

*Financial Administration*

simply pointing out that that impression got abroad. I should like to read just what was said at that time.

The other evening in the committee the minister expressed a view which I thought was most sensible, as to interest rates and prices. I thought that he was using words in their proper sense, but I do not think his predecessors were quite as careful in all cases. I have here a statement got out in 1945 entitled "Victory Bond Prices" which I received from a most respectable source and which contains a statement by the Right Hon. Mr. Ilsley and, more important and to me much more surprising, a statement which came from the Bank of Canada.

I cannot help but think how easy it must have been for a bond salesman, first, to make himself believe and, second, to make other people believe that this was virtually a guarantee that bonds would not go below par. What Mr. Ilsley said was quite general; it created what I would call a pleasant atmosphere toward the bonds. When I read the statement from the Bank of Canada hon. members will realize how far responsible people went to make themselves believe that low interest rates had become the law of the universe. Here is what Mr. Ilsley said:

It will be of the greatest importance that we maintain, indeed assure, a ready and stable market for all these millions of bonds that we have sold. We have now the monetary and financial machinery and we have developed the methods for accomplishing this, and we will therefore be able to deal with any situation which may develop in a way which will keep faith with the millions of investors who are supporting the savings program in this national emergency.

There is nothing said there about guaranteeing bond prices, but I do not think anyone will disagree when I say that it would not need a very enthusiastic salesman to be able, as I said, to make himself believe and then to make his customer believe that what was really meant was that bonds would not go below par. Here is a statement taken from a Bank of Canada report which to me is surprising because it goes a good deal further. It reads as follows:

Government bond prices reflect the level of interest rates. A decline in bond prices could happen only if interest rates were to rise. In my opinion, the needs of the future will require and enable the kind of monetary policy which has brought about the current level of interest rates. Continuance of this policy means stability in victory bond prices.

That does not say that the bonds will not go below par but I say again that I do not think it needed a very enthusiastic salesman to believe that. When I saw that statement I was surprised. It went further than I had realized that responsible authorities had ever gone. I have quoted this statement partly

because I want to go on now and read a short statement the minister made in the committee. He said:

I believe in the law of supply and demand with certain reservations. I do not believe there is any such thing as a fixed interest. I believe in the use of the interest rate, and so far as the government securities are concerned I think that the holder of government securities must buy them on this basis.

I would not disagree with a word of that. The only thing is I am sorry that responsible authorities ever led anyone to believe anything else. Of course in England they are busy now trying to reassert what I think all sensible people have believed, that fixed interest rates are something that are inimical to anything like a free economy. Continuing our discussion with the finance minister in the committee, we got onto the question of support, and I was a little surprised. The minister did not seem to like the word "support", but I am going to read what he said and leave it to any fair-minded man as to what these words mean. He said:

All I think any government should ever attempt to do in the management of public debt is to see that there is an orderly and stable market for its securities, and the price that is paid for those should be determined over the long pull by the demand for them and by other matters of monetary policy in which of course no country can be entirely independent.

I come back to the words "orderly and stable market for its securities". I submit you can give no meaning to them whatever unless—and I think it a proper thing—it be that the government is supporting its securities just as we were definitely advised it did during the war and as it has done since. As a matter of fact up to 1948, I think it was, the Bank of Canada quite openly indicated what its paying prices were, and I hope we will have none of the make-believe which I suggest has taken place during the last few years. I do not think anyone who has cut his eye teeth in the financial community has any doubt whatever that assuring an orderly and stable market for securities means that you have to be ready to support the market. If it is going to have a sinking spell it would be in the highest degree foolish not to do so. We know it is done in England and elsewhere.

I have brought up these matters under the heading of monetary management. Someone may say: Well, are you not making an awful lot of fuss about the use of words? I do not think so because it seems to me that, unless we are going to be perfectly frank and clear with each other as to what is actually going on, unless our thinking is clear, our actions are apt to be foggy. I express the hope we