

(December 4, 1933)

The Report of the Royal Commission on Banking and Commerce

BY PROFESSOR GILBERT JACKSON.

CHAIRMAN ARSCOTT:—Gentlemen, it is a great pleasure for me today to introduce as our guest speaker one of our own members. The attendance is particularly gratifying and a fine tribute to the speaker and one which he deserved. Professor Jackson is a graduate of St. Johns College, Cambridge. He came to Canada twenty-two years ago as lecturer in economics at the University of Toronto. He has long been interested in the social and economic problems of this country. Early in the war he was appointed a member of the Ontario Commission on Unemployment and later served as Chairman of the Employment Service Council of Ontario. As Professor of studies in the Commerce and Finance course of the University he has a great deal to do in the training of the younger generation of Canadians in matters of vital importance to this country, and through his contact with the business men he has done much to bridge the gap between the academic and the practical points of view. He is Editor of the *Monthly Review*, a publication issued by the Bank of Nova Scotia, and I may say a very excellent one too. He has chosen for his address today. "The report of the Royal Commission on Banking and Commerce." I am sure his remarks will be very interesting and I have much pleasure in asking him now to address you.

PROFESSOR JACKSON:—Mr. Chairman, Gentlemen:—As a professor, I feel a certain diffidence in discussing public questions before a public body. You can all of you remember the tale of the harassed mother who said to the

nursemaid, "Go and see what little Ronald is doing, and tell him he mustn't". In the same mood, a certain type of citizen, whenever a professor raises his voice in public, with difficulty restrains himself from writing to the papers, telling them to find what Professor So-and-So is talking about, and tell him he mustn't. In this case, however, since it is at the behest of the Canadian Club, and since your executive, Sir, rejected my well-meant suggestion that an eminent economist from Montreal be brought down to discuss this subject, instead of myself, I reluctantly take up the task assigned to me.

The Royal Commission on Banking and Currency (to which I shall refer henceforth, for short, as the Macmillan Commission) was awaited expectantly by the whole of Canada. The revision of The Bank Act had already been postponed for twelve months in order that it should first report upon our problems. The names of its members are known to the whole country—there is no need for me to recite them here; a chairman of extraordinary judicial gifts, a great international banker, our own war-time minister of finance, the general manager of a great Canadian bank, and the premier of a great western province.

The Commission was appointed on July 31st of this year. Eight weeks and two days later, that is, on September 27th, its Report was placed in the hands of His Excellency. The Commission had, in the meanwhile, travelled out to Victoria, B.C., thence to Halifax, and back to Ottawa; had held public hearings in Victoria, Vancouver, Calgary, Edmonton, Saskatoon, Regina, Winnipeg, Halifax, Charlottetown, St. John, Quebec, Ottawa, Montreal and Toronto. In the course of this pilgrimage, it had listened to the representations of no less than two hundred and twenty-one witnesses who put in a personal appearance before the Commission, either on their own behalf or on that of some public body; and had received written representations from no less than one hundred and ninety-two other individuals who did not put in a personal appearance, as well as from certain public bodies which were not represented at the hearings.

No wonder that, on a certain occasion in British Colum-

bia (one of the witnesses having introduced a formal resolution about banking) Lord Macmillan remarked, "Better to bring up a family than to bring up a resolution!" I have no doubt that the witness has profited by this good advice, and in the meanwhile returned to the care and feeding of infants.

It was on a passenger train that the Commissioners left the federal capital on August 9th, for the purpose of gathering this evidence. One suspects—of course one does not actually *know*—that when they returned to the capital, burdened with hundreds of transcripts of evidence, more hundreds of memoranda, tons of statistics—they probably returned on a freight train.

These details are merely mentioned, in order to bring home to you the fact that the Commissioners undertook a terrific programme; and carried it through. Can we recall a single public body, charged with a task of the same intricacy, which has worked even half as fast as this? I doubt if we could find in the records of Royal Commissions, whether in Britain or Canada, any that has been so strenuous.

