all we want this Canada to be united—yet I think we must grant that there is a very strong tendency for policy in Canada to be dictated by the will of the two great central provinces which are able to outvote all the rest of us many times over.

Mr. NOSEWORTHY: I wonder if Mr. Blackmore would allow me to ask a question?

Mr. BLACKMORE: I will allow you to ask a question, but I want to make this statement first.

Mr. NOSEWORTHY: Very well.

Mr. BLACKMORE: Here is the question I think we in the west should be careful about. I am speaking now purely as a westerner to westerners, in the presence of these our friends from the east, from the two central provinces—and they are our friends. The thing I think we need to be very careful about is that we do not get any more of our essential economic national concerns tied up with Ottawa than we can help; and I believe that government ownership of the banking system in the Dominion of Canada would definitely centralize complete control over banking policy in Ottawa.

Mr. TUCKER: Hear, hear!

Mr. BLACKMORE: Therefore it would be under the domination, the direction and overwhelming influence of the two central provinces of Canada; and although they may be just as fair-minded as you may wish, their self interest would in many cases out-weigh their desire for complete equity. Or shall I put it this way: their self interest would make it very difficult for them to appreciate the validity of our pleas; and I speak now as a member who has tried those pleas for eight years on central ears. I think that is a very serious matter. Mr. Noseworthy wishes to ask a question. I am going to give way to him so that he may do so. But just before he asks his question, I want to tell you that the next thing I am going to suggest that we consider is the tariff structure of this country, which is unquestionably directly under the control of a group of men who are undoubtedly controlled by Ontario and Quebec and are centralized right here in Ottawa. I think the results will be worth examining.

Mr. NOSEWORTHY: I want to ask Mr. Blackmore a question.

The WITNESS: Just a minute. I should like to mention a word to Mr. Blackmore before leaving that. I think, Mr. Blackmore, that you and I can agree with the idea that, if there is any one thing that we want to aim for in this Dominion of Canada, it is a real understandable unification of our various provinces. I think you know what I mean.

Mr. BLACKMORE: Yes.

The WITNESS: We as provinces possibly, unfortunately, have not understood each other as well as we should understand each other. You mention what would happen if we centralize the operation of the money medium.

Mr. BLACKMORE: Centralize control.

The WITNESS: Centralize money control in one particular place.

Mr. BLACKMORE: Ottawa, particularly.

The WITNESS: Yes, Ottawa; it might not do that. Well, we have not tried it.

By Mr. Blackmore:

Q. It might not do what?—A. It might not bring us closer together. It might not give us a better understanding. It might tend towards keeping us farther divided. Well, I do not know. We have not got it.

Q. May I interject a question?—A. We have not got a universal understanding, one with the other, that we ought to have.

Q. May I interject a question to guide you? Generally speaking, what has our British concept been—that you should have power centralized or that you should decentralize it so that the local community has more and more control over its affairs? Which is the more sound and democratic attitude to assume—to centralize power or decentralize it?—A. Is it your contention, Mr. Blackmore, that we ought to get sectional banking mediums in various parts of the dominion?

Q. I would lay down the principle that the power of control of currency and credit in respect of credit should be decentralized so that if Saskatchewan wants to make a loan to its farmers it does not have to come and get a Yes or No in Ontario or Quebec without any chance anyway of doing anything about it?—A. I do not think we will get to that place.

Q. We have got there now, I am afraid?—A. Unless you have complete control by the nation of itself, I think all we have to decide in that case would be whether the control would rest in Ottawa as you mentioned or whether it would continue to rest in one particular street in Montreal. That is the only difference I can see; the control is there.

Mr. FRASER *(Northumberland, Ont.):* That is not correct.

The WITNESS: That is not your opinion; it is mine.

Mr. FRASER *(Northumberland, Ont.):* From a factual standpoint it is not correct.

Mr. BLACKMORE: There might be contention about this, and we will avoid contention so that we can get somewhere.

By Mr. Blackmore:

Q. If Montreal is able to control Ottawa, does Saskatchewan want to put control of her financial interests entirely in Ottawa so that Montreal can control her too?—A. There are others who have disagreed on that point.

Q. I am not contending; I am examining.—A. I have mentioned several times that as an organization we adopted that as a policy. Don't make any mistake about it, I am not figuring that you are going to get there to-day, but there is a point we say we are aiming at, and as I look over the amendments that have been brought down we are moving up toward that end gradually. Some time we will get there.

Mr. NOSEWORTHY: May I ask Mr. Blackmore some questions?

Mr. BLACKMORE: You had better ask them of Mr. Bickerton or through him; I think that is the more sound procedure. At least, it is better than asking me questions.

Mr. NOSEWORTHY: I will ask the chairman. In your reference to western Canada freight rates and your criticism of the present Board of Railway Commissioners, am I to understand from your criticism—

Mr. BLACKMORE: You had better say "implied criticism"; all I did was give facts.

Mr. NOSEWORTHY: Implied criticism—that we are to assume Saskatchewan would get a better deal if the commission were controlled by the C.P.R. directors?

Mr. BLACKMORE: It is very likely we would not get very much worse control, because the one case I gave you is so glaring as to shock almost any right minded person.

Mr. McNEVIN: Mr. Chairman, I believe we are here to discuss the Bank Act. Should we not go on with it?

Mr. BLACKMORE: We are discussing the Bank Act from the standpoint of governtment ownership.

Mr. NOSEWORTHY: My second question is this: in your question you make use of the phrase "the self interest of the central provinces". I wonder if you could tell us just who you have in mind when you speak of the central provinces?

Mr. BLACKMORE: Ontario and Quebec.

Mr. NOSEWORTHY: Just who in Ontario and Quebec? Are you thinking of the farmers or the workers of Ontario and Quebec, the industrialists of Ontario and Quebec or the government of Ontario and Quebec? Just who does put forth this self interest in the central provinces?

Mr. BLACKMORE: I say it is the economic going concern activities of Ontario and Quebec. The system under which we are operating to-day—the competitive system, without any adjustment—naturally brings those provinces into competition with the other provinces. For example, take the matter of canning. It is probably not greatly in the interest of the canning concerns in Ontario that Alberta's canning industry should develop so far that it supplies not only the whole Alberta market but begins to compete with the Ontario canners and manufacturers.

Mr. FRASER *(Northumberland)*: What has all this to do with the Bank Act?

Mr. CLEAVER: What assistance has any government ever given to canners? Why have not the Alberta canners the same opportunity as the Ontario canners?

Mr. BLACKMORE: I am afraid if I answer that question—which I am ready to answer—it will draw us away from the point with which we are concerned.

Mr. CLEAVER: Why bring it up if you are not prepared to face up to it?

Mr. BLACKMORE: I brought it up to show Mr. Noseworthy what I had in mind.

Mr. FRASER *(Northumberland)*: How long is this debating society going on?

By Mr. Blackmore:

Q. I think Mr. Bickerton will see from illustrations that have been given that mere government ownership does not guarantee equitable administration? —A. No.

