

Government Monetary Policy

had some friendly things to say about government policy in these fields. He had this to say:

One is almost driven to the conclusion that we are creating a schizophrenic image as a result of Mr. Coyne's speech in Ottawa two weeks ago decrying foreign investment in this country, while the Minister of Finance stated the following day in New York that we welcome foreign investment. If Mr. Coyne really wants controls and the government gives in—God help us—then there could be a flight of capital from this country with disastrous consequences. If American investors pull their money out of Canada, it is not difficult to see a 10 per cent discount on Canadian funds—it could be even worse.

He went on to say:

In short the kind of "cures" which Mr. Coyne is advocating seem to me to be aimed at curing the symptoms rather than the cause of our troubles. If the newspaper reports of Mr. Coyne's ambitions are correct, then the final controls that he wants will determine where we work, what we build, what we make, what we consume and even determine how we live. This to me, gentlemen, verges on dictatorship, and I believe that we should fight against it with all our resources.

Mr. Speaker, that is a very serious criticism on a very important subject. Another criticism came from another non-political source. It came from the president of the Royal Bank of Canada in a pamphlet entitled "Maintaining Canada's Economic Independence". Mr. McLaughlin had this to say:

The soundest ground for the critics of exchange rate and monetary policy lies, not in second guessing the monetary authorities in the performance of their often unpopular public duties, but in urging that, if their operations were smoother, and especially if the direction of policy were made clear to the banks, the money market, and the public, a number of intermittent crises, and a host of relatively minor upsets in the market, would disappear.

Under the present system, with a floating bank rate completely useless as a signal, the banks are in the position of having to forecast not only the course of the economy—that's our job—but also the course of monetary policy—and that I maintain is not our job. I realize that the same uncertainties regarding the course of economic events and changes in public policy have to be taken into account by the governor of the Bank of Canada. For this reason all that the banks can realistically hope for is that they may be told, not what monetary policy will be in the future, but what it actually is at the moment. They must be content with "spot" not "futures", so far as monetary policy is concerned. The trouble today is simply that they do not get even this.

That is another very serious criticism, Mr. Speaker.

Mr. Campbell (Stormont): Would the hon. member permit a question at this point? As a newer member here in the House of Commons I am not thoroughly familiar with the control this government has over the Bank of Canada. Is the Leader of the Opposition seriously suggesting that the governor of the Bank of Canada should be summarily dismissed?

Mr. Pearson: If the hon. member will possess his soul in that patience to which it is accustomed I will be dealing with that subject later in my speech.

Mr. Campbell (Stormont): A simple yes or no would answer my question.

Mr. Pearson: Mr. Speaker, this is a very important matter, and I propose to deal with it, but not with a simple yes or no, as the hon. member will find out later. Perhaps he is accustomed to dealing with these complicated monetary and financial matters with a simple yes or no. Perhaps he would do the same with the government if he finds that its monetary policy is wrong. I would ask the hon. member if he would answer that question with a simple yes or no.

These are serious criticisms levelled against monetary and financial policy by experts in the field who are not influenced in any sense, as I am sure the minister will agree, by any kind of partisan consideration. These criticisms should be answered. It is time the government dealt with this matter and tried to clear up some of the confusion which does exist in this country by a definite statement of government policy, which we certainly have not had. I hope the minister will take advantage of this debate and consider it as an opportunity rather than, as he often does, an irritation, in order to deal with this matter in a responsible, informed and definitive way. Perhaps he will give us yes or no answers to some of these questions. His intervention in this debate will, I hope, clear up rather than add to the existing confusion and uncertainty.

Mr. Speaker, there are four areas of controversy in respect of this general subject. One is monetary policy; one is debt management; the third is investment policy of the unemployment insurance fund through the investment committee, and the fourth is interest rates on housing loans. It is not only difficult in all these areas but in some impossible to know who is responsible for what. In all these areas serious mistakes have been made resulting in financial losses; resulting in unnecessarily high interest payments by government and by private borrowers; resulting in increased borrowings abroad and thereby in an artificial maintenance of the high premium on our dollar. The mistakes that have been made in these fields have weakened confidence in the bond market; have slowed down the forces making for recovery in 1958-59, and have hastened the recession in 1960, thereby adding to our unemployment difficulties during the recession.

Before I deal with some of the evidence of mismanagement in this field I want to