TRANSLATION OF REMARKS OF
LOUIS RASMINSKY, GOVERNOR OF THE BANK OF CANADA,
BEFORE A MEETING OF THE CHAMBER OF COMMERCE,
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This is the first public speech which I have made in the Province of Quebec, and the second I have made in Canada, since I took up my present responsibilities for the Bank of Canada and the Industrial Development Bank. On this occasion, I thought that the most appropriate thing I could do would be to talk generally about the role which these two institutions play in the economic life of the country. First, however, I shall try to set the scene a little by making some observations about the nature of the Canadian economy and the variety of economic policies that it seems to require.

As we all know, Canada is a large and complicated country. We have a complicated geography and history and it is not surprising that the Canadian economy has a very complicated structure. The economy has grown impressively in recent decades, but it continues to be characterized by large economic differences between its various regions. There are differences in current levels of economic activity in various parts of the country and there are other differences that can be measured in terms of standards of living, natural resources, stocks of capital assets, and breadth of industrial activity and development.

At the same time, however, there are very important unifying and cohesive elements in the economy in the form of country-wide systems of transport and communications and important trade and financial relationships among the various parts of Canada. Of even more basic significance, perhaps, is the fact that there exists an important degree of consensus amongst Canadians about fundamental economic objectives. We may think about these objectives in local, regional, or country-wide terms, as the occasion makes appropriate; but in what we Canadians basically want the economic system to do for us, I cannot see that there are any substantial differences among us. Let me list some of these goals: economic expansion and growth, high levels of employment, high and rising standards of living, reasonable stability in the value of money. We all share these objectives. There are other things which might be added to the list. I would myself include the maintenance of a sound external financial position for Canada as an objective of greatest importance. In an economy like ours which is exceptionally dependent on foreign trade a balanced international position is a vital condition to the achievement of other objectives. We have often seen, in Canada, as in other parts of the world, that if difficulties develop in the external accounts they can gravely threaten the attainment of rapid growth, high employment and rising standards of living.

I have tried to depict an economy where there are strong unifying influences and a significant measure of agreement on basic objectives even though the extent of economic achievement has not been uniform. The question may now be asked how do we go about attaining our objectives, what kinds of economic policy are necessary for good economic performance in a country such as Canada? My own answer would be, a great many kinds of good policies. Policies of the Government of Canada, of the provincial governments, of municipalities. Policies on the part of business organizations, labour organizations and farm organizations. A great mixture. We need policies bearing on the level of economic activity in the whole country, policies bearing on regions and parts of regions, and in some instances policies bearing on the problems of particular industries. In this sort of mélange, there is bound to be some lack of consistency and some chafing at the edges, especially since the results of economic policies and economic initiatives are not as scientifically predictable as we would like. But if we are to make progress at an acceptable rate, every element in the community must do its part and must constantly seek to work with the other elements in the pursuit of our common objectives.

Let me try to make clearer some of the differences that I have in mind between different kinds of economic policy in Canada. Some kinds of policy are in their very nature general and country-wide in their effects. One such is federal government fiscal policy: the balance of its revenue and expenditure necessarily exerts a broad influence on total demand for goods and services. Another instrument of the same type is the debt management policy of the federal government. A third is the monetary policy practised by the Bank of Canada. These broad policies which must clearly be used in proper co-ordination with each other are all aimed at influencing the general economic climate of the country.

One must however go further and state that if we are to get the results we want in the Canadian economy even the best and most intelligently co-ordinated use of broad policy instruments would be inadequate. More than most countries, we have scope for regional economic policies. Here in the Province of Quebec, where a concerted effort is being made to raise the rate of regional economic growth, it is not hard to find examples. There is the impressively rapid development of power and mineral resources and of other industries, including in the near future the automobile industry. There is the formation of the Quebec Economic Council. There is the establishment of the Bureau de l'Aménagement de l'Est -- particularly interesting because it deals with the problems of a region within a region, the lower St. Lawrence and Gaspé area. There is the new thinking and the greatly increased resources that are being put into the educational system of this province. I realize that this is not mainly an economic matter, but in the long run the development of education may prove to be the greatest single factor in the economic growth of any area.

I come now to the matter of monetary policy and will try to indicate how it fits into this picture. As I was reflecting on how I should express to you my general conception of monetary policy, a historical incident came to mind which may have a certain suitability on this occasion. It took place in this city, in 1685, when the Intendent Demeulles was faced with the problem of paying the colonial government's bills at a time of year when the annual convoy of funds and supplies had not yet arrived from France. You may remember his solution: it was to issue his famous playing-card money. If we were feeling very severe and moralistic, we might say that this was an act of monetary inflation. But I think this would be unjust. As things turned out, Demeulles proved to be an astute practitioner of monetary policy. He played his cards carefully and with restraint; the people came to trust his money and to use it amongst themselves, and these seasonal issues of currency consequently played a valuable role in the economic advancement of the colony.