Q. The reason I raise that point is that I think the chief objection of your organization, as it prepared its brief, is to the inequitableness of the administration under private banking concerns. You can see how your fundamental argument is undermined by that simple illustration?—A. I do not want you to run away with the idea that we dare to suggest that if ever this was done and if what we think of is achieved—

Q. If whatever what is done?—A. The public ownership and administration of banks—that the troubles of all civilization and of Canada will be solved. We still have a lot of ground to cover.

Q. I am not implying that. What we are examining—you and I whose boys are fighting in this war and whose grandsons will fight in the next one if we do not do the right thing—what we are concerned about is to determine a set-up under which we are likely to have a better chance of working out our difficulties; we are not advocating solutions at all; we are working on great principles. That is why I am discussing this matter now?—A. It is very important at the present time because we are in a state of very intensive economy due to the war situation; but we know we are going to come to a time when we have to model our economy to meet peace time needs of the nation, and there is a period of time there where it will be very difficult. I can quite see that drastic and radical changes in that particular period may be difficult, but we have got to settle ourselves down to an economy of progress, and we have to build up a Canada on the foundation that has been laid, because we have done nothing more than lay the foundation of a nation.

Q. I agree with you entirely; but what we are looking for is fundamental principles upon which most likely progress can be built?—A. Yes. There is a great responsibility on the shoulders of you fellows.

Mr. APPLEBY: I would like to say that in our brief we mentioned that there was a tremendous inflation in 1928 and 1929, and credit was suddenly withdrawn.

Mr. BLACKMORE: May I ask you what you mean by inflation?

Mr. APPLEBY: There was plenty of money to handle everything that we wished to handle. It was not altogether inflation. There was plenty of money circulating to handle everything we wanted and suddenly it disappeared.

Mr. BLACKMORE: We want to be careful with our words. Would you agree that we would not have inflation unless there was a rise in the cost of living?

Mr. APPLEBY: I would not agree there was inflation unless it came to the point where there was more money about than was needed to take off our produce.

Mr. BLACKMORE: With a consequent rise in price?

Mr. APPLEBY: That would work in, but that was not the point I wanted to bring out.

Mr. BLACKMORE: The reason I mention it now, Mr. Appleby, if you will pardon me for interrupting, is that I just want to get it perfectly straight because we have been in this committee quite a while and you are just coming in and you are not conditioned yet. The definition we have generally adopted here of inflation is that inflation is a rise in prices. I was just wondering whether you meant to say that there was a rise in the price level in 1927, 1928 and 1929. We will grant there was an increase in money but was the increase in money so great that there was more money than there were goods and services resulting in a rise in prices?

Mr. APPLEBY: Not sufficient to be any dominating factor, but the part I want to bring out is that was suddenly withdrawn, and when it was suddenly withdrawn it made it so that there was not sufficient money, especially in our own immediate vicinity, and I believe in the rest of Canada there was not sufficient money to meet the obligations which we had undertaken at a time when there was plenty of money. Just a minute and I will finish that off. When that was suddenly withdrawn there was nothing else for it than that a lot of us lost our deeds to our land. It would not be to the government's advantage to put on a sudden policy which would make us lose our property to them. In that way there would be a difference.

Mr. BLACKMORE: I just wanted to bring you into line with what the committee has thus far arrived at, you see. Would you be just as well pleased to say that there was more or less a free money policy up until 1929, or rather one in which there was not a restriction of credit, and that was followed by a policy of definite restriction of credit; so you can say you had plenty of money in 1927, 1928 and 1929 and then you had a great shortage of money afterwards? Would you be just as well pleased to use that expression?

Mr. APPLEBY: Every bit as well because I have said it was not what you call inflationary, but it was a free money period when you had plenty of it.

Mr. BLACKMORE: The Governor of the Bank of Canada has argued two or three times there was not inflation in 1927, 1928 and 1929, that there was free lending of money for stock speculation but it was not inflation because there was not a rise in the price level. You would want to be in conformity with him?

Mr. Appleby: That is right.

Mr. Blackmore: Now, there is a point you wish to make.

Mr. Appleby: The point is do you think in this argument you have brought up that there would be a difference in a government administration? I feel there would be a drastic advance if we had a government administration. They would not stop credit in such a short period of time. There would be a certain period allowed for adjustment and not a sudden curtailment which would ruin everything. We feel that certain interests got the advantage of that sudden curtailment in taking over our property values. The government would not have any need, they would not gain anything by doing that. Therefore, would not a government administration be much better than the other?

Mr. Cleaver: Will you not admit your two main problems in the west during this depression period were falling prices and poor crops?

Mr. Blackmore: Withdrawal of credit.

Mr. Cleaver: Those were your fundamental problems, undoubtedly.

Mr. Appleby: But it was withdrawal of credit, too.

Mr. Cleaver: If you had had good crops and good prices you would not be worried about bank credit, would you?

Mr. Appleby: We had plenty of good crops in 1932 and 1933.

Mr. Cleaver: What about prices? No matter what crops you had and no matter what type of banking system you had if you had 50 cent wheat you could not make any money.

Mr. Appleby: The money was withdrawn until we could not get any price.

Mr. Blackmore: Pardon me for interrupting here. The point is what caused that fall in prices was this very withdrawal of credit.

Mr. Appleby: Certainly.

Mr. Cleaver: The fall of prices occurred, Mr. Backmore, long before the withdrawal of credit.

The Chairman: Mr. Blackmore, may I interject a statement?

Mr. Blackmore: Yes.

The Chairman: It seems to be a matter of record that the fall of prices began after the phenomenal crop in Russia. Russia had somewhere about 100,000,000 acres in wheat and had a phenomenal crop, if I remember correctly, in 1928 or 1929 which was four bushels per acre in excess of the normal. At that time total import requirements were about 450,000,000 bushels, so that Russia at that time produced about all the wheat that was required to be imported, and then wheat came down with a collapse.

Mr. Slaght: Does not Liverpool pretty well fix the price of wheat?

The Chairman: Wheat sold in Liverpool at almost a pittance as a result of the phenomenal crop and the storage in the Soviet Republic.

Mr. Blackmore: Tell me, Mr. Chairman—and please let me guide this because I am questioning the witness and I want to guide it in the interests of everyone getting the truth—did not Mr. Towers bring it out pretty definitely when we were discussing this matter of 1927, 28 and 29 that one of the major causes of the collapse in credit was the fact that whereas the United States and other nations had been lending rather freely abroad and therefore had been able to sell freely they discontinued that lending policy towards the end of 1929?

The Chairman: Yes.

Mr. Blackmore: That is an important element, too.

The CHAIRMAN: Yes, but do you not see that the basis of the collapse, according to the investigation as I told you the other day of the Economic Committee of the League of Nations and the International Institute of Agriculture, was the wheat situation. That was where the price collapsed and the whole structure collapsed. That had an influence, of course, upon credit conditions in the United States and upon their lending abroad. I have sent for a copy of the report. It is a very short statement. I will read it to you when it comes.

