

July 10, 1961

STATEMENT BY J. E. COYNE,
GOVERNOR OF THE BANK OF CANADA

Mr. Chairman and Honourable Senators,

You have before you for study in this Committee of the Senate of Canada Bill C-114. The issues raised by this Bill are detailed and complex, but they all revolve around two questions (1) in what circumstances is it right that a Governor of the Bank of Canada should resign before the end of his term, and (2) what constitutes lack of good behaviour on his part justifying his compulsory removal from office, and how that removal should be brought about.

Apart from the judges of our superior courts, there are relatively few high offices of state which are held during "good behaviour" and that phrase has, of course, a legal meaning. The meaning, as I understand our British constitutional practice, is that the holder of such an office cannot be removed or dismissed by the executive, but only by Parliament, and the reason for that constitutional provision is that such officers having tenure during good behaviour have a duty to Parliament to watch over the Executive to ensure the genuine and complete responsibility of Ministers to Parliament and the preservation of certain basic democratic rights of the people.

For example, the Chief Electoral Officer holds office during good behaviour for the purpose of ensuring free elections. In the case of the Auditor General it is to ensure honest accounting. In the case of the Civil Service Commission it is to ensure against political patronage in the public service. In the case of the Chairman of the BBG and the President of the CBC it is to prevent political interference with broadcasting. In the case of the Governor of the Bank of Canada the purpose is to guard against the debasement of the currency.

In order to make it possible for these officers, who are really officers of Parliament, to discharge their duty, they are assured of remaining in office during good behaviour. That means that if they are to be removed a lack of good behaviour should not merely be alleged but should be specified and proved.

I welcome this opportunity you have afforded me to be present, to be heard and to be examined on the relevant facts of the present case. I regret that my accusers have not first taken the opportunity which was offered them to make their case known here in my presence, and be examined upon it, in order that I might reply to their case when so presented.

Bill C-114 has been passed by the House of Commons without the benefit of study before the Banking and Commerce Committee of that body, although in the past legislation affecting the Bank of Canada has invariably been referred to that Committee. On this occasion the Government has rejected all demands that the usual practice should be followed, although the matter might have seemed all the more important in this instance because this is a Bill to remove the occupant of a high position created not by the Government but by Parliament, and endowed by Parliament with certain special responsibilities and duties, for the better carrying out of which Parliament had provided that the holder of that office should not be removed during good behaviour. The Bank of Canada Act itself is not being amended. The sole occasion of the present Bill must be lack of good behaviour on the part of the Governor of the Bank of Canada, yet no such allegation is made in the Bill. Such an allegation ought to be precisely defined, and supported by evidence which would appear convincing to reasonable men. This evidence should be brought before the High Court of Parliament in an appropriate manner in order that it might be examined and cross-examined and tested.

No formal charges have in fact been laid, no precise bill of particulars made out, no member of the Government has brought those charges or those particulars before a Parliamentary committee and submitted himself to questioning in relation to them. If one wishes to find out what those charges are it is necessary to read through hundreds of pages of Hansard. It is necessary to read a number of speeches by the Minister of Finance, by three other Cabinet Ministers and by several other members of the

Government party, spread through three weeks of debate, not merely debate on this one Bill but also debate on the Budget Speech. There is no defined limit to the territory which must be surveyed to find out what species of allegations of misbehaviour the Government wishes to rely on in justification for asking for the passage of the present Bill. There is not one accuser but a dozen, yet not one of the dozen would submit himself to examination by a committee of this Parliament.