Their labors resulted in a Report of three hundred numbered paragraphs; in four special memoranda by particular Commissioners; and in fifteen appendices, themselves of quite considerable value. The whole of these items are included in a volume of less than one hundred and twenty printed pages; and if I can do nothing else this morning, I should at least like to persuade everyone within sound of my voice to get and read this Report—for it does not only concern the heads of a few banks and investment houses; it deeply concerns the welfare of this Dominion, and of all of our ten million people.

Incidentally a little bird told me that as soon as the report appeared almost everybody in Canada at once wrote to Ottawa for a copy, but that when Ottawa replied saying that copies were priced at 50 cents a great many Canadians decided that while the report was of value it did not possess a value of 50 cents to them personally.

The fact that, by common consent, it is called the Macmillan Report immediately challenges comparison with

another document of the same name—the English Macmillan Report, which appeared in 1931. Lord Macmillan the Chairman of the Canadian Commission, was also, you may remember, Chairman of a British Treasury Committee (on Finance and Industry) whose Report created a great stir two years ago. Both of these documents, in the composition of which he was concerned, are inseparable from his name; and thus, perhaps, in order to save confusion, I had better refer to them hereafter as the British Macmillan Report and the Canadian Macmillan Report, respectively.

Both documents are of great importance, the British Macmillan Report to the whole world as well as to Britain (indeed, if it had been sufficiently widely read and understood in the United States, I think the World Conference would never have been torpedoed last July); the Canadian Macmillan Report to the whole of Canada. Their importance just at present is so crucial, that unless a man has read *both* of them, he can scarcely hope to carry much weight in present day discussion. (Nevertheless, you and I may be quite certain of hearing quite a lot, within the next few months, from powerful thinkers in our midst, who will not be deterred for a moment by the fact that they have not read *either* of these documents).

When one does read both of them, it is at once evident which is the maturer production. The British Macmillan Report not only contains a reasoned discussion of British banking problems in all their phases, and a programme for the betterment of banking practice in Britain; it also contains an authoritative diagnosis of the world's ills, and a programme for world recovery, which (if it had been acted upon by the nations chiefly concerned), would almost certainly be saving the world tens of billions of dollars at this moment. No doubt because it was planned and written so hastily, the Canadian Macmillan Report is a very much more modest affair. I can, perhaps, best explain the ground that it does, and the ground that it does not cover, by resort to medical language.

The medical student studies anatomy—how the body hangs together. He also studies physiology—how the

body functions in health; and pathology—how the body functions in disease.

Considered as a treatise on the financial organization of this Dominion, the Canadian Macmillan Report is an admirable analysis of what may be called our financial anatomy; there is no book which so completely describes all our financial institutions. But considered as a physiological explanation, as to how the financial system functions *in health*, (or as a pathological explanation, as to how it functions *in disease*), it is somewhat less complete. It does not address itself directly to the diagnosis of our Canadian ills, as does the British Macmillan Report to the diagnosis of British ills. In short (and to state the situation in the language of the Commissioners themselves) they confined their attention to "topics appropriate for legislative treatment in the revision of The Bank Act."

I mention this, not in criticism of the Canadian Macmillan Commission, but merely because the difference of character, as between these two great Reports, needs to be made clear, and appreciated.

Because of the limited objective which the Canadian Commissioners set before themselves, their recommendations were comparatively few. You will not expect me, here, to discuss questions with regard to charges on collecting cheques, or with regard to the restriction of deposits by married women in Quebec; though the Canadian Macmillan Commission did actually make findings on both of these vexed questions. I shall accordingly confine myself, for the moment, to the two principal recommendations of the Commission, of which, as you know, the first was not unanimous, but on a majority vote, while the second was unanimous. (I do not even propose to discuss in any detail the second of these two recommendations. It is obviously wise. It embodies a proposal put before the Royal Commission by The Canadian Bankers Association. It has the support of the whole country).

Let me quote the words of the Report:—

293. By a majority (The Chairman, Sir Charles Addis and Mr. Brownlee; Sir Thomas White and Mr. Beaudry Leman dissenting) we recommend

that a central bank for Canada be forthwith established.

