
Monetary Policy and the Rural Municipality
of Brokenshell

Summary notes of an address at the
Annual Spring Dinner of
Ratepayers of the Rural Municipality of Brokenshell
Trossachs, Saskatchewan
on the occasion of the
75th Anniversary of the Province of Saskatchewan
by
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I was delighted to be able to accept your kind invitation to come back to my home town to join you in marking the 75th anniversary of the Province of Saskatchewan. This Municipality is where my roots are and this opportunity to renew old friendships and refresh fond memories is one I could not miss.

It is impossible to fail to notice how much things have changed in this district since I moved away 44 years ago. For one thing it is clear that you have had rain from time to time and some crops as well, both marked changes from my era. And the fact that the price of wheat has risen from 25 cents a bushel has certainly had its impact. Also, I am sure greatly increased efficiency through the use of modern machinery and better farming methods has had a great deal to do with the change for the better. And a lot of hard work. On every occasion when I have had an opportunity to visit Southern Saskatchewan in recent years it has been a great pleasure to see how very much conditions have improved.

The landscape has changed too. Some of the old landmarks are gone. Perhaps they were not really very old since the first settlers did not come to this area more than about 15 years before I arrived on

the scene. But they seemed old to me. The tiny place where I was born, Axford, the next stop west on the CPR, has disappeared. So has the hamlet of Forward, a few miles further west, where I started to school. So has Coral school, the country school I attended when I lived on the farm for a period. Even in Trossachs I see the old house has now gone, as has the school, which in three rooms provided education all the way up to Grade 12. It almost looks as though destruction has followed in my path, a charge that is sometimes made against me by critics of Bank of Canada policy.

But Trossachs is still here. It is true that the CPR water tank that set us apart from most small towns was torn down many years ago and I see you are now down to one grain elevator, the Saskatchewan Pool Elevator No. 772 down the road, which my father operated for so many years. There have been many other changes too but the old home town still looks good to me. I understand the population of the metropolitan area has declined a bit from the 75 - 100 total when I was here.

I understand that Trossachs was named after the Trossachs in Scotland which I have visited -- a beautiful area with forests and mountains and glens and lochs but with a conspicuous lack of open prairie. The unique attraction of the Trossachs in this municipality is the Brokenshell Creek together with the coulees that flow into it, if and when they flow. I recall the excitement about this time of year when the snow melted quickly

under the warm sun and the water rushed through the coulees, perhaps for the only time until the following spring.

In the rest of the country the popular conception of this area of Southern Saskatchewan is that it is just flat prairie. It is pretty flat alright. Flat enough, I remember, that at night you could see the lights of Weyburn 20 miles away and the lights of towns on the Soo Line as far away as 40 miles. Certainly no members of the flat-earth society lived here because we all knew that the only reason we couldn't see the lights of Regina 65 miles away was that the surface of the earth curved -- there was nothing else in the way.

Some years ago an article by George Bain entitled "Flat is Beautiful" was published in the Toronto Globe & Mail. The author claimed to have driven up from North Dakota along the Soo Line highway, then through Regina on No. 6 highway and on to Lumsden in the Qu'Appelle Valley where he saw a sign marked "Hill". The sign, he claimed, was there not as a warning of danger but just to let the natives know what they were seeing!

Less well known outside this area is the Brokenshell Creek that has carved its way through the prairie. It has hills and a nicely-wooded part which formed a kind of oasis in the dry years. It was a place of great adventure for the young.

The years that I spent growing up here included the most difficult years in the history of the Province. Times were extremely hard. This didn't bother young people so very much because we were all in much the same boat; almost everyone was poor, "on relief" for a time, virtually sunk without a trace below any poverty line that would be drawn today. The people were great, as I am sure they still are. We had some fine community leaders, including a number of excellent teachers. School was fun even though there was almost no equipment. I still have difficulty making people believe that we had to stuff the football with rags because the school couldn't afford a new bladder for it, but some of you will remember.

If things were not too bad for those of us just growing up they must have been extremely trying for others. The tremendous anxiety, year after year after year, of not knowing how one's family could be supported must have caused untold strain. Doctors were often not called until illness was well advanced, and once in a while that was too late. The services of dentists were regarded as a luxury. Even the services of undertakers had sometimes to be dispensed with. It was a time of great courage.

In considerable degree these were conditions that existed right across the country in those years because we were in the grip of the great depression. Here in Southern Saskatchewan to the depressed price

of grain was added the effect of prolonged drought and crop failures. I remember the dust storms that would blow away our hopes for another year, that early in the day would make the sun blood red or blot it out altogether. At that stage of a rather intensive religious upbringing I not only believed the end of the world was at hand but in the midst of some of those dust storms I was sure that it was actually happening and, Lord knows, I was not ready.

