

Government Monetary Policy

Those economic conditions were conditions of boom. Mr. Harris went on:

I know of no responsible person who argues openly for inflation as a solution to the problem of excess demand.

I need hardly say that a condition of "tight money" performs a very important function in our kind of economic system in present circumstances. That is because it compels the borrowers and the lenders of money to review their plans and, if necessary, to revise them. This helps to ensure that the aggregate of all spending plans is consistent with the aggregate production that is physically possible.

Then there is this paragraph:

It is right and proper that our fiscal system at this juncture should emphasize additional restraint in public spending wherever possible. It is equally appropriate that monetary policy should assist by exerting a moderating influence on the expansion of credit.

I ask you, Mr. Speaker, was that not the acceptance of responsibility for monetary policy by the minister of finance at that time? The position on this side today is that taken by Messrs. Dunning, Ilsley, Abbott, Towers, Mackenzie King, Macdonnell, the member for Greenwood, the present Minister of Finance (Mr. Fleming). Indeed, the present Minister of Finance dealt with this matter with his characteristic dogmatic vigour—

Mr. Fleming (Eglinton): Clarity is the word.

Mr. Pearson: Yes, he was very clear on this point, and perhaps he will reaffirm his support for this statement at this moment. If he does he will clarify the issues very considerably. In doing so, of course, he would have to contradict what he has been saying more recently. But this is what he said on August 11, 1956, as reported in *Hansard* at page 7459. I am sure the minister does not even need the reference:

The minister has a very direct responsibility—

That is the minister of finance:

—because the action taken by the Bank of Canada in this respect surely has a direct influence on the whole field of action and on the whole field of responsibility of the government in relation to fiscal matters.

Mr. Fleming (Eglinton): Yes, in relation to fiscal matters.

Mr. Pearson: The Minister of Finance continued:

I say, sir, that the government cannot shed its responsibility for full fiscal policy in the broadest sense of the word, and that must include the actions of the Bank of Canada—

Perhaps the minister will agree.

Mr. Fleming (Eglinton): Go on.

Mr. Pearson: The quotation continues:

—even when, in a technical sense, those actions are taken by the governor of the Bank of Canada in the exercise of the powers conferred upon him by the Bank of Canada Act.

[Mr. Pearson.]

He said, even when the governor of the Bank of Canada acts in the exercise of the powers conferred upon him by the Bank of Canada Act, in a technical sense. The Minister of Finance of today, the hon. member for Eglinton then, insisted that the government could not escape its responsibility for those actions, and we ask the government today to take exactly that kind of responsibility. But the government now has a different view. That view was expressed by the present Minister of Finance on April 28, 1959 as reported in *Hansard* at pages 3098 and 3099, when he said this:

...in the matter of monetary policy this parliament has placed the responsibility and... power—

I emphasize those words, "responsibility and power":

—in the hands of the Bank of Canada. The government does not exercise any sway in the field of monetary policy.

In regard to something which is decisive and at times determining and always important in the whole field of fiscal and economic policy, the Minister of Finance today says that the government does not exercise any sway in the field of monetary policy. He says "We leave monetary policy and all it stands for", with its indivisible relationship to fiscal and economic policy, "in the hands of the governor of the Bank of Canada. Fiscal and debt management policies, yes; we take responsibility for those. Monetary policy", which is inseparable from those, "no, we take no responsibility".

I say that such division is impossible if confusion and uncertainty are to be avoided, though it is apparently now acceptable to the minister, and I gather it is also acceptable to the bank. I hope the minister will now accept, and not evade this ultimate responsibility by the government, and behind the government by parliament. I hope that in accepting it he will remove doubts, misunderstandings and uncertainties regarding the relationship between the governor of the Bank of Canada and himself, and that he will indicate his own position and that of the government with regard to positions taken and policies that have been advanced by the governor of the Bank of Canada.

After all, the minister and the government did not hesitate to interfere with the operations of monetary policy by the bank, so they should not attempt to evade responsibility for policy—

Mr. Fleming (Eglinton): Mr. Speaker, to what is the Leader of the Opposition referring?

Mr. Pearson: I am thinking of the intervention of the government in the bank auction of treasury bills some time ago, which had