

*Government Monetary Policy*

1960 to the end of the year, beginning with the second quarter of 1960, we had this trend toward recovery reversed, and we found ourselves in another recession. In the second quarter of 1960, there was a drop in the gross national product which was the greatest in the post-war period. Yet, from April to the end of August last year, in the face of this condition, the money supply was kept almost stable.

From October there was a fairly rapid increase to facilitate the issue of Canadian National Railway bonds, and after that increase the supply began to decline again, although I confess nobody is quite sure where we are in that regard at this moment. Again, as in 1957 and 1958, the increase in the money supply was too late and was decided not by considerations of sound monetary policy but by the requirement of debt management. The inescapable conclusion that must be drawn is that monetary policy, for which the government claims no responsibility at all, has become a mere instrument of debt management, for which it admits full responsibility. When the government's borrowing causes congestion in the securities markets then the money supply increases; otherwise it is kept more or less constant, presumably to minimize the inflationary potential created not by boom and expansion but by sporadic and rapid increases necessitated by debt management.

This, Mr. Speaker, is the situation, as we see it, as regards the government's operation of monetary policy for which they take no responsibility. In short, Mr. Speaker, credit and currency have not been regulated as required by the act "to mitigate fluctuations in the general level of production, trade, prices and employment". The primary role of the Bank of Canada in implementing monetary policy has been subordinated to the requirements of its secondary role as fiscal agent of the government.

I recognize, Mr. Speaker, that this is a very serious criticism but is it not confirmed, at least implicitly, by the governor of the bank himself in his speeches made as a public servant on matters for which the government, and not he, has the ultimate responsibility? For these reasons we think the content, the orientation and the whole question of government monetary policy in recent years should be investigated. Is it, for instance, wise to let the bank rate be determined by the average rate of treasury bills fixed by weekly auctions? Why has the bank never used the cash reserve power it was given in 1954, but has established a minimum liquid assets ratio which is not provided by the act?

[Mr. Pearson.]

Why, since 1957, has monetary policy not made the contribution required by our legislation to mitigate recessions, and why does the governor feel that there is no special obligation in this respect, as he said recently in his speech in Newfoundland?

May I say just a few words in conclusion before I move the amendment?

The general orientation of our monetary policy has been strongly and rightly criticized since the fall of 1957 by many, though not all, highly respected experts—bankers, economists, financial editors, financial commentators. More recently these criticisms have increased both in number and in vigour. We now hear persistent rumours that the government intends to set up another royal commission to investigate the operation of the Bank of Canada generally, and those criticisms. No doubt, if it is done, this device could delay for two or three years the solution of an urgent and important issue which no royal commission can solve.

In the present economic circumstances it is quite normal to expect criticism of monetary policy. Such criticism, if it is legitimate, if it is valid, should not require a royal commission but a change of policy on the part of the government. As I see it, however, that is not the most important aspect of the current issue. It is most regrettable indeed that the Bank of Canada has become the centre of the present controversy because it may weaken seriously the prestige and the authority of a most essential institution whose prestige and authority in this country since it was established have been strong and which has commanded the highest respect. Yet, Mr. Speaker, this danger, this unfortunate possibility, and I will go no further than that, became almost inevitable because of the vacuum created by the government's refusal to accept any responsibility for monetary policy. The central issue, then, can be summarized by the following question: Who is or who should be responsible for general monetary policy?

I suggest that we cannot wait for two or three years to get an answer to that question and to solve such a basic issue. I am quite sure that all hon. members in this house will agree that in our system of responsible government the general direction of monetary policy should not be turned over to any public servant. There should not be any disagreement about this because monetary policy is an essential and basic aspect of general economic policy which is indivisible from it and for which the government and parliament must take responsibility. I would be very surprised indeed if the hon. member for Greenwood (Mr. Macdonnell) did not agree 100 per cent with that doctrine. If the government does