Mr. BLACKMORE: If that was the case, and I am not questioning that, it is valuable information. This may have a bearing on your memorandum, will it not, Mr. Bickerton, if it can be establised; Mr. Moore is a very good student and I would suppose he can give us a pretty good line of argument to support his stand. If that is the case, if the collapse of lending and restriction of lending was as a result of the tremendous crop of wheat in Russia and the result of the discontinuation of a foreign lending policy on the part of the United States then you see government ownership of banks in Canada probably would have hardly been equal to remedying the situation. I think this is an important point, that it would have made it so that if government banks had persisted in lending freely they would have been lending money they knew positively they would lose, and I am not sure that you would advocate even government banks lending with certainty of loss for any definite length of time.

Mr. APPLEBY: What is the difference, because there were millions and millions of dollars spent, which are a complete loss, when people lost their foothold and got on the dole and relief? They lost it anyway.

Mr. BLACKMORE: That is a very good point, but you will remember Mr. Tucker was following a line last night which was very valuable. He was following a line that in a general way was worth consideration. He said if the government had adopted a policy under which the income of the western farmer had been guaranteed regardless of the collapse of prices, if they had had such things as the Prairie Farmers Assistance Act, and so forth, in operation then the difficulty might have been overcome by another way of attacking it. If the government is going to lose money would it not be better, as Mr. Tucker was arguing, for the government to spend money and thereby lose it, if lose is the right word, in guaranteeing the farmers' income rather than in losing that money through lending certain farmers money through the banks? You can see there is a line of thought there that is worth considering.

Mr. APPLEBY: Yes.

Mr. BLACKMORE: This is an exceedingly important matter. I do not wish to be political but after all we are looking for a solution. The whole Social Credit concept is based on this very line of thought that Mr. Tucker proposed. If better prices, issues of consumer purchasing power, better wages and income generally were brought about in those distressed areas by government spending of money then it would be unnecessary for the banks to lend money with the certainty of loss and probably the banks, realizing the economic condition of the people was going to be sound, would not have held in so much with respect to loans. They would have felt much freer in granting loans. You see the two lines of approach, do you not? Of course, there is a clash between those two lines of approach. One says if you have government ownership of the banks that would be better. The other the social credit philosophy says that quite regardless of ownership of the banks, government ownership of the banks wonld not do any good unless you could improve the economic condition of the people. Then, why not improve the economic condition of the people and try the banks again under private ownership? Do you see the line? Now, somebody wanted to ask a question.

Mr. McNevin: People want to get on with the business of the Bank Act.

Mr. Blackmore: I know, but all this has an important bearing. If a tremendously strong organization, such as this one which is represented here to-day, has come to the settled opinion which is expressed in this memorandum I tell you it is a warning to us as members of the Banking and Commerce committee. If we can do anything about the Bank Act to remedy that situation we want to find out what it is and do it. If there is another line of approach which we can take which will remedy the situation we want to find that out. That is one of our major purposes in being here.

The Witness: I would just like to reply a word or two to the chairman here, Mr. Blackmore, if you do not mind. What Mr. Moore says is correct. There was a tremendously big crop that year in Russia, as I think you will find out. I think Mr. Moore has sent for the record of it. I think it was in 1929. We have got to be fair in all of these things and recognize it was not only Canada that suffered financially in the crash of 1929 and 1930. It happened all over the world.

Mr. Blackmore: That is true.

The Witness: We have two different things. We had what happened almost in the whole of the world with regard to the financial situation in 1929 and 1930, and we have what happened in the world wheat economy. In 1929 Russia produced a tremendously big crop, I think the largest in her history. We had produced a fairly good crop, too. So had the Argentine. Britain suffered that financial breakdown as well. We will just take an illustration of the two countries. Britain had suffered a financial breakdown. For a period of time Britain simply could not buy wheat. She just simply could not buy wheat.

By Mr. Blackmore:

Q. Why?—A. At any price.

Q. Why?—A. Because of the stagnating situation that their financial economy had got into.

Q. That is, there was a restriction of credit in Britain?—A. Definitely. Here was the situation as I have illustrated the point. There were people in the world who were hungry. They would have liked to have eaten that wheat in the form of bread, but you know if a hungry man saw a loaf of bread in a store window marked 5 cents and a bottle of milk marked 5 cents and did not have a dime he would still go hungry. That was the situation that Britain found herself in. We would have been a very peculiar nation in the Dominion of Canada if we had not suffered that financial breakdown which was suffered at that particular time.

Q. What we are concerned about is what to do about it.—A. We were caught in the whole thing. I want to reply to Mr. Moore. True, Russia went to Britain which was hungry for bread and they said to Britain, "We do not want any money. You provide us with certain materials that we require and we will supply you with all the wheat you want." They wanted a lot of wheat. At the same time the Argentine in their anxiety to do something with their wheat situation stepped into the Liverpool market and offered to sell at a very low price, much below what it then was in the Dominion of Canada. We were trying to maintain the price structure, and then it was found that the price structure could not be maintained.

Q. Why?—A. Because people in the other nations were suffering with the same financial stagnation from which we were suffering.

Q. May I interject a question there without interrupting you? If it had been possible to use subsidies in the right degree in Canada do you suppose that the price of Canadian wheat could have been maintained notwithstanding what happened in other countries?—A. They had not developed that technique.

Q. You see we have done it since.—A. Yes, we have, but at that particular time they had not developed the technique of doing it.

Q. But if it could have been done they might have found a way out.

Mr. CLEAVER: I wonder if we could have the official record now.

The WITNESS: The point is it was not done because the technique of doing it was not discovered yet.

The CHAIRMAN: May I just suggest that Mr. Bickerton is talking to me at the present time.

Mr. BLACKMORE: That is quite all right. I am just interrupting with a question the same as the others do.

The WITNESS: At the time this happened there were a lot of people in other parts of the world who were definitely hungry. Right at that every period there were many hundreds of thousands of people died of famine in India, and had we had the technique of moving our international financial economy around we could have possibly got wheat to those people. It was definitely a cause of starvation in the midst of plenty during that time. There were a number of very peculiar things happened until the technique of moving was discovered. You remember that in the United States the government subsidized people not to produce hogs and hog producers were wondering what was the best type of hog not to produce. In Denmark they took a lot of their hogs, threw them on a pile, put gasoline on them and set fire to them. We dumped coffee, and all that kind of thing.

By Mr. Blackmore:

Q. If they had increased the purchasing power of their people so the people could have bought those goods it would have helped?—A. Yes.

The CHAIRMAN: Before we go on to hogs, let us dispose of the wheat situation. I have the paper before me. It is a report of the Economic Committee of the League of Nations on the agricultural crisis. May I just mention that the Economic Committee proceeded with the assistance of the International Institute of Agriculture, and the committee summoned a meeting in January, 1930, of twenty and in January, 1931, of twenty-four experts acquainted with the general problems of agricultural economy. This is the substance of the conclusion. You will find this statement on page 22:—

> The depression in agricultural products is at the bottom of the general crisis; the depression in cereals is at the bottom of the agricultural depression. It is the depression in cereals rather than that in other agricultural products which has suddenly brought the mass of the farmers face to face with the problem of markets and prices.
>
> Just before the war, the international wheat market had apparently reached a sort of equilibrium. Violent fluctuations had formerly taken place in very localized markets, one district frequently experiencing a glut of wheat while neighbouring districts suffered from a serious dearth. This state of affairs had given way to a highly regulated system which was brought about by a development of the world market and which made all the wheat producing countries interdependent; prices had been equalized with the help of the growing traffic facilities.