This Bill has been described as a Bill of Attainder, and the procedure has been described as a violation of the Bill of Rights. Now that it has been presented by the House of Commons to the Senate it might perhaps be called a Bill of Impeachment, which has finally reached the only body which is apparently both able and willing to give it judicial consideration and scrutiny. Even this right and duty of the Senate, which has been developed over centuries of legal history and constitutional evolution in Great Britain and Canada and other countries, has been considered unnecessary by spokesmen of the Government. It will not be forgotten that a member of the Government, the Parliamentary Assistant to the Minister of Finance himself, said in the House of Commons on July 4th (Hansard page 7501): "Honourable gentlemen opposite will seek to go behind the backs of the elected representatives and seek to have a few old men in another place serve their particular purpose". History will record Canada's good fortune that members of the senior House of this Parliament have on many occasions demonstrated their vigorous and steadfast support of age-old principles of truth and justice.

I am not concerned here to assert my rights as an individual. Others have done it much better than I could, and have pointed out how the rights of an individual have been denied and taken from him in the House of Commons. What I wish to speak about is the right of Parliament and of the people of Canada to learn all the facts on important matters of principle and public policy which are raised by this Bill and the surrounding circumstances.

In this matter and in others which have come before you, honourable Senators, it will be evident to all the people of Canada that the Senate of Canada is a true guardian of constitutional principles and the rights of the nation, as well as of individuals.

The Minister of Finance has said, over and over again during the past four years, that the Bank of Canada is responsible directly to Parliament, not to the Government. I agree that the Bank and the Governor of the Bank are responsible to Parliament, but this does not remove from the Government its own responsibility. The Government must also bear responsibility, and indeed the underlying and ultimate responsibility for monetary policy. The Government also has a duty to make it possible for Parliament to take cognizance of the Bank and its doings, and of the Governor of the Bank and his doings.

I have always believed and affirmed that Parliament is supreme. I have always been ready to submit myself to Parliament for the better information of members of Parliament and for questioning by them. The Minister of Finance has refused to submit himself to a committee of members of his own House of Commons and has likewise seen to it that I should not be allowed to submit myself to the House of Commons. I have never refused to appear before Parliament. I have more than once offered to do so.

It is said that I have defied the Government. That is correct, I have defied this Government as any man must when he is attacked by a government in an arbitrary manner which endangers the integrity of an important office which was established by Parliament. But when it is said I have defied Parliament,---that is not correct. That could only be said by one who feels that the Government is Parliament, that no-one else in Parliament counts for anything, that even the Senate is of no account, and that time-honoured Parliamentary procedures, to say nothing of individual rights and the ordinary principles of justice, may all be grandly swept aside whenever the Government of the day speaks.

I believe it is the right of the Parliament and the people of Canada to get all the facts relating to the present controversy. Since the Government would not give Parliament and the people the facts, I felt it was my duty to do so in a situation where the Government claimed they had reason to get rid of the Governor of the Bank of Canada. I have always considered that I have not only the right but the duty under the Bank of Canada Act, having regard to the special responsibilities and position of trust attached to the position of Governor of the Bank of Canada, to make public sufficient information to facilitate understanding of the policies and actions of the Bank. I believe I have this duty not only on the general principle that the public should be properly informed---for which there is ample precedent as the Bank is constantly making public information about its affairs over and above the official returns which are provided for in the statute---but in this case because of the concealment of facts and the misrepresentation of documents and communications on the part of Mr. Fleming and other spokesmen for the Government.

I believe that Parliament and the people of Canada have a right to expect responsible administration of monetary policy by the Government and by the Bank of Canada alike. Mr. Fleming and other members of the Government have for years evaded their responsibility and have created in the public mind a dangerous gulf between the Government and the Bank in respect to monetary policy and related matters. Even in the present Bill, even in the speeches of Mr. Fleming on the subject of the present Bill, there has as yet been no acceptance by the present Government of any responsibility for monetary policy as such. Neither is there any indication that there had been previously a desire to see monetary policy exercised in any specific manner. Indeed, it is quite apparent that over the past four years the Government did not have a monetary policy other

than tacit agreement with the monetary operations of the Bank of Canada. Even now, all that the Government has disclosed in respect of monetary policy is a desire to shorten by six months the statutory term of the Governor of the Bank and to appoint someone else of their own choosing to that position.

