

Government Monetary Policy

Canada. Now, Mr. Dunning said in the house in 1936, as reported on page 3262 of *Hansard*:

The bank may and should resist temporary gusts of public fancy, but in the long run it must show responsiveness to public opinion. In the long run, the bank in the performance of a vital sovereign function must be responsible to the sovereign will expressed through government. There cannot be two sovereigns in a single state.

The government either agrees with the Bank of Canada or it does not, and if it does not and does nothing about it it is spineless. I think it is wrong for a government such as ours to abrogate the authority given it by the people of Canada. I do not think this government should keep on sidestepping and refusing to take responsibility. This leads me to wonder, Mr. Speaker, are they men or are they mice? I know the Minister of Finance will try to talk about something Mr. Harris said. I know that Mr. Harris said at one time on the orders of the day, when he was asked about an increase in the bank rate, that he had nothing to do with that particular increase in the bank rate. That was the case. He certainly had nothing to do with it. However, Mr. Harris said, he had been consulted by the governor of the Bank of Canada, and while the former minister of finance did say he had nothing to do with that particular rise in the bank rate, at no time did he go on record as saying he did not feel responsible for the over-all policy of the Bank of Canada.

We all know that money is like any other commodity inasmuch as the cost of money depends on the supply and demand. The Minister of Finance has been responsible for the high demand and this in turn has resulted in high interest rates. Suppose we assume that the Bank of Canada had all to do with the high interest rates we are paying. Then I say the minister in his own jurisdiction is on record as being responsible for paying higher interest rates on the money he has borrowed. On several occasions, and in particular on January 16, I referred to the various gimmicks which were used in connection with his bond sales. The one to which I referred on January 16 was the 3 per cent 19 months' bond sold at 94.65 to the wealthy friends of this government. Those who bought that bond, if they were corporations paying 50 per cent income tax, had over 5 per cent net after income tax, equal to 10 per cent net before income tax. There have been several bonds of this particular type put out and, in fact, \$125 million worth of this issue were sold. At the same time, bonds at 5½ per cent were sold to the public at a smaller discount than those sold to the big investors at 94.65. I suggest to the minister that there is a lot of room between 5½ per cent and 10 per cent where he might have

[Mr. McMillan.]

stopped instead of paying those people who wanted to dodge income tax. Even though we assume that the Bank of Canada is responsible for the 5½ per cent or whatever other interest there is it can hardly be said that they are responsible for these big gobs of bonds, and for the profits which are being made, not always but generally, by wealthy people.

In 1957, when Mr. Harris was minister, we were paying our way and we had a daily surplus of \$400,000. Then, as I said on January 16, the present minister brought in his baby budget in December, 1957 which changed this surplus into a deficit of \$2 million. Every day, and day after day, we have a \$2 million deficit when you consider the government's overspending and the depletion in government accounts. No matter what is said of the Bank of Canada we should all realize that the Bank of Canada must see to it that hundreds of millions of dollars are channeled into the Canadian treasury every year in order that this government may meet its huge deficit and other obligations. This is no longer an easy task. I do not think the governor of the Bank of Canada or anybody else could induce bond holders to go on buying long term bonds after the stinging the minister gave those bond holders who bought 4½ per cent bonds at the time of the conversion loan. We know that those bonds fell to a point almost 20 per cent below their face value.

Manu long term bonds were sold to people who could not afford to put up the cash for the duration of the bond; they were willing to put up their cash for a time, intending to sell the bonds later. However, they found out when they came to sell that the value of the bonds had dropped very considerably. They went to the bank, and the bank would not lend any money on the bond. This condition continued for a considerable length of time. I know of some people who had to sell their bonds at a loss and, to say the least, they do not feel enthusiastic about the minister's financing.

At the time of the baby budget in 1957 some sections of the press referred to the budget as budgeting by fraud in that the minister was projecting a surplus over the last three months of the fiscal year when in fact over the whole year there had been a big deficit. Of course, he had a deficit anyhow. Then came the election in March, 1958, and to put it mildly I do not think the handing out of the benefits under the unemployment insurance scheme was meant in any way to lose this government any votes—certainly not in my part of the country, anyhow. Then a little later, came the government's first full budget. At the time of