There is one more statement that I want to read, and you will find it on an adjoining page. I would ask you to remember that this is printed in a report made in 1931. It is as follows:—

> On the whole, European production is below the pre-war average level; it only slightly exceeds it occasionally, in particularly favourable

years. As a producer, Europe is practically in the same position as before the war. The rise in the production of wheat is essentially due to the great overseas producing countries. The increase which has taken place in Canada is of the greatest absolute and relative importance.

Mr. BLACKMORE: I think Mr. Moore has made a real contribution to the committee in reading that. Now may I just suggest once more that the difficulty was due to over-production or production of more goods than there was purchasing power to absorb, which is Mr. Bickerton's point of view.

The CHAIRMAN: Relative over-production.

Mr. BLACKMORE: Relative over-production. One method of attacking that problem which perhaps would have succeeded, and which Social Crediters maintain would have succeeded, would have been to increase the purchasing power of the peoples of the world so that they could buy the goods produced.

The WITNESS: Yes. Take delivery of all the goods.

Mr. BLACKMORE: That is right. Were you going to go on? Had you some more things to say?

The WITNESS: No. That is all.

Mr. BLACKMORE: I wish to refer now to this point. Your submission argues that the banks fell down. I agree with you. The banks did not discharge their responsibilities in the years 1924 to 1929 or again in the years 1930 to 1935. I argued that with Mr. Wedd only just a little while ago. He was inclined to defend the banks, and I am very glad you people have come along and given me a lot of support; because I really want to get the better of Mr. Wedd before I finish, and I believe I will, because I have right on my side, and I think that, although he is a very clever arguer, he is arguing a lost cause.

The CHAIRMAN: Mr. Blackmore, will you just proceed?

Mr. BLACKMORE: Surely.

The CHAIRMAN: There are others who want to ask the witness some questions.

Mr. BLACKMORE: That is fine.

By Mr. Blackmore:

Q. You have seven points of criticism, seven respects in which the banks fell down. May I ask you this. I will not read these over unless it is necessary, because the committee has them before it. Do you suggest that the banks would have committed any of those errors or those offences against the western farmers if prices had been good all through the period of 1930 to 1935? Do you think the banks would have refused to lend if prices had been what they were in 1928 and 1929?—A. There would not have been any need to.

Q. That is right.—A. With the exception of odd little things that are not worth mentioning.

Q. That is right.—A. It does not touch the fundamental of the whole thing, and that is the final analysis that we arrive at. But there is no argument on that.

Q. That is right.—A. If the prices of wheat had been good, then there would have been plenty of money circulating.

Q. And the banks would have lent?—A. Money would have to be circulating before prices could be good.

Q. No. The point is this. Money was undoubtedly circulating because of the more or less free lending policy of the banks up to 1929?—A. Yes.

Q. Had that money continued to circulate, prices would have kept up; also it could be said that if prices had kept up, money would have continued to circulate. So would it not at least be worthy of consideration to say that if we could have kept prices up, there would have been no fault to find with the banks?—A. Well, yes. I can see what you mean, that it would be quite possible to lull a lot of people to sleep so long as they were receiving a return for their products that would adequately recompense them for their labour.

Q. Yes.—A. Your suggestion, Mr. Blackmore, is based on those prices having been maintained, that is where there were crops. There is another thing that came in there, and that is something that not even a bank or anybody else could stop. What I refer to is that in certain parts of the west nobody grew anything.

Q. In that case you would have crop insurance. That would help?—A. Yes, that would help that; an insurance policy of some kind. But if by subsidy, or whatever you care to call it, a fair return was given for the labour of the man who created the product, then the money would have been circulating, no matter where it came from.

Q. That is right.—A. But then you have got to the place where the banks failed in their policy.

Q. They restricted loans.—A. Because of the circumstances.

Q. They restricted loans because of low prices.—A. Yes, because of the circumstances. Then you come around to the place where the only refuge is your government and your government agencies. You come back to it all the time.

Q. What we are concerned about is this. Would government ownership of the banks, when prices fell, necessarily have solved the problem? I think the answer would have to be that it is very doubtful.—A. It would not solve the problem.

Q. No.—A. But it would simply mean that the government would have had to do what they did do through the agencies which belonged to them. That is all that would happen.

Mr. Fraser *(Peterborough West)*: Mr. Chairman, was government ownership of the banks referred to this committee by parliament?

The Chairman: That question was decided in the house. We have been over that several times. We are giving Mr. Bickerton a certain amount of leeway by reason of his being a visitor.

Mr. Fraser *(Peterborough West)*: We seem to be going around and around.

Mr. Blackmore: I am examining Mr. Bickerton on the basis of his memorandum.

The Chairman: Yes. But you know exactly that was decided in the house. Mr. Blackmore, we have allowed you a little over an hour. You will conclude shortly, will you, because Mr. Breithaupt is anxious to question the witness?

Mr. Blackmore: I think it will depend on what happens in the committee. I will finish as soon as I can.

The Chairman: Please do.

Mr. Blackmore: Yes, I will. But it will be remembered that the honourable member for Rosetown-Biggar rose yesterday and used this whole presentation as a point of departure to support government ownership.

The Chairman: That was unfortunate.

Mr. Blackmore: Therefore we are perfectly justified in taking the other stand, because we want the complete truth; and how will you get it if you do not examine both sides?

The Chairman: Well, go on.

By Mr. Blackmore:

Q. If prices then had been maintained and markets had been assured, it is very doubtful that the banks would ever have restricted credit, even although they were privately owned. I wonder if this question would not be the next logical one. I believe you complained in your memorandum—and I am using the word "complain" in a good sense—that the policy of the privately owned banks was not what it should be. I wonder if you and I could determine what policy means. First of all, would I be correct in saying that you had in mind, in respect of policy, the interest rate?—A. Yes. That is one thing.

Q. That is one element in policy?—A. Yes.

Q. And you believe that the interest rate is too high?—A. Yes.

Q. The next point which we have already discussed is the freedom or generosity of a lending policy. If they do not lend freely when they ought to, we will say their policy is defective. That is number 2?—A. Yes.

Q. And then a third point is the length of term. I believe you stressed that considerably?—A. Yes.

Q. In order to have a satisfactory policy, it should be possible for the farmers to get long-term loans, say up to a year in case of need, or more. That would be an element in policy?—A. Yes.

Q. And then another matter, which has come in incidentally, is the matter of security. Banks which already had security called for greater security, and the result was chattel mortgages which were extremely embarrassing to the farmers, and ruinous. If we list those four points—interest rate, freedom or lack of it in lending, security required and length of term of loans—we have pretty well covered the whole question of policy, have we not?—A. Yes.

Q. Is there anything else involved?—A. I think that fairly well covers it.

Q. The thing that you are concerned about, that I am concerned about and all these members in this committee are now concerned about is this. If it were possible for us to remedy each of those four defects without government ownership of banks, then probably the main thing which caused you to favour government ownership of banks would lose its validity; that is, if the privately owned banks could be so managed by the dominion government that they would give you the interest rate you think is fair, would give you the freedom of credit expansion which you consider is fair, the correct length of loans that you consider is suitable to your situation and the correct standard of security, then you would have no further objection to privately owned banks, would you?—A. Not in dealing with those items.