The reasons which have been given for this desire will, I hope be carefully examined before this Committee. I myself wish to reply to them as best I may, one by one, but I would like to underline at the start that Mr. Fleming has not yet said what his monetary policy is or would be, or how it would differ from the views of the Bank or its Governor, and has not alleged any misbehaviour on the part of the Governor of the Bank in the realm of monetary policy, apart from his (Mr. Fleming's) curious version of certain discussions late in 1957.

Parliament has not provided that the Governor of the Bank of Canada should resign merely because the Government of the day demands that he do so, without any issue of policy being raised. If Parliament had done so, the Governor would be holding office "during pleasure" not "during good behaviour". To expect any Governor to respond to the kind of demand made upon me by Mr. Fleming on May 30th last for the reasons which he gave or hinted at would be to destroy the integrity of the position itself. What is important is not the personality of the person who holds that position---although that is the only thing which the Government appears to think is important---but the fact that Parliament has endowed that position with certain responsibilities and duties and powers, and has taken special care that the holder of that position shall not lightly be made subject to the whims of a particular Minister of Finance or to the immediate political expediency of the Government of the day.

It is part of the public trust reposed in the office of Governor of the Bank --- unlike the position of civil servants --- that the holder of that office shall not relinquish that trust except in a

certain situation and in such a way as to make all the surrounding circumstances a matter of public information, in order to warn Parliament and the people of Canada of actual or potential dangers to the public interest. In the case of the central bank, this actual or potential danger to the public interest is the danger of excessive creation of money.

In certain circumstances the Governor of the Bank is expected to regard himself as expendable. He is not a civil servant expected to carry out orders and retain his post for life. He is not a judge who is given great independence and the security of a life appointment. He is appointed for a term of seven years without any assurance of re-appointment, and he is expected to carry out his duties in relation to money-creation and other matters, knowing that the particular Government of the day may well decide not to approve his re-appointment. When he takes the job, he knows the special nature of his duties and the overriding duty not to be concerned with re-appointment but to obey the dictates of his conscience regardless of the effect on his own future position.

As my predecessor and many others have asserted, and as I have often declared myself, the Governor of the Bank would have a duty to resign and make a public statement of the reasons for his resignation if the Government of the day clearly and unequivocally formulated a definite monetary policy of a kind which the Governor could not in good conscience carry out. A monetary policy of some kind could have been formulated by the present Government at any time since it came to office. It has not done so, even yet.

During the four years in which the present Government has been in office there has been, as there was before that time, a large and continuous flow of information on monetary policy and operations from the Bank to the

Department of Finance and the Minister of Finance. In addition to the information we make public in weekly and monthly statements and statistics, in my Annual Reports and in other releases and in public speeches, there is a weekly meeting of the Executive Committee of the Bank which the Deputy Minister of Finance attends. Monetary policy and operations are discussed and are open for discussion at these weekly meetings. As well, there are meetings with the Minister of Finance mostly relating to debt management and the management of the Exchange Fund at which information about monetary policy and operations is also provided.

In view of the size and continuity of the flow of information to the Government on monetary policy and operations, which gave rise to no questioning or criticism and still less to any counter-proposals, it seems to me that one was forced to conclude the Government approved or at any rate acquiesced in the Bank's monetary policy and operations. Either the Government had a view on monetary policy and operations, which are an important part of financial and economic policy, and this view was not perceptibly different from the Bank's view, or it had no views or policy in this field. In the light of recent events it appears that the latter alternative explanation was the correct one, and I believe this lack of policy on the part of the Government has been at the root of present difficulties.

