

THE ECONOMY

INCREASE IN BANK RATE—ALTERNATIVE MEANS OF COMBATTING INFLATION

Senator Perrault: May I ask a question of the Minister of State for Economic Development and Minister of Industry, Trade and Commerce? Yesterday interest rates were increased by the Bank of Canada, less than 30 days after the last increase. The so-called "key" bank rate was increased by three-quarters of one per cent from 12¼ per cent to a record 13 per cent on September 10. In view of the fact that the Minister of Finance, the Honourable John Crosbie, in a CBC broadcast this morning, expressed real personal doubt concerning the value and efficacy of this continuing process, what does the government propose in the way of alternative courses of action, and are such alternative courses of action being considered to combat inflation?

Senator de Cotret: Honourable senators, first of all may I briefly add to the comments made by my colleague, Senator Flynn. I do not propose to answer for the Minister of Finance in the Senate. I think he will certainly be called upon to answer questions that are his direct responsibility, such as stabilization policy questions, in the other place.

I would like, in answering the honourable senator's specific question on this issue, to indicate that it is my understanding that earlier today it was proposed, and unanimously agreed, that the whole question of interest rates be referred to a standing committee of the House of Commons so that there may be a thorough public hearing on the topic, and so that the matter be fully debated.

Senator Perrault: Surely we are not expected to wait for the report of a parliamentary committee before dealing with a critical situation affecting the lifestyle and well-being of thousands of Canadians from coast to coast, including the small businessmen of this country. Surely the honourable minister is not suggesting that we must wait for the report of a parliamentary committee before taking action on behalf of the Canadian people.

Senator de Cotret: Not at all. What I am suggesting is that on a question of such fundamental importance as this, and one of great complexity economically—because, as you well know, we are not living on an island by ourselves; there are some very complex links between the financial and capital markets of this country and the financial and capital markets of the rest of the world—it is of importance to have the issue debated in an open forum, and I will be more than happy to seek further specific clarification on the question from the Minister of Finance and report back to the Senate with the least possible delay.

Senator Perrault: That will be appreciated. I should like to ask a supplementary question. Have there been any meetings between Mr. Crosbie or any of the other economic ministers with Mr. Gerald Bouey to discuss this incredible spiral, or have any meetings been scheduled, to the minister's knowledge?

Senator de Cotret: I cannot answer the honourable senator's question specifically. I would expect that there have been.

However, I could not say specifically whether or not there have been, and if there have been I could not give the exact dates or times of those meetings. However, I would be most happy to inquire from the Minister of Finance and report back at the earliest possible moment.

Senator Perrault: We appreciate that commitment, and look forward to a reply as soon as possible.

POSSIBLE WINDFALL PROFITS TO CHARTERED BANKS

Senator Olson: I should like to ask a supplementary question. Is the minister or the government doing anything to take care of the surcharge, or whatever the right term may be, for the windfall profit that will fall to chartered banks in moving up the rates on almost all of the loans on their books?

Senator de Cotret: Once again it would be the responsibility of the Minister of Finance to see if, in fact, that practice were followed, and if, in fact, it would result in a windfall profit such as the one you are suggesting. As is well known, an interest rate increase of this type will affect the asset structure of the banks as well as the liability structure of the banks, and I am sure it is incumbent upon the Minister of Finance to assure himself that everything is done to prevent the kind of development referred to. Once again, I would be very happy to inquire from him if he has any specific intentions, or if, for that matter, he sees that there is a problem about that kind of development.

STRENGTH OF CANADIAN DOLLAR

Senator Buckwold: I have a supplementary question for the minister. The reason for raising the bank rate and prime rate, and the whole rate structure, has generally been that it is essential to do this in order to protect the Canadian dollar and prevent the outflow of capital. We have been at an interest rate a little below that of the Americans for the last week or so, and the Canadian dollar has been reasonably stable. As a matter of fact, for a while it went up a little bit. I would like the minister to indicate whether, in fact, this is not a lesson, that perhaps the time has come when we should not be relating our interest rate to that of the Americans, but should run the risk of the Canadian dollar's adjusting itself to circumstances. The government might be rather pleasantly surprised at the strength of the Canadian dollar. I wonder if I could get a response.

Senator de Cotret: Certainly, senator, I would be happy to respond to that question. Once again, I feel it is a question that should be properly answered by the Minister of Finance, who I am sure could give you a much longer and more thorough explanation. However, I would like to point out that, as a matter of fact, the Americans have since July increased their prime bank rate by one and a half points. We have not quite followed. The record will show that we did not increase when they increased by half a point earlier this summer. In the last round, when they increased by a full point, we have increased the bank rate in Canada by three-quarters of a point.