Q. Is there any other matter?—A. Yes. I want to go along with Mr. McGeer.

Q. Go ahead. What I should like you to tell me is whether I have left out any essential element of policy?—A. No. I think you have touched the main points there. But I should like to go along with McGeer and travel along to where public institutions—the provinces, our dominion, municipalities and so on—through the Bank of Canada, as a step towards the direction that we hope to get to some time, can be financed at cost.

Q. By creating money?—A. Yes. Again I do not want you to run away with the idea that I entirely agree that cost is just a little item that some people are inclined to think that it is.

Q. All right. We come to this matter of money created by the state, Mr. Bickerton, after a while. There are several of us who have brought it prominently before the committee, and have even made the committee weary of us. But I think this matter of creating money is worthy of consideration, and we will consider it a little bit later, if you do not mind. I wonder what rate of interest you think is fair. I believe you indicated about 3 per cent yesterday, What would be a fair interest rate in Saskatchewan? Would it be 3 per cent? You mentioned that Finland has given credit at 2 per cent.—A. I mentioned that at one time an analysis had been made by Harvard university which set out that the maximum rate of interest that could be carried by an average farm would be about 3½ per cent.

The CHAIRMAN: Excuse me, Mr. Blackmore, but that matter was discussed yesterday.

Mr. BLACKMORE: I just want to review it.

The CHAIRMAN: Do you have to review it? There are a number of members who would like to ask Mr. Bickerton some questions that will not be a review.

Mr. BLACKMORE: That is all right. I did not ask a question of him at all yesterday. I think this is very important. I am a westerner and I am asking questions of western farmers; and I do not think there is anything idle being raised.

By Mr. Kinley:

Q. May I ask a question? Was that $3\frac{1}{2}$ per cent determined on whether you borrowed the whole value of the farm or just a small loan?—A. No. That was really applied to the amount of mortgage debt that could be carried by a farmer. It was not a matter of a short-term loan. It was a matter of the debt load that could be carried.

Q. The debt load would depend upon the amount of the mortgage, too, you know?—A. Well, to some extent; yes.

Q. Yes; to every extent, practically.—A. They had a complete table of the thing. I remember seeing it. They set out that a farmer who had above the average quality of land could carry a little higher load of debt and pay a little higher rate of interest; but it was all relative as to this debt load and the interest amount that could be paid.

Q. You do not think that a farmer could borrow money, buy a farm and succeed, do you?—A. He would have a heck of a time.

Q. Yes. I do not think he could.—A. That is, taking a chap who is just entering into a venture. You know, this is something that has me somewhat worried in regard to the soldier settler. It has me quite worried.

Mr. BLACKMORE: It has me, too.

The WITNESS: Yes. He immediately assumes the responsibility of debt.

Mr. KINLEY: Surely.

The WITNESS: I really am worried about it going back into some of the records, not particularly with respect to the soldier settlers of the past, because I think they are precipitated into an impossible position at the very beginning; but thinking back over the records of the farming community in general, and the trouble that they have had with debt and all of that kind, I worry about it. I was talking to a man who is the supervisor of pure bred milk cattle, and this is what he is finding out. Some of the men who have been saddled with the responsibility of debt that was incurred by their fathers and possibly their grandfathers—and I am thinking of people in the east here—are younger men, and they have come to the conclusion that they will dispose of their dairy herds, try to clean off the debt and take a chance on what they can do in regard to building up again; in other words, cleaning it off, selling the stock, because the stock is at a good price, get the money, clean the debt off and then try to make a fresh start.

By Mr. Kinley:

Q. Make a fresh start with a new deal?—A. With a clean bill.

Q. Yes.—A. It is worrying, because what becomes of these dairy cattle? It is a worrying thing.

Q. You can quite see how easy money might destroy the farm economy?—A. Yes.

By Mr. Blackmore:

Q. The next question I want to ask is this. We did not exactly settle on this interest rate that your people would favour. Would the majority of the men in your organization be satisfied if they could get money at 2 per cent. $2\frac{1}{2}$ per cent or 3 per cent, or what would you say?—A. In the discussions we have had, we have set down a policy that we ought to have interest at cost; and talking of interest at cost, we have generally talked about 3 per cent interest. I think that is about right.

Mr. APPLEBY: Yes.

The WITNESS: We say if it can be administered at a lower cost than that, all right. But our discussions have generally centred around 3 per cent.

By Mr. Blackmore:

Q. That is, if the government owned the banks and you were managing the government-owned banks or drafting the policy, you would not expect them to loan money at a loss. You would expect them to be going concerns?—A. Oh, they must pay.

Q. The cost of running a bank, you know, can vary greatly. I just wonder if, in a general way, you believe that the banks are paying their ordinary employees enough. Take the young fellows who cannot get married until they are a certain age. Do you think they are paying them enough?

Mr. KINLEY: They are like school teachers.

The WITNESS: Well, that is a problem for the bankers.

By Mr. Blackmore:

Q. This has an important bearing. I understand farming. I have grown up with men of Mr. Bickerton's type. My father was one and I have been one, and a member of the organization for many years. The questions I am asking are altogether pertinent. Would you favour, if you had a government-owned bank, keeping these boys at the starvation wages they are now at?—A. Well, I do not know. Take the average run of civil servants' pay. I think that the civil servants' pay would compare relatively about the same as what is paid in the banks. It is a case of graduation. Your civil servant comes in. I am just thinking at the moment of a girl. She comes in and she gets $65 a month. She may have a difficult time to get by, but she is in her apprenticeship stage. She then gets to the higher grade and she gets $90, and she goes on from that point. As regards the banks, there may be little difficulties there, with respect to inability to get married and all that kind of thing. But that is their policy.

Q. But would it be a government-owned bank's policy?—A. Well, I do not know.

Q. Should it be?—A. I think, if you analyzed it, you would find that the bank rate of salary is fairly well in accordance with the civil servants' rate of salary.

Mr. KINLEY: It compares with the post office, I know.

The WITNESS: I do not think there would be very much difference in it. It is rather a technical training. Some of them get discouraged with it. I know that. But there is one thing that always does apply. I know that I have suggested to young chaps, who possibly had not had the opportunity to get through university but have had the opportunity to get through the highest type of scholastic training they could get, "why not try to get into a bank?" I think a fellow gets a pretty good foundation in a bank if he wants to enter into commercial life.

By Mr. Blackmore:

Q. The cost of providing credit would vary tremendously as would vary the wages paid the people employed in the bank, and a good many other factors would enter in; but you would favour having the cost of administering the credit covered by the person who borrowed?

Mr. NOSEWORTHY: That could be practically offset by dividends and hidden reserves.

Mr. BLACKMORE: Yes. I notice that the chairman appears to be restless.

The CHAIRMAN: I have already promised the floor to another member of the committee and you have had one hour and twenty minutes now.

Mr. BLACKMORE: I shall have to go on later. There are a lot of things I want to ask Mr. Bickerton.