The Government could have created a genuine policy difference if it had had at any time serious views on monetary policy significantly different from those which have been expressed and carried out by myself and my directors in the management of the Bank of Canada over the past four years. If the Government had set out a definite, clear-cut firmly held view of monetary policy different from that

of the Bank of Canada, and if the Minister of Finance or other members of the Government had sat down with us for an honest discussion of those differences with a view if possible to reaching a common understanding, and if notwithstanding careful study and full discussion and efforts at persuasion on both sides, if after patient efforts of this kind undertaken in a sincere spirit by reasonable men, there remained an irrevocable conflict of views which could not be bridged, then indeed it would be necessary --- although there is nothing in the statute about it --- for the Governor of the Bank, and perhaps those members of the Board of directors who shared his views, to resign. It would in such circumstances be right and necessary for them to resign in order that the Government might assume the responsibility which it would be claiming for carrying out the kind of monetary policy which the Government subscribed to, and which was viewed with repugnance by the Governor and those directors. That would be the honest way to go about things. That would be the method of men of principle, of men of reason, of men who had a policy and whose only desire was to establish and carry out the kind of economic policy which would best promote the welfare of their country. But that is not the course which has been followed by the Government in the present case.

Perhaps the Bank of Canada Act is defective in not making clear that the Government of Canada has a responsibility, indeed the ultimate responsibility for monetary policy, whether it openly admits it or not. To clarify that point it might be desirable --- in accordance with a suggestion I made in discussion with the Deputy Minister of Finance some time ago, a suggestion which reached the Minister himself at least once before May 30th, and again in a letter which I addressed to the Minister of Finance on June 9th --- to amend the Bank of Canada Act along the same lines as the Bank of England Act in this respect. The Bank of England Act provides that the Chancellor of the Exchequer may, after consultation with the Governor, give written directions to the Bank on any matter which he believes to be in the public interest. The purpose of that provision is to assert the responsibility of the Chancellor and the Government, a responsibility of a character which any

central banker, no matter how jealous he may be of the status of his institution, must recognize as resting ultimately upon the Government. The present Government of Canada, however, will not accept such a responsibility. I am by no means the only person to suggest that what the Government wants is to have a scapegoat always available, and when one scapegoat has been fully utilized it wants to be free to discard him and appoint another in his place.

Throughout my term of office I have been concerned to administer monetary policy in the best interests of Canada, to protect the value of the Canadian dollar, and to promote the economic welfare of Canada, as specified in the Bank of Canada Act. I have been deeply concerned in my Annual Reports and in public speeches to explain the principles which I believe should operate in the interests of sound money, and to give the reasons for resisting the arguments of those who believe that inflation is a good thing, or that a soft money policy is an easy way to promote economic welfare. I have been greatly disturbed by the kind of views which have been put forward from time to time by some members of the various political parties---not just one party by any means ---and have felt that the special responsibility of the Governor of the Bank of Canada to protect the value of the Canadian dollar required that I should make my views known clearly and publicly.

The Government has now attacked me for this in a number of ways, which I hope later in my presentation to honourable Senators to be able to answer point by point. What I wish to emphasize at the start, however, is that the Government did not present me with reasoned arguments against my views before demanding my resignation, and before determining to bring a Bill into Parliament to remove me from office. The Minister of Finance told two of my directors on June 2nd --- long before June 13th and subsequent events --- that the Government had already made up its mind to bring such a Bill into Parliament if I did not submit my immediate resignation, and that he would not permit further discussion of reasons, or of issues, or of possibilities of conciliation.

On May 30th the Minister of Finance told me that the Government had certain programmes in mind which he thought, on the basis of my public speeches and Annual Reports, I could not agree with. I was given no opportunity to agree or disagree, to provide the Minister with information or advice, to do my duty of seeking to persuade or dissuade. If in the end I could not have agreed with any vital element in the programme requiring action by the Bank of Canada, I would of course have submitted my resignation.

Apparently, however, the Government did not wish to take any risk of having the Governor of the Bank of Canada resign on a question of policy or principle. They were not willing to pose such an issue and risk having the Governor of the Bank submit his resignation with a public explanation of his reasons for disagreeing with publicly known policies of the Government.