It was in those years that the great annual picnic of the Rural Municipality of Brokenshell was initiated. I remember some, if not all, of the names of the schools that took part: Carnarvon, Forward, Coral, Abbott, Rockfield (with a huge rock between the pitcher's mound and shortstop), Yeomans, Actonvale, North Brokenshell and of course Trossachs. I believe you no longer have this picnic. It took place in that part of the Brokenshell Creek known as "the bush" or Schroeder's grove. I know it was one of our more successful enterprises. Much more successful, for example, than the rodeo we tried to put on out west of the old curling rink without a barrier of any kind to separate the bucking broncos from the circle of spectators.

I believe it was at the very first municipal picnic that our guest speaker was Premier J. T. M. Anderson, in the year 1933 or thereabouts. He compared the position of Southern Saskatchewan at that time to a baseball team that found itself behind by a score of 15 - 0. The only difficulty, he claimed, was that we had not got in to bat yet.

When I left Trossachs in the autumn of 1936 we still hadn't got in to bat, and indeed it was several more years before the first half of the first inning finally came to an end.

I expect I would have left in time anyway because I had little aptitude for farming, being accident-prone with both horses and tractors. My very last attempt occurred years later when I volunteered to help my father-in-law on his farm near Moosomin, Saskatchewan, and my first act on the tractor was to run over him with the harrows. So even though I had never been inside a bank when I applied for a job -- in those days few of us had occasion to visit a bank -- I was confident that I would be better at banking than farming.

Banking was different then too. For example, while we didn't worry much about the possibility of a hold-up we were terrified that someone might actually try to borrow some of the bank's money.

Not many of my generation were as fortunate as I was in finding work. The unemployment rate in Canada as a whole in the first half of the 'thirties was at times close to 20 per cent of the labour force. Whatever it means now, unemployment in those days meant that you could not find any kind of a job in any line of work at any rate of pay anywhere, even if you rode freight trains looking for it. Some people in Southern Saskatchewan abandoned their farms, packed up their few belongings and set off for far-away places, such as the Peace River country.

Economic conditions picked up a little after that but it really took the war to lift the Canadian economy out of the depression. The same was true of many other countries. The idea that our economic situation could be vastly improved even while devoting a large part of our productive capacity to war purposes seemed rather curious to many at the time and later on to me too when I got to thinking about it. I recall that one of those occasions occurred when I was standing on a street corner in an English city during the war -- before Dieppe in which the South Saskatchewan Regiment participated -- and watching Canadian troops march by, very smart and quite young. I watched with mixed feelings of pride and resentment. So many young men in my age group had obtained their first real jobs by joining up and, for too many of them, their last jobs. I recognized of course that there were other very important values at stake at that time but something had been badly out of joint.

I think I understand that situation better now. After all, it wasn't as though governments in those years of depression knew how to solve the economic problems and just refused to act. Far from it. The basic problems were not well understood at that time and in any case without an improving world economy it would have been extremely difficult for an economy the size of Canada's to pull itself up by its own bootstraps. The war did, however, teach us something about the workings of economies in that set of circumstances.

By the end of the war it was generally felt by economists that we had learned enough to avoid serious depressions but there was nevertheless widespread concern that the war years might turn out to have been just an interlude in the depression. No one seemed to worry much about the opposite danger, inflation, despite a rather sharp post-war rise in prices. Expectations play a central role in the way an economy operates and in that period there was much more worry about depression than inflation.

With those expectations it was not too difficult to keep inflation under reasonable control. Prices rose sharply during the Korean war but they came down just about as quickly, at least partly because of the continued underlying fear of depression. But attitudes shifted gradually. Whenever the growth in the economies of western countries began to falter economic policies, especially monetary and fiscal policies, were used to encourage spending without great concern for the risk of inflation. This approach worked not too badly for a considerable time. The country experienced a remarkable period of prosperity with rapidly rising standards of living. But people gradually came to realize what was happening so far as prices were concerned, came to see that there was a strong inflationary bias being built into the system. As a result we have now reached the stage where attitudes have shifted right around and the general expectation seems to be one of continued and even accelerating inflation. Indeed, I would say that

economic behaviour based on strong expectations of continued price increases has become the most formidable obstacle in the way of dealing with inflation.

This is how it has come to pass that some of us who became interested in economic policy primarily because of the deflation and depression of the 'thirties now ironically find ourselves dealing with the opposite problem, inflation.

Inflation is a serious threat to good economic performance. It also has unfortunate social consequences. As my colleague, Bill Lawson, Senior Deputy Governor of the Bank of Canada, and also a native of Southern Saskatchewan, has put it:

"Recovering from a severe bout of inflation is never easy. Experience with inflation undermines the confidence of people in the fairness of economic processes and leads them to feel a need to be aggressive in the defence of their interests. It erodes that willingness to be moderate and responsible upon which free societies rest. That is why tolerance of inflationary practices is not an effective way of pursuing social goals. It is also why it is difficult to recover from an inflationary experience; confidence and moderation are qualities that grow slowly."