By Mr. Blackmore:

Q. Now, the interest rate could be brought down by a government subsidy. That is, if the interest rate of the private bank happened to be 3½ per cent and it was the policy of the government to have the interest rate to the farmers at 3, the difference could be made up by a grant from the government, could it not, without having the banks government-owned?—A. Do you think it is a good thing to maintain an economy by grants?

Q. It is not a question of whether it is good or not; it is a question of whether it is a way out?—A. At times you cannot help yourself.

Q. If a government-owned bank would be lending money at a loss—if there were danger of its losing money through poor loans and that kind of thing—well it might pay the government just as well to spend that money it would otherwise have lost, in subsidizing the privately owned banks so they could carry on as well as a government-owned bank could do.

Mr. MCGEER: May I ask one question of Mr. Bickerton? You laid out the seven reasons that were covered by Mr. Blackmore, and you are no doubt conversant with the McMillan report, that is the English report?

The WITNESS: Yes, fairly conversant.

By Mr. McGeer:

Q. I will quote from the English report at page 118, section 280, part 4, dealing with domestic currency management. It says:—

> The monetary system of this country must be a managed system. It is not advisable, or indeed practicable, to regard our monetary system as an automatic system, grinding out the right result by the operation of natural forces aided by a few maxims of general application and some well worn rules of thumb. The major objectives of a sound monetary policy—for example, the maintenance of the parity of the foreign exchanges without unnecessary disturbance to domestic business, the avoidance of the credit cycle, and the stability of the price level—cannot be attained except by the constant exercise of knowledge, judgment and authority, by individuals placed in a position of unchallengeable independence with great resources and every technical device at their disposition.

You would subscribe to that as a sound principle to underlie the management of the monetary system, would you?—A. Yes, in an unchallengeable state.

Q. The important words to me at least are that men in charge of a nation's bank should be in a position of unchallengeable independence. That is, they should have no private interests which would conflict with their public interest? —A. That is right.

Mr. KINLEY: I think it is political.

Mr. MCGEER: Yes, or political. The words are "unchallengeable independence"; it is all-inclusive.

Mr. KINLEY: Political interest is challengeable.

Mr. MCGEER: If political influence comes in; but we do not have any political influence in our courts with our judges or with the administration of our customs authorities. Political influence does not of necessity come into it and it can be kept out. But the complaint, I take it, that you make is that here are a group of men engaged in a private business and at the same time they are carrying on the banking business for the nation and others?

The WITNESS: Yes.

Mr. McGEER: Do you disagree with that proposition?

The WITNESS: Yes.

Mr. KINLEY: You are making the whole thesis.

The CHAIRMAN: Mr. Breithaupt, would you proceed?

Mr. BREITHAUPT: Mr. Chairman, I do not know whether I shall conduct a cross-examination of the witness, but I think there are certain things in the record that should be kept straight. Yesterday the question was asked by Mr. Noseworthy of Mr. Bickerton what his association thought of the general principle of interlocking directorates. That was quite a normal question. In reply to that question Mr. Bickerton, apparently not very anxious to reply but groping around, discovered someone out in the west that he really did not know but whom he had heard of. I can understand that he wished to answer the question. Now, I should like to ask Mr. Bickerton if he knows Mr. Dobbie, President of the Canadian Chamber of Commerce?

The WITNESS: No, I do not know him. As I mentioned yesterday all I know is that the invitations went out and they had all of those different positions on the invitation; that is all.

Mr. BREITHAUPT: Did you have any objection to a man going out there who was prominent in different lines of endeavour and who would know, perhaps, what he was talking about?

The WITNESS: No, I merely said—I think it was at the time Mr. Noseworthy mentioned it—Mr. Noseworthy mentioned a number of figures—I do not know whether the figures were correct or not, but I accepted them as correct as he quoted them; I said I knew of one case of one man. I do not know whether that is a healthy thing or not.

Mr. BREITHAUPT: In other words, you just took a name that came to your mind, and I imagine you were sincere in your remarks; but, Mr. Chairman, I believe that that is not a fair way of handling the work of this committee. I do not think personal remarks should be made.

While we are on the subject I should like to advise the committee that I have taken the trouble to look up Mr. Dobbie's record. I understand that he has been chairman of all the victory loans in South Waterloo ever since the start of this war. In the last war, and ever since, he has been chairman of the Galt Red Cross committee, and has done a splendid job with that organization. Incidentally, all of the victory loans there have gone over the top. Mr. Dobbie is a very public spirited citizen. During the time of the depression, concerning which we have heard a great deal in the banking committee, Mr. Dobbie headed a committee which is known as the Community Relief Committee in the city of Galt, and the work which he and his committee did was such an outstanding success that the citizens looked after those unfortunates who were on relief, and, at the same time they did not become a burden to the taxpayers. That is an outstanding record in Canada. At the present time Mr. Dobbie is giving freely of his time to the Canadian Chamber of Commerce, which is an organization doing splendid work throughout Canada. It represents no particular interest, but is a cross-section of business men, merchants, farmers and citizens of Canada generally who are interested in the welfare of this country. I take it that Mr. Bickerton himself is very proud of the Regina Industries Limited, and I think rightly so. Yesterday

I heard reference to it. He is pleased that that industry is located in that part of the country, and he wants more industries. I have no hesitation in saying, while I have not looked up the record with regard to Regina Industries Limited, that I believe it is a private enterprise. No doubt the directors of that industry are also directors in others. I deplore very much just because a man is successful in this country, has gone through the mill and made good, and possibly happens to be on two or three boards of directors, that he should be made the target for all this kind of loose talk. I shall not take up any more of the time of the committee.

The CHAIRMAN: I did not understand that Mr. Bickerton intended casting any reflection on Mr. Dobbie yesterday.

The WITNESS: I imagine that Mr. Dobbie would be a very high type of citizen.

Mr. BREITHAUPT: I think you are right. I do not think you were intentionally running him down, but I think you were damning him with faint praise. There is too much of that. When a man has done his duty in this country he deserves praise and should not be damned by faint praise.

The CHAIRMAN: Mr. Blackmore, can you complete your examination within the hour?

Mr. BLACKMORE: Yes, I shall finish in fifteen minutes.

By Mr. Blackmore:

Q. Mr. Bickerton, if you had a government-owned bank and you were managing it you would not loan money out without interest; that is sure?—A. No. There would naturally have to be a service charge the same as the private banks have at the present time. I have not any hesitation in saying that there are branch banks operating in parts of the west that are not receiving all of the interest they should to pay the cost of the operation of that branch bank, but it has to be covered by the interest that is secured or the profits that are secured out of the business as a whole. I think I mentioned yesterday, as has been said by one of the other gentlemen, that where the dominion government secures from the banks very large amounts of credit, that that can be administered at a very minimum cost, and I think someone said that the cost to the government was possibly about .1 per cent or even lower than that. I also mentioned that I thought anyone would be foolish who considered that a bank, either privately owned or nationally owned, could service me or Mr. Appleby and other individual at the same service charge that they could service bulk arrangements such as would happen with the government. There is a level that can be arrived at. Whatever that level is I do not know.

