REMARKS OF LOUIS RASMINSKY
GOVERNOR OF THE BANK OF CANADA
BEFORE THE VANCOUVER BOARD OF TRADE
VANCOUVER, NOVEMBER 23, 1964

I should like to begin by expressing my pleasure at being in Vancouver again and my gratitude to your committee for inviting me to address the Board of Trade to-day. I have come at a time when the economy of British Columbia is moving ahead in a most impressive way, and I thought that it would be appropriate to begin these brief remarks by saying something about recent developments in this part of the country. From there I thought I might go on to discuss briefly the course and character of the current economic expansion in Canada and the part which the Bank of Canada has played in it. Finally, I propose to say something about the problems we have had to face on the external side of the Canadian economy.

The most striking feature of the British Columbia economy is the large new wave of spending on plant and equipment that is under way here. This wave of capital expenditure illustrates in a clear-cut way some of the typical features of a Canadian resource boom. The British Columbia economy might be described as a high leverage economy: a surge of capital expenditures by a number of major natural resource industries can on occasion generate a strong forward movement along a much wider industrial front. The province's natural resources are immensely rich, but the rugged terrain which harbours those resources helps to make their development very costly and requires the investment of very large amounts of capital. Economies of this sort have a tendency to grow in surges. When market prospects are bright, when the development of new resources and new capacity seems particularly worth while, such economies tend to experience very high rates of capital investment -- not only in resource development, but also in transportation and other kinds of supporting structure.

As one looks about at some of the larger capital projects under way in British Columbia at the present time, one can see much that fits this general pattern. There are, to begin with, the Peace and Columbia power projects. There are also the major extensions of railways, highways, port facilities, and gas transmission lines; the outlays on copper, iron, molybdenum and other metal properties; the large-scale developments in chemical production; the spectacular expansion of pulp and paper capacity. Much of this new capacity is of course aimed at export markets, including some very important and rapidly growing markets on the other side of the Pacific Ocean.

This dazzling array of new and large projects is dramatic evidence of the growth that is taking place in the provincial economy. Since the early post-war years the population of British Columbia has increased by about two-thirds, compared with an increase of a little more than half in the total population of Canada. An economy and a market which has been growing this much is bound to be changing a good deal in character as well as size. While still relying heavily on its great primary exporting industries, it is diversifying into a much wider range of manufacturing industries as well as service activities. It is reasonable to hope that as a consequence its pattern of growth will tend in the future to become somewhat more regular and sustained.

Some measure of the change in this direction is conveyed by the statistics of employment. As of the middle of 1964 the total number of jobs in British Columbia was nearly 50 per cent higher than in 1947, but this increase was very unevenly distributed by industries. In forestry and mining there has been a substantial decline in employment -- not of course because of reduced output but because of large-scale mechanization and vastly increased output per man-hour. In the larger manufacturing and processing establishments, total employment appears to have grown by about 30 per cent. Some of the biggest employment gains of all, however, have occurred in service industries -- a group which included such occupations as transportation, public utilities, wholesale and retail trade, government, and finance. It now appears that as many as two-thirds of all the jobs in British Columbia may be in service industries, compared with roughly one-half in the early post-war years.

There is thus evidence of a definite filling-out and broadening of the British Columbia economy. In this process I believe that the Industrial Development Bank, of which I am President, has been making a useful contribution. The IDB exists for the purpose of making term loans to businesses which are judged to have a good prospect of success but which, for one reason or another, are unable to obtain financial assistance from conventional lenders on reasonable terms and conditions. Since its inception 20 years ago the IDB has authorized a total of 12,000 loans aggregating $600 million. While the projects involved are usually on the small side the cumulative effect, particularly in smaller centres, can be significant. The IDB has branches in Vancouver, Victoria and Kelowna, and as a convenience to business-men in other parts of B.C. IDB officers made forty-two visits in the past year, which were advertised in advance, to smaller centres on Vancouver Island, up the coast, in the interior and in the Peace River Country. In the province as a whole, the IDB has offered credits to over one thousand businesses and more than 30 per cent of these have come back for additional loans to finance further growth.