Inflation is turning out to be just as stubborn a problem to deal with as deflation once was. One reason is that there has been a great reluctance to apply anti-inflationary policies early enough and tough enough because of the fear of depressing economic activity. The great depression cast its shadow a long way ahead and to some extent we have continued to live under it. I believe that now, however, there is a widespread realization that there is more than one way to get into serious economic trouble and failure to deal with inflation is what we should really worry about.

Let me try to tell you very briefly where the institution in which I spend my days, the Bank of Canada, fits into this picture. Its job is monetary policy, which involves primarily controlling the rate of growth of the supply of money.

That the Bank of Canada has something to do with the supply of money will not come as a surprise to those of you who have had any time to examine your paper money before having to spend it because you will have noticed that it is issued by the Bank. However, as you will also be well aware, the great bulk of payments in this country is made by cheque. Most of the supply of money takes the form of credit balances in deposit accounts in banks, and in some other financial institutions. The powers given to the Bank of Canada by Parliament enable it to control the growth of the money supply. The rate of growth of the money supply in turn has

an influence on the level of interest rates, on the volume of credit, on the level of total spending in the economy and thus on the volume of economic activity and the behaviour of the price level. It is not the only policy that affects these matters but it is an important one.

In periods when prices begin to rise rapidly the demand for money and credit rises quickly as well and if their growth is to be kept under control, interest rates are bound to rise. In this respect money is like anything else; if the demand for it rises more quickly than the supply, its price -- and interest rates are the price of money -- will rise. These are periods when central bankers are not likely to be terribly popular -- possibly because inflation has been allowed to happen in the first place, and because high interest rates are never welcomed by borrowers, while savers who benefit from them seem to be a remarkably silent group. However, if we do not keep the growth of the money supply under control inflation will intensify and in time interest rates will have to be still higher. On the other hand, if we persist with anti-inflationary policies in time inflation will be lower and so will interest rates.

In the last few weeks the Bank of Canada has had an extraordinary combination of circumstances to deal with. Interest rates in the United States have shot up to extremely high levels. The most credit-worthy borrowers from banks have to pay 20 per cent for loans, well above interest rate levels in Canada. This situation attracts or diverts money from Canada because investors look for the highest

interest rates available and this, unless offset by other factors, puts strong downward pressure on the Canadian dollar in the foreign exchange markets. A significantly lower Canadian dollar results in a rise in the prices of our imports and in other ways adds to inflation. Fortunately, for considerable periods in recent months the effect of higher U. S. interest rates on the Canadian dollar has been offset to some extent by an inflow of funds related to investment in our resource industries, especially oil and gas. Both interest rates in the United States and the inflow of capital into Canada, as well as some other factors, have been quite unpredictable so that the Bank has been steering its way through this period with considerable difficulty in an effort to keep interest rate increases to a minimum. There does seem to be a reasonable prospect that the extremely high interest rates in the United States will not last long.

I am very much aware that the sharp rise in interest rates in the last two years has been painful for many people, including grain farmers who have to worry about financing expensive farm machinery and higher operating expenses, who also have to bear the increased cost of financing grain in commercial positions, and in some cases have to arrange mortgage financing. But the alternative of not using monetary policy to combat inflation would ensure that you would be caught by even more rapidly rising costs than you have been experiencing. For you as well as for others the best answer to this problem is lower inflation and lower interest rates, and that is the objective of Bank of Canada policy.

I want to conclude by saying once again how much I have enjoyed coming home during the 75th anniversary year. Premier Anderson was right after all back in 1933. Saskatchewan did get in to bat and it has been in to bat for a very long time. The Province has made great strides during the post-war period in agriculture, in oil, potash, uranium and other areas. I congratulate all of you on this anniversary, and particularly those who have courageously stuck with this area through the bad times as well as the good.

I was particularly touched that you would think of me in connection with the 75th anniversary and this annual spring dinner of the ratepayers of the Rural Municipality of Brokenshell. This is because I am of course aware that the name Bouey is known to you mainly because of my father who throughout the many years he lived here was always deeply involved in the life of this community. I am sure he knew everyone in the municipality.

Ever since I was invited to come memories have kept popping up and I have been re-living some of the old days. I would really like the chance to live many of them over again. I particularly wish that I had appreciated then as well as I do now what a fine, interesting and courageous group of people I lived amongst. I was pretty young then but I wish I had made the effort to know more of them better. And after looking around for a little while today, a real bonus day for me, I wish I had taken more

time to wander around the CPR dam and along the Brokenshell Creek,
especially in the springtime.

Thank you for inviting me and best wishes for the next
75 years.