Q. And you would not have a government-owned institution lending without security, would you? A. No, they would naturally want security for the credits which they have advanced. Basically the security should be the honesty and integrity of the men who have borrowed. I think that should be the first basis. Then there is the knowledge which the average banker in a country point has under the present set-up as to the present circumstances of a man's farming operation. They may not have that knowledge at the beginning but they certainly get it, and they know all of his circumstances. They know not only the man's honesty and integrity but they know the man's possibilities, his operative enterprise, and the possibility of the return of the amount that he has borrowed from them.

Q. His ability to sell his goods at a fair price would also enter into it? A. Yes, that has to be taken into consideration and that is where you meet the problem the bank is up against. It does not make any difference what a man produces. We have dealt to a great extent with wheat, but if you go back into the records over the bad years, about which we do not like to think too much, the same thing applied to eggs, or pigs, or anything at all. There is the story about the lady who could not sell her eggs when she took them to town—at least she could get only 5 cents a dozen for them—so she decided to take them back and feed them to the hogs, and she found that when she fed the eggs to the hogs that the hogs grew very fat very quickly, so she brought the hogs to town and she could get only 5 cents a pound for the hogs, so she decided to take the hogs back and feed them to the chickens and then she found that the chickens produced eggs more quickly than before, so the cycle was completed. So this does not just refer to wheat.

Q. That is an excellent story, because it illustrates this very point which confounds the legislators and orthodox economists in the world today. They do not just know what to do with abundance. They know how to function in days of scarcity, but they do not know how to function in days of abundance such as we are experiencing in this age. Fundamentally and primarily the problem which confronts us in this committee is to find out how to function under aboundance? A. Yes.

Q. Now, no matter whether the bank were government-owned or not it would have to have some security, and if the value of the security which it possessed were to be destroyed by a ruinous fall in prices it would be necessary for even a government institution to go out and get more security, would it not? A. Yes, to balance the economy.

Q. Even a government-owned bank would fall into the misdemeanors of which you complain in your memorandum. A government institution could not lend money without a time limit, could it? It would have to have nine months or a year as a time limit, would it not? A. If they advance a certain amount of credit the man knows for how long he wants it, and the bank manager would want to know for how long the man wanted it. They would make the necessary arrangements.

Q. There would be a limit beyond which even the government bankers could not go, would there not?

Mr. Noseworthy: It would be a matter of government policy.

The Witness: If certain circumstances arose whereby a calamity developed and it became impossible for a man to meet his contracted obligation then, as has happened, it becomes a national responsibility. If it becomes a national responsibility then you are right in that position, if you own the banks yourself, to administer whatever aid you have to administer through that medium.

By Mr. Blackmore:

Q. And the government would take the loss?—A. It would have to.

By Mr. Kinley:

Q. To what extent do the farmers of the west carry crop insurance?—A. The only crop insurance we have is through two Acts—the Prairie Farm Assistance Act and the Prairie Farm Rehabilitation Act. Under one Act the producer pays 1 per cent on his deliveries. Now it comes down to Ottawa and they establish a fund from which to draw to meet crop failure remuneration.

Q. In the succeeding year?—A. In that year; the year the man suffered the crop failure; and he knows that he has a crop failure by August and he puts in his application for a crop failure. There are a few little weaknesses in the arrangement, but I think they are gradually beginning to straighten them out. That is the only form of crop insurance that I know of. There is such a thing as hail insurance, and in the province of Saskatchewan we have the Municipal Hail Act. It works very well and covers the farmers up to $4 an acre, and then there is an additional insurance besides that for which they can pay—outside of the municipal hail insurance. It covers them for that particular type of crop failure but there are many other causes of crop failure.

Q. Should crop insurance be more general?—A. I believe this; I think we possibly have the foundation laid to develop a crop insurance plan upon it. I think it needs a lot of work done on it yet, and it is not an easy thing to work on because just taking our province as an illustration we have one part of the province in which over one particular fifteen year period the average production was 4·6 while in another part of the province for the same fifteen year period the record was 22 bushels. That is taking wheat as the index. You had that very wide difference and you have many variations in between those two so that it will not be an easy thing to work it out. As a matter of fact, as to these people who are operating within that part of the province where the record shows that over a fifteen-year period their crops have averaged 4·6 bushels per acre, they are trying to do something about that. That does not imply that the land is entirely useless, but we have the P.F.R.A., and there are steps being taken through the medium of that Act to get some of these people into more desirable parts of the province if it is possible which is not an easy thing because the peculiar part of it is that when you get people settled on sub-marginal land and leave them there long enough they become sub-marginal themselves. That is one of our problems. We have a considerable number of people on that type of land. Again I come back to saying that the pioneers of that province laid the foundation starting about the beginning of this century but we have not done any more than lay the foundation.

Q. To what do you ascribe your loss of population in Saskatchewan?—A. Oh, I think very largely—

Q. Immigration to the United States?—A. Pardon?

Q. You just answer it yourself.—A. In the past years we have been growing up. It began in the last war when the farms began to be bigger and tractors began to be introduced and the farmers' labour requirements began to be less and less. I can take my mind back, and I know Mr. Blackmore can, to the time when there used to be harvest excursions from the east but they have become almost a thing of the past. Mr. Appleby, for instance, operates 1,700 acres of land and there is only Mr. Appleby and a son who is unfit for military service to operate it. These two men operate that land alone. The tendency will be to do that with higher power machinery. When I say these two men handle it they handle it even at harvest time by the use of a combine. With Mr. Appleby operating the combine and his son operating the truck they can keep the wheat moved away from the combine and they have eliminated the need of a great deal of help.

Q. That is wheat farming alone.—A. We will come to the other end of it. Circumstances got to be such back in the years from 1930 to 1939 that conditions were just simply deplorable. I will go a little further than that and say they were disgusting. There were people living in places that had never seen paint for years and years and years. They were living a very deplorable life. When the opportunity occurred for them to escape from it they escaped. They went away from there and went into the factories as the factories began to demand men to work in the factories, as the shipyards developed, and as men were required for the services, and so on. They responded because they had nothing to lose and everying to gain.

By Mr. Blackmore:

Q. They went because of poverty?—A. They went because of poverty. There is not any question about that.

By Mr. Kinley:

Q. One thing that strikes me is that everybody I hear about has so much land there.—A. I know that seems very difficult to understand.

Q. 1,700 acres.—A. The average size per farm for the province of Saskatchewan is 433 acres. That is taking the province as a whole. That is being serviced by 135,000 farm operators with whatever help they can get on those places.