Instead, the design was adopted of seeking to extract the resignation of the Governor of the Bank without allowing any such issue of policy to arise. It was desired that he should go quietly and without explanation as though he had no further interest in carrying out the duties of his position, or as though he had admitted errors or faults which were to be hushed up, or as though he had some reason to fear the consequences that would ensue if he refused to resign.

To achieve this, charges of wrongful conduct were brought against me in an effort to intimidate me in private. To achieve this also, the Government told the board of directors --- many of whom up to the last moment were hopeful of avoiding such a break --- that the Government had irrevocably made up its mind without discussion with me, or the Board. The directors were told that they must support the Government by adopting a resolution urging my resignation --- "to do the Government's work for it", as one director who voted for my resignation on June 13th told me rather bitterly the evening before.

No attempt was made on the part of the Government on or after May 30th to discuss policy questions with me, either monetary policy or fiscal policy or any other aspect of economic policy. No indication was

given to me by the Minister of Finance of what might be in the Budget so often and so long deferred. I do not now know what may have been the intentions of the Government with regard to the Budget at the time when Mr. Fleming demanded my resignation on May 30th. In the Budget Speech as presented on June 20th the Minister included several pages in which he tried to show that the principles and policies of the Budget were of such a character as to put me in conflict with the Government. He spoke of the four foundation stones of the Budget, which on examination do not turn out to be very concrete or definite, or to offer much of a foundation for anything, but indicated that the views associated with the Budget were, he was quite sure, such that I could not possibly agree with them. In fact, the only concrete measures of any consequence taken in the Budget turned out to be a meagre selection from a number of recommendations which I have made to the Minister from time to time over the past four years, most of which were included in the memorandum I gave him on February 15th, 1961.

In his statements in the House of Commons on June 14th following the publication of my statement of June 13th, and in his speech in the House of Commons on June 26th on second reading of Bill C-114, and in several other speeches, Mr. Fleming gave a number of other reasons why it was felt the Government could not have confidence in my administration of the Bank of Canada, and said I had not fulfilled the requirement of "good behaviour" in the terms of my appointment in November 1954. I do not suppose I will be able to pick up and deal with every allegation made by Mr. Fleming and other spokesmen for the Government, but I will start with those which seemed to them to be the more important, and I am of course willing to answer questions both on these points and on any further points which honourable Senators may consider to be relevant to their consideration of this Bill.

Before doing so, however, I should like to say this: Some members of both Houses of Parliament have, as is their undoubted right, criticized my conduct since May 30th, as well as the conduct of the Government. Other commentators too have remarked that the discussion of the issue between myself and the Government has lacked dignity. This is true. It is

becoming clear that the bare facts of the Government's position lack dignity, and I agree that the manner in which these facts have been brought into the light of day lacked dignity. The sacrifice of dignity was made unavoidable by the Government's refusal to let the facts be brought out by the proper committee of the House of Commons, the committee to which legislation affecting the Bank of Canada has always in the past been submitted.

The dignified course of action has been rejected by the Government time after time in denying me the opportunity to appear before the Banking and Commerce Committee of the House of Commons where I could have been examined in accordance with established custom, and where the sponsor of this legislation, the accuser, Mr. Fleming, could have appeared and made his charges in precise language and produced the specific evidence on which he relied in support of them, and could have been examined by members of the Committee.

I think most people feel that an important public issue can only be resolved in the light of public knowledge of all the facts and the truth about the issue. When the Government uses its overwhelming power to prevent a hearing in the usual way, to conceal the facts, then other measures are needed to bring out the truth.

It has also been said that the status and reputation of the central bank itself have suffered serious damage. This also is true --- it is the culmination of the trend of the past four years during which Mr. Fleming and the Government disavowed their proper responsibility for monetary policy, took the credit for popular developments and left the Bank isolated on unpopular developments. A wedge was driven by Mr. Fleming between the Government and the Bank. By his statements he made it appear to the people of Canada that a gulf existed between them --- without saying anything to the Bank to indicate dissatisfaction with Bank policies and operations.