294. We unanimously recommend that an inquiry be instituted by the Dominion Government, preferably with the co-operation of the Provincial Governments, to investigate the existing organizations for the provision of rural credit with a view to the preparation of a scheme for the consideration of Parliament.

295. These are our two recommendations with regard to the improvement of the Canadian financial structure.

Here it is proposed that one important addition be made to the financial structure of this Dominion; and that the creation of another important addition be taken under advisement.

The first point that I should like to make, in this connection, is that neither of these recommendations is a criticism, or even implies a criticism of the chartered banks.

There seems to have been an impression, at the time when the Commission was appointed (and this impression seems to have been shared, at that time, even by some bankers), that during its deliberations the Canadian banks were, in a sense "on trial". I, personally, never took that view. It never occurred to me that such could be the case; nor was it the case, in fact.

The Canadian banks are commercial banks, and it is as such that they must be judged. A commercial banker can, it is true, do great harm; and whether his errors be due to faults of character or faults of judgment, the consequences of them are visited upon a whole nation; as we have recently been vividly reminded by revelations in another country. But though the whole nation may be made to suffer by the faults of the banker, the consequences recoil, as a rule, upon himself most directly. When a country has a bad banking system, the banks themselves are almost inevitably to be found in trouble.

In this Dominion, the banks have not been in trouble. During the current depression, there has been no question

with regard to the soundness of any Canadian bank. There has been no question but that all of the banks were in a liquid condition—that they had more funds available for loaning, than they could actually loan with safety. For a long time past (since they found themselves unable, in the face of falling prices and reduced business activity, to lend on the same scale as before), they have been expanding credit by the purchase of securities. All of this is evident in the monthly statements published by the government; and the Commission, at the beginning of its labors, could not fail to realize the great strength of the banking system, and its adequacy to serve the regular commercial needs of Canada.

These features it explicitly recognizes. In this connection, I cannot do better than quote Paragraph 201 of the Report. It reads as follows:

201. It has been manifest, from what we have previously written, and indeed from much of the information afforded us in the course of our hearings, that insofar as the ordinary functions of banking are concerned, the Canadian banks give admirable evidence of security, efficiency and convenience. In a time of universal economic difficulty, the Canadian banks have stood firm and have continued to render to the people of the Dominion the same high quality and the same wide variety of services as in the past.

Paragraph 201 is followed, in due course, by Paragraphs 202 and 203; and it is these paragraphs that introduce the central subject of controversy which divided the Commission.

202. It is nevertheless necessary to ask whether there are any functions which a modern banking system may reasonably be expected to perform which either are not performed or are inadequately performed by the existing Canadian system. From this point of view, the observer cannot but be impressed by the absence in Canada of any single banking authority which, while linked by its activities with national finance and commerce, is nevertheless detached by

its constitution and the temper of its administration from the ordinary pursuits of commercial banking. If we survey the cardinal monetary problems which face the Canadian people in common with all other peoples today, we are immediately confronted with a multitude of difficult and intricate questions. To what extent and through what organizations should the volume of credit and of currency be regulated? On what body should lie the primary responsibility for maintaining the external stability of the country's currency? To what institution may the Government of the day most suitably turn for informed and impartial advice on matters of financial policy? 203. In the great, and an increasing, majority of countries the answer to these questions has been found in the existence or the creation of a central bank.

Now with regard to the problem of a central bank for Canada, my own position is peculiar. As an associate of academic men, I have been for years familiar with the case *for* a central bank; as an associate of bankers, I have been equally familiar with the case *against* it. I can appreciate fully the reasoning of the majority Commissioners, who recommend in favor of a central bank. I can appreciate as well the reasoning of the minority Commissioners who dissent. Let me say that both arguments are admirably stated, and deserve the close attention of the country.

