

dropped that down to 4 to 8 per cent. In fact, Mr. Speaker, there was a raging argument several years ago, and it continues in this country, the United States and Europe, as to whether M1 represents an adequate definition of money, and many suggest that M3 should be used, which is currency and all chequable notices and term deposits plus foreign currencies. If we look at M3 over the last few years, we see it has been growing at a rate more closely analogous to the inflation rate. It has been growing at 12, 14, 16 per cent, while M1 has been growing at between 5 and 9 per cent. So perhaps those who argue that the Bank of Canada is controlling the wrong type of money have a pretty valid argument based on the performance that we have observed so far.

Moreover, M1 merely represents transactional money. The theory is that if you control and limit that, you limit the transactional ability of the economy to progress by limiting the ability of people to spend and invest, thereby taking some of the steam out of the economy and producing a lower inflation rate. Well, one of the experts in regard to interest rates, I suppose on a global basis but certainly in the United States, is Henry Kaufman, chief economist with Salomon Brothers, a very well known and highly reputed Wall Street firm. He has consistently and very accurately predicted high interest rates over the last decade and dismissed the impact of money supply on interest rates. He points out in an article in *Fortune* magazine of May, 1981:

"One of the great wonders of the world", he says, "is the American credit market." In his view, bankers over the last two decades have been dismayingly creative in attracting new types of deposits and finetuning "spreads" between their cost of money and their selling price, so that they can turn a profit no matter how much they pay for deposits.

The net result is that there is no discount rate that the Central Bank imposes which will affect the profits of banks. In fact, as the leader of the New Democratic Party (Mr. Broadbent) points out, profits tend to go up under those circumstances. He then goes on to say that what really matters in terms of money and inflation in the economy is the credit involved; not the currency or the transactional money, but use of credit. He gives examples of the kind of creativity shown by modern bankers and financial officers with corporations. I quote:

"The financial markets are very innovative, and we're going to find some more substitutes for money," says Kaufman. "We can drive that credit mechanism very hard." Thus he foresees an increase in the velocity of money far beyond past experience.

The net effect of that, as he says here, is that not only have high interest rates not dampened the creation of credit and therefore the flow of money, but it has merely added to the cost.

Now, Mr. Speaker, I see you are trying to get to your feet, but before I step down I wish to put on the record an amendment to the motion. In view of the fact that the government has no policies, I think it behooves them to look at ways in which perhaps some of the damage can be ameliorated at no great cost to the treasury. Therefore, I move;

That the motion standing in the name of Mr. Broadbent be amended by deleting the final period and adding thereafter:

Interest Rate Policy

"and calls on the government to introduce measures to make property taxes and mortgage interest tax deductible and to extend the provisions of the small business development bond to cover farms and non-incorporated businesses for working capital as well as fixed capital financing."

In conclusion, Mr. Speaker—

Mr. Deputy Speaker: Order, please. I regret to interrupt the hon. member but he has exceeded his time.

[*Translation*]

Hon. Pierre Bussières (Minister of State (Finance)): Mr. Speaker, I am happy that the leader of the New Democratic Party (Mr. Broadbent) has given the members of this House the opportunity to discuss an extremely important and topical subject that concerns most Canadians. However, I would like to tell him that I am disappointed that he has imputed the economic problems facing not only the Canadian society but the whole western world to one type only of financial institutions, namely the banks. He will probably accuse me in return of simplifying the tone and substance of his speech. However, that is how I perceived his comments, and I cannot believe that the leader of the New Democratic Party would allow himself to make such a simplification. I shall blame partisanship for his having ascribed the economic problems of our country to the activities or operations of only one type of financial institutions, namely the chartered banks.

● (1610)

I would also like to remind the leader of the New Democratic Party that when he speaks of the profitability or the profitability rate of our chartered banks, he should be aware of the data he uses for comparison purposes. For instance, he has compared the first quarter of 1981 to the first quarter of 1980. Yet, we know that, because of certain economic conditions, there was a high profitability rate during the first quarter of 1981, while because of other economic conditions, the rate for the first quarter of 1980 was lower than usual compared with the quarterly rate of previous years for the same period. I believe therefore these two figures alone do not allow us to draw firm conclusions since the economic conditions during the periods involved were exactly the opposite. Any conclusion must therefore suffer from this distortion, and a much longer period should be considered to determine real profitability rates. On the other hand, I would like to point out to him that the Minister of Finance (Mr. MacEachen) has undertaken that his department will look fully into this sector and monitor profitability rates, and that the minister would take appropriate action if there were excessive profits.

I also noted in the comments of the hon. member for Calgary Centre (Mr. Andre) that he was making a comparison between the bank rates from country to country. This is not in every case an indication of consumer interest rates. In certain countries, the bank rate directly reflects consumer interest rates, while there might be a significant difference in others. For instance, in the United States, the bank rate of the central