By Mr. Blackmore:

Q. And greatly increased production?—A. Yes, they have greatly increased production, and I think you have got to keep this in mind all the time. Do not think it is only because of increased prices. Take your mind back to 1940 and there was no increase in prices then. The nation called, "We want hogs to fill the contract with Britain; we want to feed the people of Britain; we want to feed our sons we have sent over to Britain; we want to do these things; we want this, that and the other thing." The program was entered into to reduce the production of wheat because wheat was a thing that was not so urgently demanded at that time. The people responded. There is not any question about it. Why? Was it just to be able to get a dollar? I want to tell you, gentlemen, that these people in the prairie provinces who came from Czecho-Slovakia, came from Norway, came from Sweden, came from Denmark, came from England, Scotland, Holland, and other nations you can think of, and Ukrainians particularly, have an intense desire to rise to the patriotic call. It is not that they all want to get rich or anything of that kind. They are not getting rich even at the present prices. True there are a good many of them who have wiped mortgages off during the past two years. I know we have had men come into our office and they have got to a place they never were able to get to in their lives. They say, "Look, I would like to get the mortgages cleared off this quarter-section if I can". He is more particular to get it cleared off the quarter-section his humble home is on. He wonders if there is anything we can do. We negotiate with the company that is concerned. We possibly get a little cut in it because he comes in. What does he come in with? Not any farther back than a month ago a man came into our office and he said, "I had some correspondence with Mr. so and so". This quarter-section of land happened to be held by a Catholic priest in the United States. He said, "I have a thousand dollars". I said, "Let us go across and see the agent". We went across and saw the agent. The agent held the title. The agent said he would arrange the transfer of the title immediately. That man opened a handkerchief and he had a thousand dollars and four cents in it in dollar bills, wheat cheques, cream cheques, the whole thing was there. He was the happiest man you ever knew in your life when he went off with the knowledge that the humble little home he had with the roof over his head was his. That is how he felt about it. Things have got a little better, but anyone who tries to tell you that farmers are living in a field of clover because prices have been enhanced a little during the past two years, and that they are in the lap of luxury, is wrong. He has got a long way to go.

Mr. KINLEY: I never heard that suggested.

Mr. BLACKMORE: There are two or three other questions I should like to ask.

The CHAIRMAN: Hasten on, Mr. Blackmore.

Mr. BLACKMORE: Yes.

By Mr. Blackmore:

Q. Mr. Bickerton, if you were the manager of a government-owned bank you would not lend money without limit, as you indicated yesterday? You would have some limiting factor?—A. Well, I would always hope that we would have men in government or men that would be appointed by government—

Q. Probably good bankers.—A. —who would have intelligence and would be good bankers.

Q. That is right.—A. And I do not know where you would get them from except from the source where bankers are, who understood it.

Q. They are the very men you felt disposed to condemn because they are managing our banking system. Would you favour a loan, for example, to produce wheat when there was a super-abundance of wheat?—A. Oh, you have got to control your economy. I am not satisfied to say that there is a super-abundance of wheat if there are millions of people starving to death in India. There is no superabundance of wheat if there is more wheat here than we can consume here, if there are people starving to death in China, as they do. I think that we ought to begin to model our economy more internationally, rather than to look upon it in a national way. I think we should, as a nation, investigate the possibilities of increasing our markets in those two particular countries I have named where there are over 800,000,000 people.

Q. How would you feel about mutual aid to them? Would you like the idea of extending our mutual aid to cover their needs?—A. I would say this. Being somewhat of a humanitarian, I would say that if we in Canada here had more wheat than we knew what to do with, and knew that there were a number of people starving in another country, we should go to the extent of saying, "Look, take some of our wheat."

Q. Not of purchasing wheat?—A. "And appease your hunger. If you have not got the money to pay for it, then produce something that we in Canada could use"; and let us see if we can overcome some of the customs and tariff difficulties that we have in order that we could have entry into this country of those goods that would satisfy the requirements of a good many people of the country.

Q. We could easily go into another whole branch of investigation.—A. Yes.

Q. But I think we will not follow that. If, somehow or other, the government in India could manage to let their people have the purchasing power so that they could buy the goods, we would not have much difficulty in selling? —A. No.

Q. If we could just manage, somehow or other, to increase our consumptive capacity so that our own people could buy our goods, as much of them as they needed, at a fair price, we would thereby increase our markets. I think probably most of our difficulties with respect to bankers would disappear, would they not, even although the banks were privately owned?—A. Well, I do not think that any of these things is going to disappear mysteriously. But I should like to say this. We possibly have been too prone to consider ourselves a producer nation which must find a market off some place over thousands of miles of ocean. I think we have got to come around to the place where we will decide to ship more to market to ourselves.

Q. Hear, hear!—A. We have a great big country here with less than 12,000,000 people in it. Personally I think it is a disgrace.

Q. I fully agree with you. I believe one of the great tasks confronting the people of Canada is to find out how to increase those home markets. I just want to ask one more question. You indicated that you did believe that it was quite feasible for a state to create money that would be debt-free, interest-free, and that such money could be used, if you could get enough of it, if you had enough goods and services to support it, in modifying prices in the country and in modifying the people's ability to purchase. I suggest to you, just in closing, that probably the solution of your difficulty does not lie along the lines of ownership of your banks, but that the solution of your difficulty in Canada lies in the direction of increasing consumption. If you can get a scientific method of distribution, a scientific method of increasing your home consumption or home markets, a scientific method of maintaining your price structure, regardless of what may be happening outside, you will be going along the line of real progress.—A. Yes; providing that you maintain your price structure and you have sufficient of whatever medium of exchange you use, to take delivery of all of the goods that are on the shelf for consumption.

Q. That is right.—A. You must regulate the amount of medium of exchange that you have in circulation by reference to the consumption needs of the people, in order that you can continue further production.

Q. And you could not do that by having government ownership of the banks, necessarily, because government-owned banks would follow the same policies with respect to loans, interest rates and the like.

Mr. NOSEWORTHY: Not necessarily. Come on, now; not necessarily.

Mr. BLACKMORE: I think Mr. Bickerton has agreed that is so.

Mr. NOSEWORTHY: He has not agreed to that at all.

Mr. BLACKMORE: Mr. Bickerton agreed that he would not loan without interest, without security and without time limits. Let us face the facts. He said he would not loan without interest, without security and without time limits. In other words, he would follow the same general policy as the privately owned banks.

The WITNESS: Yes.

Mr. BLACKMORE: It is an obvious fact that a government-owned bank following that policy would be doing the same thing as a privately-owned bank. Mr. Chairman, I believe this matter is of great importance, because a lot of people are deceived because they think all they need to do is to have a government-owned bank and everything will be cleared up.

Mr. NOSEWORTHY: Mr. Chairman, may I say a word before this closes. Mr. Blackmore is not going to put words into this man's mouth. This man admitted that this was a government problem and that the government could solve that problem through whatever instruments were at its disposal, and one of those would be a government bank.

Mr. BLACKMORE: Not necessarily.

Mr. NOSEWORTHY: That is what he said.

The CHAIRMAN: Gentlemen, my attention has been called to the fact that we have no quorum. Is it your pleasure that we thank these gentlemen for their attendance?

Mr. KINLEY: Mr. Chairman, I think this witness is splendid. He can take care of himself.

The CHAIRMAN: Gentlemen, we thank you for your attendance here.

The WITNESS: I just want to say, Mr. Moore, on behalf of Mr. Appleby and myself, that we have enjoyed it. We know that you chaps have a problem. I know that Mr. Appleby agrees with me when I say we have appreciated the opportunity of being here. I want to extend particularly to you, Mr. Moore, very deep appreciation for the kindness, courtesy and tolerance which you have shown in carrying out your office.

Mr. MCGEER: Hear, hear!

Mr. APPLEBY: Also, on behalf of our association, I thank you.

The CHAIRMAN: Thank you.

—The committee adjourned at 12.58 p.m.

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