in 1962, that the one complaint one heard there over and over again was that the government had not been able to meet the housing needs of that nation. Five years later we see that the situation there is worsening and that a way has not yet been found through the methods of socialism to solve their housing crisis. So it rings a little false in our ears when we hear pleas that the government should become involved in public housing.

We welcome the changes in the Bank Act which will allow the chartered banks to move into this area of money supply, and we hope that this will provide the housing industry what it has wanted for so long, a continuous and uninterrupted flow of mortgage money which will not be an instrument of monetary policy in the country but will guarantee a base from which that industry can plan and develop and use methods of production which are appropriate at this time.

There is one matter in the Bank Act which occupied a great deal of the committee's time and concerns us very much. I refer to the question of the interest rate. This is the really basic point of contention in the whole bill. This subject occupied much of the committee's time in its debate about commodities. The argument was advanced that if the prices of all commodities were increasing then the price of money had to go up as well. An analogy was drawn between the two, and there was a reason for that. Witnesses representing the chartered banks complained that they were limited in ways which the near banks were not and that this was related to the problem of the interest rate. They asked that the restrictions on the chartered banks be removed so they could raise the interest rate on loans. It was suggested that if the interest rate were raised they would be able to pay a higher interest rate on deposits, thereby attracting more deposits, and this way they would have more money to lend.

What should be kept in mind in this whole discussion of the interest rate is that the mechanics which I have spelled out do not in any way increase the money supply. This would remain constant. All it means is that the amount of money lent by the various institutions will be divided amongst them differently. If the banks are in a position to lend more, then somebody else will be lending less, but the over-all amount of money that will be lent will not be increased as the result of an increase in the interest rate.

An interesting fact I should like to mention is that this statement was made to us by representatives of the banks as a factual matter. They said that the simple truth was that if the banks could attract more deposits they could lend more money; if they could pay a higher interest rate they could attract more deposits and therefore the interest rate they could charge on their loans should be raised so as to attract more deposits. This was presented to us as a fact about which no questions should or could be asked.

Nevertheless questions have been asked. There is an important article in the Canadian Journal of Economics of August, 1966 which does ask questions with regard to the interest rate. The preamble to the article sets out the reason why the study was made, and I would like to quote from it at some length because I think it is important to the whole argument concerning the interest rate. It reads as follows:

The primary purpose of this article is to perform a statistical test of the popular contention that interest rate differentials have been important determinants of the relative decline of the Canadian chartered banks in the competition for personal savings deposits. The report of the royal commission on banking and finance, in listing the various factors that influence the distribution of savings deposits among depository institutions, stated that, "the rate paid on deposits is also a very important factor in attracting funds..." The commission also commented that the fact that the banks have not paid as high rates as their competitors on personal savings deposits "has without question contributed to their relatively slow rate of growth." In support of these assertions the commission stated that, "there is evidence suggesting the force of interest rate competition. As an example, market rates and rates paid on such claims as trust and loan company liabilities rose quite sharply in 1959 while the banks' rate held steady as 2¾ per cent. In that year the share of personal savings deposits in the 'market'... declined more sharply than in previous years."

The commission's evidence, it may be suggested, falls into the *post hoc ergo propter hoc* category. For example, the fact that the number of trust company outlets increased 5.3 per cent during 1958-59, compared to only 0.2 per cent on the average during the previous six year period, can just as easily be presented as the reason for the relative increase of trust company savings in 1959.

• (3:50 p.m.)

The study goes on at some length, and with considerable mathematical ability, to analyse the question to see whether these statistics could produce any conclusions regarding the ability of the chartered banks to attract deposits as opposed to credit unions or trust companies attracting deposits. I will omit the central material and go to the conclusions because I think they are important to the argument I am making.

The principal conclusion to be drawn from this analysis is that a substantial portion of the ability