The Government's evasion of responsibility over the past four years, followed by its sudden attempt to dominate the Bank, its Governor and directors in secret, have indeed done damage to the Bank which it may

take a long time to repair. But I believe that the interests of the Bank and of future Governors of the Bank would suffer even more if the issues at stake now and the conduct of Mr. Fleming and the Government had been allowed to remain concealed behind a cloak of silence and "dignity".

In refusing to resign merely on the Government's say-so, without any difference of policy being raised, I believe I have been acting in the best interests of the Bank and protecting the position of Governor of the Bank for the future. I have certainly not been acting in my own best interests, as my directors pointed out to me at some length. It does not matter what happens to James Coyne --- but it does matter that certain principles must be upheld, or at any rate fought for, or we will have no principles left on which to rely in the future.

There has been an important question raised about the sanctity of confidential documents, discussions and conversations. Normally, it is quite true, communications between cabinet ministers, between officials, and between cabinet ministers and officials should be regarded as confidential, whether they are so marked or not. The business of government, like the business of banking and most other businesses, can only be carried on effectively with that expectation. But when one party to a communication refers to it, or attacks the other party in relation to matters dealt with in such a communication, the other party has a right, and in a case like the present a duty, to bring out the true facts. In a criminal prosecution, even in civil litigation, relevant matters of that character are always brought before the court.

Mr. Fleming has referred to various matters which passed between him and me, and other matters where he alleges I showed myself to be at odds with Government policy. He has even accused me of misrepresenting the contents of a communication which is in his possession but which he refuses to produce. I consider it to be of vital importance to the public interest to bring out the plain truth, the bare facts, the literal words of the documents, in order to put the public in a position to form a judgment on these matters.

Let me give one simple illustration of the way in which the plea of "Confidence" can be used to cloud the truth. In the House of Commons on June 21st Mr. Fleming was asked by Mr. McMillan the following questions:

1. Did the Minister of Finance ask the Governor of the Bank of Canada to increase the money supply on any occasions since June 21, 1957?
2. If so, on what occasions?
3. Did the Governor refuse to accede to any such request?
4. If so, which ones?

Mr. Fleming's reply was, "The communications between the Governor of the Bank of Canada and the Minister of Finance have always been regarded as privileged." That was his answer. I would like to ask these same questions here and now. Mr. Fleming contrived to give the impression that there had been such communications, that he had indeed made representations to me about increasing the money supply. He will now charge me with breach of confidence when I state the truth, that to the best of my recollection Mr. Fleming never asked me to increase the money supply, although he once suggested --- in November 1958 --- that there had been too much of an increase in the money supply.

Mr. Chairman, before I am finished being examined by your Committee, I hope I will have an opportunity to deal with various matters which have been mentioned by Mr. Fleming, such as (1) my public speeches and why I made them --- one reason being that my directors urged me to do so and expressed unanimous approval of them as late as November 21st, 1960 --- (2) why during the past twelve months I made so many suggestions to Mr. Fleming for consideration by the Government in the field of fiscal policy --- one reason being that the Prime Minister invited the Bank of Canada to participate in a series of discussions in the field of fiscal policy and other aspects of economic policy (mentioned by Mr. Fleming in the House of Commons on June 26th last, Hansard page 7046) --- (3) why I put many of those suggestions in a series of letters to Mr. Fleming on fiscal as well as monetary policy --- one reason being that he asked me to do so ---

and a number of other matters which I am sure are of interest to you. These questions arise in seeking to determine whether or not, and if so, how, when and why, a conflict of views arose between the Government and the Governor of the Bank, the "deep seated differences" which Mr. Fleming alleges have persisted for nearly four years, and which he apparently considers to constitute "misbehaviour" justifying removal of the Governor under the Bank of Canada Act.