

Supply—Finance

a bit of a rebel in connection with its international relations. Can the minister tell us about that?

Perhaps not tonight but on another occasion the minister might tell us about the so-called Japanese voluntary indications of withdrawal in respect of certain trade competition and whether they are realistic.

I do not want the discussion of the minister's estimates to be concluded before we look at his statements which were clear and forthright when he made his budget speech on June 20 with respect to two points: first, interest rates generally across Canada; and second, the foreign exchange rate on the Canadian dollar.

Recently we had a debate on the Civil Service Act which is a responsibility of the minister. Since we might be back in two months time perhaps that will satisfy the committee for the moment. I know the minister is making notes, and I should like to ask him a question as to the exchange reserves, having in mind that he felt that he would take new leadership in this field. The exchange reserves of this country do not seem to be in line with the increase in the gross national product or with most of the other indices of our national growth. Having regard to that fund, does the minister think it should be as static as it has proved to be, or has he any policies with respect to it?

We have had a substantial debate on trade, either free trade or selective free trade. Since we are about at the end of the session I do not want to pursue the matter.

In his budget speech the minister introduced a special fund of \$100 million to support long term and immediate term bonds. I say to the minister with very keen conviction that although he reported recently to the house on this, it is not an effective way of changing the cost of money to the municipalities and to the provinces. I say to him he also made another commitment to the provinces and to the municipalities that he hoped to stay out of the money market. We know that we have never had such a federal deficit as we had this year, namely a deficit of \$650 million. Of course this has an adverse effect on municipalities and provinces, and equally important, it has an effect on industry which also must get capital requirements from the market. To quite an extent they are the people who pay the taxes to provide the minister with enough money to get along. We have had four years of deficits; we have had the biggest deficit ever in our history, a deficit of \$650 million. The minister should tell us about this story, that he directed an investigation into the defence department.

[Mr. Benidickson.]

He should tell us whether or not, as a result of that investigation, people employed and paid out of the vote before us, namely treasury board, came to the conclusion that there was waste and extravagance. I should like the minister to comment with respect to the numbers of defence personnel and the efficient use of the money expended under the grants that we have before us tonight.

Mr. McMillan: The estimates of the Department of Finance always seem to come up on the last day of the session when we are in a hurry to close. I want to deal very briefly with interest rates because I think they are fundamental to a good economy in Canada. I saw a dispatch from the Accra conference in which it was reported that the Minister of Finance had said that our economy was lagging behind that of the United States. I have always maintained that one of the reasons for our economy lagging behind that of the United States is higher interest rates. Our interest rates, particularly long-term bond interest rates, are higher by 1½ per cent. This differential has existed practically ever since the conversion loan and the high borrowing following that loan. The differential is now about three times the one half of 1 per cent that it was for a good many years prior to the conversion loan.

I think that this government sets long term interest rates by its policy, and if we look at what is going on now we can see that it sets short term interest rates as well. The government sets the mortgage interest rate on 25, 30 and 35 year mortgages at 6¾ per cent. I say this is too high a rate for any government security. I spoke on housing when we discussed it in the house, and the Minister of Public Works said at that time that he would like to see the interest rates on housing lowered. He said, however, that he did not know what they might do and that if interest rates were lowered, it would discourage the 48 per cent of money going into housing construction from the private sector.

I should like to ask this question. Where else can investment money secure a higher interest rate with government backing? Insurance companies and others with large funds to invest buy these mortgages and from what I have read it costs them about one half of 1 per cent to service them. The fact that mortgages are not as negotiable does not bother these big investment companies because their investment is a continuing and long term proposition. Again, mortgages have certain advantages because there is a gradual return of the principal. When there is inflation some of the principal continues to come back; but that is not true of a bond