On this vexed question, as to whether we should have a central bank, I am not so presumptuous as to try to pronounce a final word; nor would you wish the Canadian Club to be treated as a platform for a partisan discussion. But I should like, on this occasion, to make two positive statements, both of which will be new to some, at any rate, of my hearers. The first is, that the question, Whether Canada shall have a central bank? is of much less importance than the question, What kind of a central bank is in prospect? The second is, that the decision to create a central bank in Canada was actually taken, not in 1933, but in 1923.

With regard to the first of these two statements, it is

plain, on the one hand, that a central bank *could* be designed, of such a kind as to forestall most, at least, of the current arguments against it; while it is equally plain, on the other hand, that we *might* get a central bank of a very dangerous type. To get the wrong kind of central bank, might ultimately be to meet national disaster; to get the right kind of central bank—a bank suited to the peculiar circumstances of Canada—might be to give us additional security.

Since each of the three political parties in the State has committed itself to the creation of a central bank, if and when it is returned to power, it appears as though the task of a good Canadian, from henceforth, is to do what he can with a view to getting the *right* kind of central bank.

With regard to my second statement, which sounds paradoxical (and may be news even to some members of the Cabinet at Ottawa), some explanation is obviously required. For this purpose I must revive your memories of 1914.

The war was not expected by the peoples of the British Empire. Its immediate consequence for us was an alarming financial crisis. Faced by the risk of a financial breakdown, the Minister of Finance, Sir Thomas White—then, as at present, in the centre of the picture—put on the statute book a piece of legislation which was admirably suited for its purpose—The Finance Act. From then onwards, we had no fears of breakdown; and by means of The Finance Act, we were successful in meeting our colossal war liabilities.

Five years later, in 1919, the Versailles Treaty was signed; and (in the words of Mr. Punch) peace at once broke out.

Pending the liquidation of our wartime commitments, and the restoration of the gold standard, The Finance Act continued to function. But, against the time when, following the completion of this liquidation, the gold standard should be restored—and it was actually restored in 1926—a choice lay before the government of Canada. Should it allow The Finance Act to lapse, and so go back to the financial arrangements of 1913? or, should it go forward, retaining The Finance Act?

The decision was made, as everyone knows, to retain The Finance Act. This decision was made in 1923, when last we revised The Bank Act. Everyone acquiesced in it, including the bankers themselves. What was not realized at the time, either (as I suspect) by the government, or by the bankers, or anyone else, was that The Finance Act is a half-way house on the road towards a central bank.

A realization of this began to dawn upon some of us three years later, when the new gold standard was put in operation. (At least, it was then, in 1926, that the situation became apparent to me.) We were already half-way towards a central bank; and having gone half-way towards any goal, it is difficult, in practice, to stop there. Sooner or later one finds oneself impelled, either to go back to the starting point, or to go forward to the goal.

In the logic of history, few peoples go back; as a rule, for better or worse, they go forward. That is my reason for stating that the decision in favor of a central bank was actually taken by Canada, though quite unconsciously, ten years ago. All that we have now done, is to select the present as the time for implementing that decision.

Will you permit me now to return to the first of the two points that I have enumerated already?—the proposition that our real concern at present is not with the question, Should we have a central bank? but with the question, What kind of a central bank shall we have?

In a sense, the question, Should we have a central bank? was always beside the mark. For it is impossible to say, Yes or No, to such a question, without knowing what kind of central bank is contemplated.

In the world today, we find all kinds of central banks; central banks with share capital, central banks without share capital; central banks whose shares are owned privately, central banks under public ownership; central banks with the sole right of note issue; central banks without such sole right; central banks which compete with the commercial banks, and central banks which do not so compete.

Even among those members of the Macmillan Commission who favored a central bank, there was a division

of opinion as to what kind of a central bank it should be. In the press, and among the public, debate upon this question is already launched.

Here again, you will not expect me to try, within the short space of time allotted to me, to settle these issues. But in a controversy which arouses strong feelings, and which may become bitter, there are certain considerations of such importance, that I must dwell upon them.

