

*Bank Act*

outlays in the manufacturing group are expected to increase by 23 per cent, with the chemical industry doubling its percentage, with new facilities for fertilizers, plastics, synthetic fabrics and other products. The petroleum and coal products industry will add to its outlays by 86 per cent, particularly in view of the expansion of refinery capacity. The large increase in expenditures by automobile companies largely makes up for the 50 per cent increase in transportation equipment, while the pulp and paper industry accounts for another 35 per cent.

An analysis of these figures indicates that the biggest increases are in industries other than those producing commodities. In construction the largest percentages will be in non-residential building activity. Thus, improvement in productive facilities and their expansion is strongly indicated. The modernization of Canadian industry makes it more competitive both at home and abroad. All this activity underscores the importance of a strong, dynamic financial base to provide large services and at a reasonable price. The financial tempo of Canada is closely related to the dominant market with which historically we have been associated.

• (4:40 p.m.)

A number of very revealing charts are published in the Budget Papers, pages 534 and 535, indicating the intimate association of money rates between Canada and the United States. The year 1962 is a sad and costly exception. In the debate about the seat of monetary power in Canada, those who pointed to the Government as the seat of authority were able to establish their position. Certainly fiscal policy in Canada is a potent instrument, providing a climate for investment. This has also a most important influence on money rates, but we cannot dissociate ourselves from the importance of rates established by the New York Federal Reserve Board. Probably the discount rate of the New York Board has a more potent influence in Canada, in the long run, than that of the Bank of Canada itself.

Deficits, both in our national accounts and in our balance of indebtedness, limit our ability to manoeuvre. The economic independence of Canada can be more readily asserted when we do not have to meet large deficits, both in our international account and in our account at home. This does not mean that on occasion it is not important to use the facilities of deficits, both at home and abroad, but in the long run this qualifies our

ability to plan. The lesson of the last Government indicates that mounting deficits at home and a worsening balance of payments problem forced us into a position where very high rates of interest were paid by the Government to finance its operation, and eventually control over the rate of the Canadian dollar was temporarily lost. Very substantial assistance by friends abroad and a sizeable devaluation of the Canadian dollar established a new basis. We continue to pay those high rates of interest, which were contracted in those days by the Canadian Government, in the wake of the reconversion loan of 1958. We want to ensure that we can plan for the economic well-being of our country and that the facilities available are not weakened by deficits at home and abroad.

The review of the Bank Act gives us once more the opportunity to assess an important area for financing our national development. Tables published on pages 106 and 107 of the report of the Royal Commission on Banking and Finance, 1964, indicate that while the assets of the chartered banks for the 27-year period 1935-1962 multiplied almost six times, as a percentage of the total assets of all the chief financial institutions they declined in the same period from 44.4 per cent to 34.9 per cent. The relative role of life insurance companies plus pension plans, plus mutual funds, remained about the same; but this was due to the large increase in pension funds, and while life insurance assets in Canada multiplied five times, their percentage declined from 35.2 per cent to 23.4 per cent of the total.

The recent increase in assets of the trust companies has brought their relative position at the end of the period to exactly what it was at the beginning. An eight times growth was assisted by an increase between 1955 and 1962 of more than two and a half times. Caisses populaires and credit unions show a growth about six times over. Finance and consumer loan companies increased their assets 28 times and as a percentage of the total grew from 1.4 per cent in 1935 to 5.3 per cent in 1962.

This certainly indicates that the role of various institutions within the financial complex of Canada has changed materially, and in reviewing the total financial spectrum the relative positions of institutions must be carefully evaluated. The Government, in accepting responsibility for monetary and fiscal policy, as expressed by the Minister of Finance when he first took office, must ensure that measures which it undertakes can be