Alas, there came a day, long after Demeulles' time, when the authorities yielded to the eternal temptation of princes and debased their currency by greatly over-expanding it. We have some examples of these later, inflationary issues in the numismatic collection which we have begun at the Bank of Canada. After two hundred years, these notes have become rare and attractive specimens, in which we take great collector's pride. They have also a certain instructional value, as reminders that in managing a money supply it is crucial to avoid excess -- in either direction.

Nowadays in Canada, the money supply is defined to include the deposit liabilities of commercial banks as well as currency, and its management is entrusted to the Bank of Canada, which shares with the Government of Canada responsibility for the policies followed. The Bank of Canada carries out its monetary policy function by acting in various ways to affect the rate of growth of the cash reserves of the commercial banking system, the most common one being by the purchase and sale of Government of Canada securities in the open market. These changes in cash reserves influence the rate at which banks are able to add to their assets, in the form of loans and securities, and to their deposit liabilities. From here, reactions spread through the whole financial system, exercising, in conjunction with other relevant factors, an influence over the cost and availability of credit. And these changes in credit conditions in turn have some influence on the spending and saving decisions of consumers and investors across the country and hence on the total demand for goods and services. They also have an influence on international flows of capital between Canada and other countries.

From what I have said it will be apparent that the Bank of Canada is capable of exerting a broad and generalized effect on credit conditions in the Canadian economy. I would emphasize the words, "broad and generalized". It seems to me, and this is a crucial point to remember, that fairly broad, pervasive effects are what a central bank can realistically aim to achieve.

The chief instrument through which monetary policy is transmitted is the commercial banking system, which in Canada is country-wide. There is a country-wide capital market with free movement of funds from region to region. The making of economic decisions is widely diffused amongst individuals, corporations, and three levels of government. It is clear that the central bank must rely heavily on market forces to transmit the effects of its actions.

The essential problem for the Bank of Canada, in discharging its monetary policy function, is to determine from time to time what kind of influence we ought, in the prevailing economic circumstances, to be exerting on general credit conditions in Canada. During the period for which I have been responsible for the administration of the Bank, since 1961, its monetary policy has been basically devoted to encouraging credit conditions which would promote the economic expansion of the country. There has been a considerable increase in the money supply to support the rising levels of activity and, notwithstanding greatly increased demands for funds on the capital market, interest rates today are not significantly higher than they were three years ago when the economic expansion started. We have not, to be sure, had entirely clear sailing, and in 1962 we had to deal with a major exchange crisis. We suffered, as you are aware, a substantial loss of exchange reserves and if this had been allowed to go on, a major disruption in the flow of necessary imports and consequently in our domestic production and employment would have become inevitable and our prospects for economic growth would have been gravely compromised. Our external position thus had to be given special priority by government and central bank alike. Emergency measures were taken, including a sharp tightening of credit conditions to raise interest rates in Canada and attract capital in the amounts necessary to redress the balance in our international accounts. Fortunately, thanks in part to timely help from abroad, as well as to our own efforts, the crisis was fairly quickly surmounted, the emergency measures were progressively dismantled, and it was possible to resume a policy of monetary expansion.

Without wishing to claim too much for monetary policy, I think it would be fair to say that on balance it has made a useful contribution to the upward movement of the Canadian economy which has taken place since early 1961. It is particularly satisfactory that this expansion has been accompanied by one of the lowest rates of price increase experienced by any major country in the world. This is no doubt due in substantial measure to the existence of large amounts of slack in the economy at the beginning of the expansion. It is obvious that as slack is reduced, the public authorities must be increasingly alert to the possibility that additional demand pressures instead of encouraging further increases in domestic output and employment may be dissipated in rising prices and excessive imports. Policies which have the effect of worsening a country's competitive position clearly do not speed up the growth of its production and employment but indeed have the opposite effect.

From time to time over a period of some years, the question has been raised whether monetary policy could be conducted in such a way as to reflect the differences I have referred to in regional economic circumstances, so that credit conditions in each part of the country would vary in accordance with judgments about the needs of particular regions.

Desirable though this might seem from some points of view, the practical difficulties appear to be insurmountable. I have pointed out that we have in Canada a free and country-wide capital market in which people who save can invest in whatever way they want, and in whatever part of the country seems best to them. The mobility of capital that this freedom permits is likely to be of special advantage to those regions of rapid development, like Quebec, where the need for capital is greatest. Good monetary policy can foster the growth and efficiency of our country-wide capital market -- and I believe that over the years the Bank of Canada has made a contribution in this respect -- but the Bank has no powers or means of directing those in the country who are doing the saving to lend to particular borrowers. The central bank cannot cause credit conditions to be different in one area of the country than another. If by some other means, lower interest rates for comparable investments were sought throughout one particular area, those persons within the lower-interest rate area with money to invest would tend to seek investment outside the area, and on the other hand, capital from outside the area would not flow in.

