

BANKS AND BANKING

INCREASE IN PROFITS OF CHARTERED BANKS

Hon. Sinclair Stevens (York-Peel): Madam Speaker, the Prime Minister speaks about us being in a period of real growth. I would like to direct my question to the Minister of Finance and ask him to comment about the real growth we are seeing in our chartered banks whose profits have risen to a quarter of the total profits of all the public companies in Canada, up 66 per cent compared to the same quarter last year, due to the high interest rate structure favoured by the minister. Would the Minister of Finance explain to the House why he chooses to favour a policy which is obviously so beneficial to our chartered banks at a time when countless numbers of small businesses are going bankrupt as a result of it?

Some hon. Members: Hear, hear!

Hon. Allan J. MacEachen (Deputy Prime Minister and Minister of Finance): Madam Speaker, I think I should remind hon. members opposite, who have properly raised the plight of the small business firms, that we have in operation the small business development bond which has been extended by this government and which brings very substantial interest rate benefit to eligible small businesses in the country. So, we have responded in these inflationary times to the requests which were made to us by the small business representatives in continuing the small business development bond.

The hon. member has mentioned the profitability of the banks. It is true that for one quarter, and possibly two quarters, there is a strong improvement in the profitability of the banks, stemming from a rather low base. I have already indicated to members of the House of Commons on previous occasions that it is my intention to monitor the situation very closely, since I do not believe that any particular institution in the country should be permitted to benefit in any unfair or inequitable way from the current high interest rates which are necessary for the welfare of the Canadian economy.

Some hon. Members: Hear, hear!

Mr. Stevens: Madam Speaker, my supplementary question is for the Minister of Finance who said that the profitability of the banks stems from a rather low base. In the first quarter of last year the banks earned \$288 million—that is what the minister calls a low base. This year they will earn \$466 million.

EFFECT OF FLOATING BANK OF CANADA INTEREST RATE

Hon. Sinclair Stevens (York-Peel): It is now 14 months since the Minister of Finance introduced his floating rate concept with regard to interest rates. The inflation level has gone up a full 4 per cent since he introduced this policy and, oddly enough, the prime lending rates have gone up 4.5 per cent. Would the minister explain to the House when we will be entering this promised land he told us he was leading us to—a

Oral Questions

promised land with lower inflation, which would be the fallout of his following a high interest rate policy? We certainly have the high interest rates but, unfortunately, we have even higher inflation. When will we get to the point where there is lower inflation in the country? Does the minister admit that his gradualism is just not working?

Some hon. Members: Hear, hear!

Hon. Allan J. MacEachen (Deputy Prime Minister and Minister of Finance): Madam Speaker, the hon. member referred to the introduction of the floating bank rate which is established on a weekly basis as a result of an auction of treasury bills. Hon. members of the House ought to realize that there are very strong pressures at the present time in this country driving up interest rates. That pressure is not only from the United States. There are very strong demands from business and from all sectors of the economy for credit.

• (1440)

Mr. Stevens: What about the federal government?

Mr. MacEachen: I would remind hon. members that in April, last month, the demand for over-all credit increased by about 20 per cent. I would ask the hon. member to read the announcement made by the Governor of the Bank of Canada last Thursday when he explained these high interest rates by saying, "In respect of other economic developments the bank noted that the rate of total spending and the demand for credit in Canada have both remained disturbingly high."

Mr. Stevens: Including the federal government.

Mr. MacEachen: What the governor of the bank is saying is that we are running a very strong economy. The demand for credit is very intense, and that is one of the sources of high interest rates in Canada. The hon. member should not fail to remember these very important facts.

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HOUSING

POSITION OF HOME OWNERS

Mr. Doug Lewis (Simcoe North): Madam Speaker, my question is for the Minister of Finance. In answer to an earlier question the minister suggested that appreciation in the value of a home helps when it comes to mortgage payments. I would suggest that when a Canadian home owner sits down with a mortgage officer and tells him that his home has appreciated, the mortgage officer is simply going to say, "So has your mortgage payment". I would ask the minister how the appreciation in the value of a home helps a Canadian home owner who has to make out-of-pocket mortgage payments.

Hon. Allan J. MacEachen (Deputy Prime Minister and Minister of Finance): Madam Speaker, if that is too complicated a concept for the hon. member to understand, I should like to draw his attention to a simpler concept, namely, the