Almost everyone who has approached this group of problems appears to have been prompted, hitherto, by fear of something. When it is proposed, in the main Report of the Commission, that the shares of the central bank should be privately held, some of our fellow citizens at once visualize a similar financial influence purchasing majority control, and acting in a manner detrimental to the public. When it is proposed, again in the main Report, that the new central bank should have the sole right to note issue—that in course of time the chartered banks should be deprived of their note issue privilege—certain bankers are alarmed, not unnaturally, lest their profits may be substantially reduced. I could multiply such instances.

With regard to them all, it is necessary to say this: that if the central bank is started in an atmosphere of mutual distrust, in an atmosphere of ill-will, it cannot possibly benefit anyone in Canada. Better by far, than a central bank launched under such auspices, would be no central bank at all.

With the spread of good manners through the centuries, we have gradually learned that the parlors of our own homes are not places to fight in. It is equally true that there must be no fighting in the banking parlor.

Let us begin by recognizing that we Canadians have no first-hand knowledge of central banking. That statement is true, so far as the man in the street is concerned; it is no less true, when applied to the commercial banker; for commercial banking and central banking are very different things. You cannot by reading a book learn the difficult art of central banking. You can only learn that art by practising it, by conducting a central bank, or living in close contact with it.

Of all the central banks in the world, I venture to say that in our generation only one has proved quite adequate to the tasks imposed upon it—the Bank of England.

The Bank of England is two hundred and thirty-nine years old. For the best part of a hundred years—ever since 1844—it has been a central bank in the real sense of the word.

Men affectionately refer to the Bank of England as the Old Lady of Threadneedle Street. That old lady has had a long experience.

Much nearer to Canada, there are twelve so-called central banks in the United States. They celebrated, not long ago, their sixteenth birthday. Few sixteen year olds have had such a chequered career, have sown so many wild oats, have caused so much trouble to their Elders. They made the mistake of attempting to run, before they had really learned to walk.

A central bank in Canada *must* learn to walk before it tries to run. For a generation—perhaps two—those who sponsor it must hold their hopes in leash, as they test its capacities, and must wait upon growing experience to make it really serviceable. In the formative stage, a new central bank has even more to fear from enthusiastic supporters, than from its enemies.

If it is to serve the country properly, the projected central bank must have the goodwill and cooperation, not of the commercial banks only, but of our ten governments, of our investment banking houses, and of Canadian financial institutions generally. Whereas in the United States it was not an unknown experience for the Federal Reserve Board to find itself at odds with a particular Federal Reserve Bank—and for the controversy between them to be fought out in the public press; whereas it was not an unknown experience for a Federal Reserve Bank to find itself publicly repudiated and opposed by one of the great commercial banks; we cannot afford even to contemplate such contingencies in Canada. Let me repeat, that rather than reproduce such experiences in our own midst, we should be wise to do without a central bank.

It is all important that a central bank of our creation

should be launched with general approval; and especially that it should begin with the goodwill of the commercial banking interests, that have already served Canada well for more than a century.

There is a corollary to this statement, which should be clearly drawn. In the designing of a central bank, we should do whatever can be done, to secure for it the goodwill of the chartered banks.

It is for this reason that I am disposed to deprecate a good deal that has already been said concerning recommendations in the Macmillan Report, and to deprecate, as well, some features in the Report itself.

In the first place, I regret very much that the private ownership of shares in the central bank (as recommended by the Commission) should be denounced. I fear no sinister possibilities in this direction. I should be far more apprehensive of a central bank owned by government, which would, therefore, in times of great stress, offer a temptation to harassed politicians to mix politics with central banking—a temptation which it might be difficult to resist.

As everyone knows, shares of the central bank in England are owned privately. The superficial observer might possibly suppose that private interests would work for majority control, with a view to manipulating the Bank's policies on their own behalf. Actually, this has not happened and will not, firstly because of the strict limitations on the voting rights of shareholders, and secondly because of the character of the men concerned with the Bank of England. There are, in fact, about 14,000 shareholders of the Bank of England; and their average holding is about \$5,000. The Bank of England is in actual fact what every central bank, in every country, should become—an unofficial public trust.

