

today, would the minister indicate why he has chosen to raise the bank rate at this time when so many Canadians are out of work?

Hon. Jean Chrétien (Minister of Finance): Mr. Speaker, the bank rate was raised yesterday by the governor of the Bank of Canada. As is customary, he consulted with me and I agreed with the general thrust of the monetary policy of the governor of the Bank of Canada.

Mr. Stevens: Mr. Speaker, again my question is directed to the Minister of Finance. As a former minister of finance twice removed from the present minister, in a similar situation in 1974, asked each of our Canadian chartered banks to give favoured treatment to the smaller businessmen in the country—farmers, fishermen and those in distressed areas—would the Minister of Finance indicate if he, likewise, has asked our chartered banks to save those sectors of our economy from the full impact of this interest rate increase which they have determined?

Mr. Chrétien: Mr. Speaker, I can assure the hon. member that in my contacts with the banks and, as well, through my department, they are aware that the policy of this government is to make sure that the credit necessary in the low growth areas of Canada should be of sufficient proportions. I will be asking them to do whatever they can in the special circumstances.

Mr. Stevens: Mr. Speaker, my supplementary question is to the Minister of Finance. Bearing in mind that we now have a bank rate in Canada which is higher than that of any of the other seven main industrialized nations in the world—with the exception of France, which is fighting off communism, and with the exception of Italy, which really has no government—would the Minister of Finance indicate whether he has at least considered giving some relief to those who will be paying mortgage interest rates in future as a result of his policy, with a view to allowing them to charge at least a portion of their mortgage interest prior to paying their personal income tax.

Mr. Chrétien: Mr. Speaker, as usual, the hon. member forgets to mention one aspect of the policy—that some time ago the spread between the interest rate in the United States and the interest rates in Canada was 4 per cent. It has come down half a point to a point, but it is still three points better than it was a few years ago, if you compare the two situations.

Mr. Stevens: How about mortgage interest?

● (1417)

INCREASE IN BANK RATE—GOVERNMENT SUPPORT

Mr. John C. Crosbie (St. John's West): Mr. Speaker, my question is for the Minister of Finance. At the first ministers' conference on February 15, which the minister appears to have forgotten, part of the communiqué of the meeting stated that action was required now to speed up the economic recovery which has now begun. Since then, Statistics Canada surveys have shown that the real value of business investment is

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declining in 1978 by at least 2 per cent, and 4 per cent in manufacturing, the increase in the bank rate will make it more expensive to raise capital—it will be a disincentive to invest—and those businesses faced with a higher cost will pass the cost along in higher prices.

Will the minister explain to the House how, in view of the communiqué of the first ministers and the effect on business investment, he could support this increase in the bank rate and interest rates in Canada?

[Translation]

Hon. Jean Chrétien (Minister of Finance): Mr. Speaker, I have just explained that the difference in interest rates between Canada and the United States was such that the governor of the Bank of Canada could really not accept it. He increased our rate by half a point. But I do want to point out that a year and a half ago, the difference in rates between Canada and the United States could reach up to 4 per cent. Now, there is a one-point difference but because there exists in Canada considerable need for foreign capital, of necessity there must always be a difference between the Canadian and the American rates of interest.

[English]

Mr. Crosbie: Mr. Speaker, the minister should try to be consistent. It is the minister's position that Canada has a floating exchange rate and that he is not interfering with the exchange rate, so why does he now bring forward this story about interest rates and Mr. Bouey?

I want to ask the minister the following question. When the minister started interfering in the market a few weeks ago, he said that the provinces approved his policy. Were the ten provinces consulted by the minister before he approved the increase yesterday by the governor of the Bank of Canada in the interest rate of a half per cent, and did they approve what the minister says is his policy?

Mr. Chrétien: Mr. Speaker, obviously the hon. member does not know how the monetary system operates in Canada. Monetary policies are established by the governor of the bank in consultation with the minister of finance. But it is the responsibility of the governor of the Bank of Canada to make those decisions, and he is a very responsible gentleman.

Mr. Crosbie: Is the Minister of Finance now stating the government of Canada has no responsibility for the monetary policy and that only the governor of the Bank of Canada has that responsibility, and does he agree with the governor of the Bank of Canada in his statement yesterday, that too large an exchange rate adjustment over too short a period of time would not be helpful in restoring our international competitive position, and there would be a risk that we could not overcome inflation if we do that? I have two questions: Does he say that only the governor is responsible for monetary policy, and does he agree with the governor's statement on the inflationary danger?