

Oral Questions

FEDERAL BUILDINGS PUT TO TENDER, 1969-72

Question No. 2,073—**Mr. McKenzie:**

For the years 1969 to 1972, for each province, which new federal buildings or lease-back buildings were put to tender where the successful bidder was not the lowest bidder and what were the reasons in each case?

Return tabled.

ORAL QUESTION PERIOD

[*English*]

FINANCE

REASONS FOR INCREASE IN BANK OF CANADA INTEREST RATE—EFFECT ON CREDIT DEMAND

Hon. Robert L. Stanfield (Leader of the Opposition): Mr. Speaker, in the absence of the Minister of Finance I should like to direct a question to the Prime Minister. In view of the fact that one of the reasons frequently given to justify floating the exchange is to enable us to pursue our own domestic economic policy, can the Prime Minister tell the House very briefly why the Bank of Canada has been so quick to follow immediately the increase in the Federal Reserve Board discount rate by increasing the bank rate in Canada by a further one-half of one per cent, particularly when mortgage rates in Canada are already well above those in the United States?

Right Hon. P. E. Trudeau (Prime Minister): Mr. Speaker, there is some parallel movement between rates in the two countries mainly, I suppose, because when our rates are noticeably lower United States borrowers will tend to come and use our funds for United States purposes. We try to discourage this as much as possible. I would point out to the Leader of the Opposition that there is not necessarily an exact parallel between the two movements. The Federal Reserve Bank has increased its rate five times this year for a total of 2 per cent whereas the Bank of Canada has only increased its rate three times for a total of 1½ per cent.

Mr. Stanfield: Granted that the increase in the bank rate will work its way through the system and make it more difficult for small businesses and will certainly increase mortgage rates, can the Prime Minister point to any evidence at all that this increase in the bank rate will in fact reduce the demands upon the Canadian banking system for bank credit by Canadian firms or United States firms?

Mr. Trudeau: Mr. Speaker, the evidence will be apparent in the facts and statistics as they are published. The dual prime bank rate which the Leader of the Opposition may be referring to has only been operating for about a month or so and it is too early to say what effect it will have, but we are confident that the banks are following the directives of the Minister of Finance.

Mr. Stanfield: Mr. Speaker, perhaps the Prime Minister did not understand my question. I was asking whether he

[Mr. Godin.]

could point to any evidence that this increase in the bank rate by the Bank of Canada would in fact reduce the demand for bank credit in Canada?

Mr. Trudeau: Mr. Speaker, the fact is that bank loans have been going up very substantially this year, faster than in the equivalent period last year. I cannot give evidence that the increase has reduced the rate of increase in loans. But this is like other medicine, Mr. Speaker, in that if the bank rate had not been raised then probably the increase in bank loans would have been even greater.

Mr. Baldwin: You usually try to get a good doctor.

Mr. Fairweather: You should prescribe the same medicine for everyone.

● (1420)

Mr. Stanfield: As the one thing that is clear from the increase in the bank rate is that mortgage rates will be increased and this will vastly increase the difficulties of home builders in this country, I wonder whether the government will be so ready to come to the aid of mortgage borrowers in this country as it is ready to push up the bank rate?

Mr. Trudeau: Mr. Speaker, there seems to be a sizeable available flow of funds for mortgages, and if we look at the last figures the annual rate for all areas of housing starts was 273,000 which was close to the 273,800 in the previous month, so there is no apparent shortage of funds for mortgages.

RELATION OF UNITED STATES ACTION TO INTENTION RESPECTING FURTHER INTEREST RATE INCREASES—FIGHTING OF INFLATION BY MONETARY POLICY

Mr. David Lewis (York South): Mr. Speaker, again in the absence of the Minister of Finance may I pose one or two questions to the Prime Minister. In view of the fact the prime rate has already been increased by the banks today, I am informed, to 7¼ per cent and I asked the Minister of Finance last Wednesday, I think it was, whether he would permit the increase then suggested in the newspapers to be made, is it the intention of the government and the Bank of Canada to continue increasing the basic interest rate in accordance with what may happen in the United States so that all these interest rates will continue to go up?

Right Hon. P. E. Trudeau (Prime Minister): Mr. Speaker, I do not think it is correct to assume we are doing this because the United States is doing it. We are faced with somewhat similar economic situations and the objectives, I imagine, are pretty well the same, to ensure that there will be a sustained economic growth and that the rate of unemployment will continue to fall. So the two governments following the same objectives may be doing some of the same things but, as I pointed out earlier in answer to the Leader of the Opposition, the parallel has not been exactly perfect.

Mr. Lewis: Mr. Speaker, may I ask the Prime Minister whether the actions of the Bank of Canada and the Minister of Finance and his replies add up to a return by the