

*Government Monetary Policy*

deal with the question which has just been raised by the hon. member who wanted a categorical yes or no answer; to explain the question of who is responsible, and the question of governmental responsibility in particular. Here the confusion is complete. There are different views by the government as to its responsibility in these different areas. They accept the responsibility for some of them and reject the responsibility for one of the most important. The minister must in fact know that the fiscal, monetary and debt management policies cannot be separated without getting into trouble. Any attempt to separate responsibility in these fields, in the words of Professor Gordon, serves only "to confuse both the understanding of economic policy and the working of responsible government".

The governor of the bank has perhaps unwittingly added to the confusion by giving the impression in some of his statements that he was independent of the government in monetary policy while, at the same time, his responsibility extended beyond such matters. It is not, in fact, his obligation; it is the obligation of the government to explain and defend, if necessary, these policies; I refer to the conversion loan, the investment decisions of the unemployment insurance fund committee, and fiscal policies generally. Hence with the silence of the government and the speeches of the governor, this situation with regard to the two responsibilities could hardly be more confused or more unclear and unsatisfactory.

There is no reason for this confusion in this field of responsibility, because under our statutes and under our system of responsible government the situation is clear. The conversion loan, which is one of the things I have mentioned, was, of course, a debt management decision. There should be no doubt about where responsibility lies there. It is the direct and exclusive responsibility of government, and I am sure it will be accepted as such by the Minister of Finance. In this matter the bank is merely the fiscal agent of the government and certainly cannot be blamed for any policy decision before, during or after the conversion loan, or on this matter of debt management, any more, indeed, than a deputy minister can be blamed for the decisions of his minister irrespective of the advice which he gave his minister.

The investment decisions concerning the unemployment insurance fund are also the sole responsibility of the government. The act is clear in that regard, namely that the investment committee is responsible to the government. The fantastic decision taken in the summer of 1958 to convert all the victory bonds of the unemployment insurance fund

[Mr. Pearson.]

into new conversion bonds was essentially a decision of the government, for which the government must take responsibility. The responsibility is not that of the members of the committee, the chairman of which, of course, is the governor of the Bank of Canada and one member of which is nominated by the Minister of Finance, I believe, and the other by the Minister of Labour.

Then we reach the question about responsibility for monetary policy generally. In the preamble to the Bank of Canada Act, often quoted in debates on this subject, parliament has given wide powers to the bank, that is to say to regulate credit and currency in the best interests of the economic life of the nation. That situation is as it should be. The bank, like several other public corporations, however, has an immediate responsibility to the government and an ultimate responsibility to parliament. The governor and the directors are appointed by the government. They can be removed only by parliament, it is true. The budget of the bank is approved each year by the government.

**Mr. Fleming (Eglinton):** Do I understand that the Leader of the Opposition is saying that the budget of the Bank of Canada is approved each year by the government?

**Mr. Pearson:** That is what I said, Mr. Speaker.

**Mr. Martin (Essex East):** Surely that is the case.

**Mr. Fleming (Eglinton):** That is the latest mistake.

**Mr. Pearson:** Perhaps the minister will point out what the situation is when he replies. If the minister is now saying that the government of this country has no responsibility for the budget of the Bank of Canada, perhaps he will explain that statement when he speaks. Therefore, although the bank has been given wide powers and specific and important functions, the government, as we see it on this side and as we have seen it for many years, must accept full and sole responsibility for the way in which those powers are exercised and the manner in which those functions are carried out.

Surely that is what responsible government means. The idea that such an agency as the Bank of Canada can report to parliament through the minister without that minister taking final responsibility for its over-all policy, as contrasted with its day to day administration, is both inadmissible and unconstitutional. It would place executive power and responsibility in this field either in the hands of the legislature itself or in the hands of a public servant. This denial by the