In the second place, I regret the condemnation of our projected central bank, on the ground that it will be too close to the Bank of England. Indeed, in these days of stormy financial weather, I doubt if we could anywhere find a more water-tight umbrella, than that of the Old Lady of Threadneedle Street.

In the third place, I regret the proposal to deprive the commercial banks of their note issues. If they were left with the circulation privilege, even in its present form, the control of credit by the projected central bank would not be weakened; and the main purpose of the central bank projected for Canada will (as everyone knows) be to control credit.

Most of all, I deprecate attitudes that are all too plain in some of the parties to this discussion. Here is a point on which it is necessary to speak quite bluntly.

On the one hand, we citizens of Montreal and Toronto, whose sympathies are naturally, perhaps, with the bankers and against their critics, have been all too prone to declaim against such critics of the present banking system, describing them as impossible theorists, men given to windy talk, men whose lack of practical acquaintance with affairs disqualifies them for speaking on monetary subjects. Gentlemen, we have signally failed to recognize that these lay critics of our system are no more ignorant than ourselves on the subject of central banking; that they have made great efforts, and by no means unsuccessfully, to learn something of the great traditions of international banking (such as are represented on the Commission by Sir Charles Addis) with which we cannot claim ourselves to be familiar. We have not all of us been fair to them in our discussions, and for the sake of our common country, we *must* be fair hereafter. Moreover, some of us need to familiarise *ourselves* with twentieth century monetary theories. We cannot live in the past.

On the other hand, we citizens of Montreal and Toronto may well resent the common assumption, in the speeches of laymen who criticise the bankers, that the banks have been operating a monopoly, that they have been benefiting by the hardships of the producer, that they have subordinated his interest to their interest, that their profits have been unduly high.

(With regard to the last of these four points, the Commission has already shown that the holders of bank stock, while accepting the risk inherent in all banking, while burdened with a provision for double liability, have

not — on an average — received more on their capital than if they had invested, instead, in perfectly secured corporation bonds. With regard to the rest, in a proper understanding of economic relationships, we know that an honest banker's interest is exactly parallel to that of his clients; and the wildest critic of the Canadian bankers has never called in question their honesty.)

Gentlemen, whatever our private opinions on this question (and it certainly has two sides), we are going to have a central bank. We know that no legislation can give absolute protection either against mistakes of judgment, or against defects of character. Some countries, unwilling to trust either the judgment or the character of their financial leaders, have attempted—and failed disastrously—to provide by statute against all contingencies.

That is not the British way. Our British way has been to put our trust in character, not in legislation. We have known instinctively, that when men of good will attempt to make our institutions work, they do work well; and we have also known instinctively, that if character fails, its defects cannot be neutralized by legislation.

We are going to have a central bank. Its business in Canada will be with, and among, our Canadian financial institutions. If the central bank is a success, it will succeed for two reasons: firstly, because the citizens at large will have had faith in the management, both of the central bank, and of those institutions; and secondly, because the men in those institutions, as well as the men in charge of the central bank, will really have deserved the trust reposed in them, and will have worked together.

Its success is also going to depend upon the good will and capacity of working with the Central Bank of the men in the chartered banks and financial institutions. If the body of men in charge of the financial life of Canada put themselves behind it they will make the Central Bank work and unless they do put themselves behind it our Central Bank will cut the same kind of figure as twenty or twenty-five rather miserable institutions that you can see in various countries of the world.

There are bound, of course, to be differences of opinion,

in the settlement of this issue; let us, for our part, resolve that in these controversies we will harbor no mean thoughts of those from whom we differ.

CHAIRMAN ARSCOTT:—Professor Jackson, you have given us a most excellent address. I congratulate you upon the charm and the clarity of the language in which you presented it. You will have observed how closely and appreciatively your audience followed your remarks. The material which you have given us today brings up an entirely new thought along the Central Bank line and gives us much for consideration. There is nothing further for me to do now but to express to you verbally our appreciation of the trouble you have taken in the preparation of this address. On behalf of the members of the Club, I thank you.