

Bank of Canada Act

[Translation]

Mr. Grégoire: I rise on a point of order, Mr. Chairman, for I have before me the answer given by the Minister of Finance to my question:

On what do you base your decisions to set the money supply at a given level?

Here is the reply of the Minister of Finance, and I quote:

When a governor of the Bank of England, Lord Norman, was once asked that question by J. M. Keynes, he said: "I do it by feel and flair", and I believe that this is still a matter of judgment, up to a certain point.

Therefore, Mr. Chairman, it was not I who insisted on feel and flair, but the minister. In fact, he says that this is a matter of judgment up to a certain point only, and not entirely, but he made no qualification when he repeated the words of the governor of the Bank of England, and I quote:

"I do it by feel and flair".

The minister did not set any restriction regarding this field, but he did establish one concerning the matter of judgment, and I want this specifically put on record.

[English]

Mr. Sharp: Mr. Chairman, I am quite happy with that. If the hon. member wants to quibble about these words I am sure it is not going to impress anyone other than the two of us. There are much greater issues involved in this debate.

Last night the hon. member for Lapointe drew attention to the recent increases in the deposits of the chartered banks. I believe he referred to the increase of about \$2 billion in 1965, and he asked why financing made available through the chartered banks on this scale could not have been made available more cheaply through the Bank of Canada. I gather this was the general purport of the question which he put to me. If this had involved a further increase in the outstanding amount of the present Bank of Canada liabilities, it would have involved a very serious inflationary danger. That is why I said the following last night in reply to the question put by the hon. member for Lapointe:

I consider that such action would be very detrimental to the interest of the people of Canada because it would be very inflationary, and all of these arguments being presented by the hon. member for Lapointe are simply a camouflage for one of the oldest practices in the world, which is the practice governments have indulged in in the past, and I hope will not indulge in in the future, and that is printing money for the purposes of meeting government expenditures.

[Mr. Sharp.]

For the Bank of Canada in its present form as a central bank to issue \$2 billion worth of Bank of Canada notes or make deposits in the Bank of Canada available to the public generally would be very inflationary indeed. I will be perfectly fair to my hon. friend from Lapointe and add that alternatively, and this is what the hon. member has in mind, we might have some system which would have involved the Bank of Canada having \$2 billion of public deposits on its books as well as having \$2 billion of additional assets in the form of securities and business and personal loans. In other words, the Bank of Canada would have been like any other bank. Apparently this is what he is talking about. Under these circumstances the bank simply does not have the facilities to service the deposits or loans of the public.

Mr. Grégoire: Perhaps the minister would allow me to clarify the first part of my question right away.

[Translation]

In our minds, when the Bank of Canada creates those \$2 billion that the chartered banks actually created in 1965 by increasing the money supply, there is no question that it should create this new credit in order to make loans to the general public. We are for the Bank of Canada creating this new credit in the same manner as chartered banks are doing at present, but instead of making loans to the public, it would grant them without interest to public bodies, that is, to the provinces, municipalities, school boards or the federal government. It would grant those loans without interest to the municipalities which would repay them over a given period.

So, I would like to correct this immediately in the remarks of the Minister of Finance. There is no question of the Bank of Canada lending to the general public, but solely to public bodies, for instance municipalities, school boards, provinces or even the federal government, to construct public buildings and such public bodies would reimburse the Bank of Canada at the rate of depreciation of the buildings constructed or built through loans by the Bank of Canada.

Mr. Chairman, I believe this correction was necessary before the Minister of Finance continued.

[English]

Mr. Sharp: Mr. Chairman, I had no objective other than that explained by the hon. member for Lapointe, and I am discussing it in his terms. I accept his conditions. As I said,