

Government Monetary Policy

government of responsibility for monetary policy is merely an effort to evade an inescapable obligation.

That doctrine does not—and I will anticipate this criticism—involve, of course, any interference in the day to day management and operations of the bank. It does not make the bank a department of government or anything like that. The bank should be free of that kind of interference. However, it involves full and sole responsibility for policy orientation and policy content in the hands of the government. No royal commission and no government can change that basic principle of responsible government. That is something that could be done only by a change of legislation, and any such attempt would certainly involve a grave constitutional issue.

If the governor cannot agree with the general policy which the government desires him to implement, then the governor has no alternative, of course, but to resign. If the governor carries out the general policy in the monetary field without any indication of government disapproval, and as the government is responsible ultimately for monetary policy, I think the governor has a right, as we have, to assume that the government of the day is not opposed to the policy he has put forward.

That is the clear line of responsibility for monetary policy followed in all parliamentary democratic systems. It was made perfectly clear in the United Kingdom recently in the Radcliffe report with which I know the minister is familiar. The responsibility of the government and the powers of the bank in this country were laid down in the Bank of Canada act of 1936. The minister of finance of that day—

Mr. Fleming (Eglinton): It was before 1936.

Mr. Pearson: The Bank of Canada Act of 1936. When it was discussed in this house the minister of finance of that day, Mr. Dunning,—

Mr. Fleming (Eglinton): The act was passed prior to that time.

Mr. Martin (Essex East): It was not a publicly owned bank.

Mr. Pearson: I am talking about the Bank of Canada Act, 1936, as found at page 3620 of *Hansard* of June 1 of that year, the minister of finance of that day insisted that the government should be given adequate control over the bank. In 1941 the then minister of finance, Mr. Ilsley, on June 13 of that year in the House of Commons, as reported at page 3936, emphasized the necessity of control by the government over the policy of the central

bank, and pointed out that a bank management unwilling to carry out government policy would have to resign. The same decision was taken in 1951 by the then minister of finance, Mr. Abbott, on June 20, as reported at page 4383 of *Hansard* of that year, when he said that ultimate responsibility must fall upon the government; and of course that is where it belongs and beyond the government, of course, parliament, if it desires to change the legislation. In the banking and finance committee of the house in 1954, as the Minister of Finance knows because he attended those sessions, the governor of the Bank of Canada expressed agreement with the interpretation of responsibility which I have just given.

Mr. Fleming (Eglinton): At what page?

Mr. Pearson: The minister of finance of that day, Mr. Abbott, reaffirmed that position before the committee, as may be found in the committee minutes and proceedings of that year at pages 714, 883 and 1348; and on that occasion that interpretation of responsibility was insisted upon by the hon. member for Greenwood and by the Minister of Finance himself—

Mr. Pickersgill: That is the present Minister of Finance.

Mr. Pearson:—as I should have said, the present Minister of Finance in interventions which in due course will be put on the record of *Hansard*. Nothing happened—and again I will anticipate what the minister will undoubtedly reply—in 1956 to alter this position with regard to responsibility by any statement on behalf of the government of that day. The then minister of finance, Mr. Harris, indeed confirmed the traditional doctrine and did not try to deny government responsibility. He stated in very clear terms, notwithstanding some misinterpretation that has been given to his words, that the government did accept responsibility for monetary policy. Here are some excerpts, to substantiate my statement, from a speech made by Mr. Harris on August 11, 1956, as reported at pages 7456 and 7457 of *Hansard*:

In these circumstances, what kind of fiscal and monetary policies are appropriate? In the first place I would say—

And this is important:

—that government policies should not contribute unnecessarily to the increased demand for goods and services.

Then he said:

The government is satisfied, and I believe that the vast majority of informed observers are satisfied, that under the economic conditions of the past 12 months it was desirable to moderate the rate of monetary expansion.