Having said this, I want to go on to say that I believe that the regional problems which properly pre-occupy so many of us are real and vital problems. But I think that too much should not be expected of monetary policy in dealing with them: monetary policy is not the answer to all our problems. Indeed, our economy is so large and diverse that even the most skilful and effective use of the broad country-wide instruments of policy for which the Government of Canada has responsibility will leave a great deal to be done by other policies, including of course the policies of the provincial governments in the important areas for which they have responsibility.

I hope that it will be clear to you that the Bank of Canada is by no means indifferent to the particular problems of particular regions. There is need in Canada for sound and well-conceived regional economic initiatives whose application can -- unlike monetary policy -- be localized. The Bank of Canada is interested, not only in regional economic conditions and problems, but in information concerning the impact of current monetary policy on all parts of the country, and it welcomes views and information on this subject. Knowledge of these matters is part of the equipment of the central bank in this country. We wish to obtain all the information of this sort that we can get to help us in the discharge of our responsibilities. I might also mention in passing that we have on occasion been able to render some practical services to provincial administrations in such fields as economic research and techniques of debt management.

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One practical and direct contribution to economic development which we have been able to make in all parts of Canada has been through our wholly-owned subsidiary, the Industrial Development Bank. The I. D. B. was set up by Parliament for a special purpose; to fill a gap in the financial system. In 1944, there were for practical purposes no readily available sources of term financing for that important part of our economic life which is carried out by smaller businesses in Canada, even though they might be soundly managed and have good growth prospects. Today that gap is narrower than it was 20 or even 10 years ago, for other lenders have entered the field. We welcome this: it indicates perhaps that we have done a good pioneering job. However, there is still a gap. Our experience shows that there are in fact many opportunities for successful lending to well-managed, potentially profitable small businesses which find it difficult or impossible to borrow elsewhere.

The Bank attaches particular importance to its lending to businesses located in remote areas or in smaller centres outside the large towns and cities. There are many sound enterprises in such places which are capable of substantial growth, but their location often presents difficulties for ordinary financial institutions. By making a special effort to lend to these enterprises, I. D. B. is functioning as Parliament intended that it should.

When the Bank considers a loan proposal, it gives special attention to the quality of the management, the potential earnings of the business, and the amount and character of the owner's investment. The I. D. B. is expected to pay its way -- to earn its operating costs including the small volume of losses which inevitably occur in any lending business. The Bank was never meant by Parliament to be a burden on the taxpayer, and it is not helpful to a businessman or his community to encourage developments that end in failure. This we do not set out to do. However, as we have gained in operating experience over the years we have found it possible to assume greater risks consistent with paying our way, and thus to assist in the sound development of more marginal enterprises.

The I. D. B. now has 25 branches across Canada, and in the current year will make about 2,000 loans for amounts totalling more than $80 million. Since it began operations in 1944, the I. D. B. has authorized 11,000 loans for over $580 million. In the Province of Quebec, it has made more than 2,600 loans for an amount of about $175 million and it is currently making about 400 loans a year in the province.

In addition to the General Manager's Office in Montreal, which is the administrative headquarters for the whole organization, the Bank has six branches or sub-branches, serving the Province of Quebec. They are located in Montreal, Quebec City, Trois-Rivieres, Sherbrooke, and Rimouski, while the sixth, in Ottawa, deals with applications in four adjacent counties in Quebec. It is a policy of the Bank to place its facilities within reasonably convenient reach of any business enterprise in the province, and to further this we pay regular visits advertised in advance, to centres where we are not represented by a branch. It may be of some interest to note that three quarters of the loans made by the Bank are now authorized at the branch at which the loan is applied for, without requiring any reference to the regional supervisor or the General Manager's Office.

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May I try to summarize in a few words the principal theme of this talk. Monetary policy is general and pervasive in its effects. It cannot be brought to bear directly on the problems of particular regions or particular industries and not others. For that reason we must welcome all well-considered initiatives of a region to develop its resources, its capital equipment, its human capital. It is not only the region concerned that will profit from such initiatives but the whole country. And on the other hand the economic development and progress of every region is intimately tied up with the prosperity of the country as a whole. To realize our economic objectives we need well-conceived and co-ordinated policies of various sorts in which monetary policy has an important part to play. The Bank of Canada will do its best to see that this part is well played, to the benefit of the country as a whole and of each of its regions.

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