cent, but that other interest rates either on mortgage loans or on personal loans would be raised if the banks so wished. There is one thing I should like the Committee to remember in this regard. It is this: At the moment this is all a lot of window dressing. The Minister was trying to cover up in the course of his opening remarks what was to come later.

Some of my colleagues have already dealt with this point, but I shall take it up again. I am referring to the 7 per cent bank reserve requirement. We all know that the banks now have 8 per cent of their reserves with the Bank of Canada in accordance with the Bank Act. When they have \$8 in reserve, \$8 guaranteed either in currency or in Government bonds, they can lend out in a form of credit \$100. Discounting the \$8 held in reserve this amounts to giving the banks permission to create out of nothing \$92, which they then lend out at interest to Canadian consumers. To put it another way, if I deposit \$8 of my savings with a chartered bank, they pay me interest on it at the rate of $2\frac{3}{4}$ per cent. On the basis of this \$8 the bank is then given permission to lend out \$100 upon which they collect interest at the rate of 6 per cent. In other words they give 24 cents to the depositor while receiving \$6 on the \$100 created on the basis of his deposit. This means a profit of \$5.76. That is the way in which the banks operate at the moment. They have the right to create $12\frac{1}{2}$ times the amount they have on deposit either in their savings accounts or in Government bonds. By reducing this reserve requirement to 7 per cent the Minister is giving them permission to create funds amounting to 14.28 times their reserve—some of my colleagues have mentioned $14\frac{1}{2}$ as a round figure.

Why is this being done? There is a reason, and I will tell the Committee what it is. First, this is a pre-election measure in the interests of the Liberal Party right now. At the moment, every chartered bank across the country is doing everything in its power to get people to deposit more money in their savings accounts. They do this because, as I say, these deposits provide them with credit to a multiple of $12\frac{1}{2}$ times. But the banks are finding it increasingly difficult to get people to increase their savings. The Minister, by this change in the Act, has found one way which will permit the banks to continue to lend as before, without having to impose financial restrictions.

If the chartered banks were obliged at this moment to restrict credit across the country the result would certainly not be to the Government's advantage. We know what the reaction of the Canadian consumer would be. If the Minister does not know it, he can ask one of his predecessors what happened when he dictated a tight money policy. The measure before us would delay such a necessity until 1968, at least, permitting the Government to face an election and ensuring loose credit for the next three years. The Government will be able to get through the centenary year. But by 1968 if this country does not hit rock bottom and economic chaos I shall be surprised. However, at the moment this measure permits the Government to escape the trap which the Minister himself has created through his own monetary policy in past years.

As I mentioned a few minutes ago, the Minister of Finance knows that deposits going into savings are not as numerous as they were. He knows the banks can create credit on the basis of the 8 per cent of their reserves held by the Bank of Canada. He has only to read over the Bank of Canada Act to know this. It was made clear in 1935 and 1936 when the Committee on Banking studied this question. At that time Mr. Towers was governor of the Bank of Canada and Mr. Graham was questioning him. The Minister can read the report and find out what happened. We are now being asked to consider one move which will prevent the necessity for a tight money policy—and a tight money policy, added to all the taxes the Minister has placed on the shoulders of the people of this country, would mean a tight squeeze for the Government in the event of an election. We all know an election will come before 1968. The Minister hopes to get away with it for another three years, through 1967, and what happens to the Canadian people afterwards he does not seem to care.

Why is there a decline in the amount of money going into the savings departments of the banks today? There is only one reason. The people depositing in these accounts have less money in their pockets, less purchasing power. That is what we in this corner of the House are saying. They do not have enough money to buy Canadian products at the moment. So, instead of applying tight money policies as was done in 1959, the Minister has reduced the reserve requirement from 8 per cent to 7 per cent, thus allowing the banks to continue to lend at the present rate for another two or three years before the wheel goes round once more and we have