I have in front of me a quotation from the Winnipeg *Free Press*. Actually this is a digest of quotations from that newspaper during the last few days of October, and November of 1961. These quotations refer to one of the techniques used by the Bank of Canada to increase the money supply. I understand the minister is from Winnipeg and that he and members of his party have a high regard for this newspaper. Perhaps he can find some measure of agreement with the assertions that have been made in these articles. They refer to a period of inflation, because at the time there was a series of federal government deficits. Let me quote from the article as follows:

> The easiest way to explain the Bank of Canada's technique for expanding the money supply is to give an example.
>
> The Bank is the agent of the government. The government in the present year is spending $980 millions more than it receives in revenue from taxation. The government, therefore, must raise money by selling bonds and thus be able to pay its bills.

The article then states:

> In the illustration—the government needs $250 millions, is afraid to take a chance on the open market and so increases the money supply.
>
> The Bank of Canada puts in an order with financial houses to buy any given amount of government bonds—say $20 millions worth. The bond houses go on the open market and buy these bonds. They present themselves to the Bank of Canada the next morning and say "Here are the bonds you ordered. You owe us $20 millions."
>
> The Bank of Canada accepts the bonds and pays for them with a cheque... deposit it in the chartered banks. And the chartered banks can do but one thing with a Bank of Canada cheque. They present themselves before the teller's wicket in the Bank of Canada and deposit it in their account. The chartered banks are to the Bank of Canada what the mass of people are to the chartered banks—customers.

The article then states:

> Under the Bank Act, the chartered banks are required to hold cash or Bank of Canada deposits equal to 8 per cent of their own deposits from the public. This means that once the $20 millions is deposited with the Bank of Canada, the chartered banks can expand their own deposits by 12½ times this amount—or by $250 millions.
>
> The money supply is thus expanded by $250 millions by the stroke of a pen.

A few moments ago the minister said the chartered banks could not create anything out of nothing. In other words the only way they can increase their loans is by increasing their deposits. That is the first step, but once they have their increase in their deposits with the Bank of Canada under this fractional reserve system they are in fact allowed to increase loans by 12½ times the amount of the increase in the reserves at that time.

The article then continues as follows:

> So it follows, the banks use the $250 millions of new money to buy the $250 million bond issue which the government promptly issues. The government's accounts with the banks go up by this amount.
>
> What has happened is that the chartered banks have increased their deposits by $250 millions—the increase going into the government's accounts. The government can write cheques for $250 millions and the money is thus dispersed all over the country—to contractors, manufacturers, civil servants, old age pensioners, and so on.

I agree essentially with what is contained in that article regarding the techniques used to increase the money supply. It is not always the Bank of Canada making an additional issue of Canadian government bonds that increases the money supply; the chartered banks of this country increasing their deposits with the Bank of Canada, as they are authorized to do, has the same effect. It is a fact that the Bank of Canada and the chartered banks have this authority to increase the money supply.

• (9:00 p.m.)

We are concerned about the municipalities in this country and their capital requirements. A proposal was put before us several years ago by a former minister of finance by way of the municipal loan and development fund. This program gave the municipalities loans of something like $400 million over a stated period of time. These loans were designed to create work. Because of the forgiveness clauses incorporated into the loans, they were almost debt free. In some cases I understand the effective interest rate will be only about 2 per cent, after taking into consideration the forgiveness clause. This is another precedent in this direction; I am not saying it is the same thing, but it is what we need in so far as capital requirements are concerned.

Earlier today some hon. members were wondering what will happen to all our private savings if ultimately the federal government does not float bond issues from time to time. I suggest that if the private savings in this country which are held by individuals, corporations and groups such as life insurance companies, trust companies, and so on, were available on the private money market for such things as house building and the expansion of industrial and commercial concerns, no one would need worry that there will be more private funds available than beneficial uses for such funds. I suggest that today exactly the opposite is the case. There are insufficient private funds available to take care of the demands for housing and expanding