I turn now for a moment from the regional picture here on the Pacific coast to the broader national scene. How have the economic affairs of the country as a whole been going?

You will recall that the low point of the last recession was reached in Canada early in 1961 and that a phase of renewed economic expansion got underway about that time. This rising trend in economic activity has now continued for more than 3 1/2 years. Over the course of this business expansion, the output of the Canadian economy -- measured in terms of physical volume -- has gone up by roughly one-fifth. The number of people with jobs has increased by 11 per cent, and the number of unemployed, as measured by the Labour Force Survey, has declined from almost 8 per cent of the labour force to about 5 per cent. Over the same period the consumer price index has risen at an average rate of about 1 1/2 per cent per year. While we in the Bank of Canada do not think that any decline in the value of Canadian money can be viewed with equanimity, it is the case that nearly every other country has experienced a greater increase in prices during the past few years than we have, and one must remember that there was a decline in our exchange rate in 1961-62. In general, then, the nation's economic expansion since 1961 has been vigorous enough not only to provide jobs for a large number of new entrants into the labour force but also to absorb into productive employment much of the surplus manpower and excess plant capacity that was in evidence a few years ago, and this without, so far at least, producing marked upward pressure on costs and prices or similar symptoms of general over-strain.

While our recent economic experience has many encouraging aspects, we would do well to avoid complacency. For one thing, the growth within the various regions of the country has been uneven. In some areas development has continued to lag and serious local unemployment problems have persisted, while in other regions the pace of expansion is pressing hard on the availability of certain types of labour and materials. Moreover, while an economic expansion which starts from a position of substantial under-utilization of available manpower and other productive resources can proceed for some time at a fairly rapid pace without developing physical strains or inflationary overtones, it should be recognized that as the margin of spare capacity and available manpower narrows, it becomes an increasingly challenging task to keep the expansion going at a rate which involves neither serious over-heating of the economy nor serious under-utilization of its productive resources.

Thus, while our immediate prospects appear to be favourable, we must be on our guard against any notion that the continuation of economic growth at a reasonably satisfactory rate can ever be taken for granted. Public financial policies must, of course, constantly be adjusted in a way that encourages a sufficient growth of total demand to sustain expansion, but this is not the whole story. Stable growth can be brought to an end by excessive expansion of productive capacity, or by speculative accumulation of inventories, or by distorting increases in costs and prices, or by an unacceptable deterioration in our international trade and payments. Any such tendencies are hard to recognize in advance, but if eternal vigilance is the price of liberty it is no less the price of stable economic growth.

Much could be said about the factors, including the favourable external factors, that have contributed to the well-balanced expansion of the Canadian economy in recent years, but I shall limit myself here to a few comments on the influence of monetary developments on our recent economic history. I would not claim that developments in the monetary field constitute the primary explanation of the encouraging aspects of the economy's recent performance to which I have referred, but I do feel confident that credit conditions have made a positive contribution. The basic direction of monetary management during the past three years has been toward encouraging the country's economic expansion. We have had a sustained growth in the money supply at an average rate of around six per cent per annum and an increase in bank loans at an average rate of about eleven per cent per annum -- more rapid than this in the past year or two -- and after more than three years of rising business activity and rising private credit demands interest rates are little different than they were at the beginning of the expansion.

One important reason why this remarkable degree of stability in credit conditions has persisted over such a long period of rising economic activity is the declining scale of the Federal Government's borrowing requirements in financial markets. In fact, the increase in Government of Canada debt outstanding (outside Government accounts) during the past year has been less than the special transfer made to British Columbia last September in connection with the Columbia River project. This position is in sharp contrast with the Government's net borrowing requirements of many hundreds of millions of dollars in each of the immediately preceding years. One effect of this has been to make room for expanded borrowing by others without strong upward pressure on interest rate levels.

Going back to the operations of the central bank, I think that it would be fair to say that they have contributed toward the maintenance of a stable monetary environment which has been encouraging to economic expansion.

Through its control of the supply of cash reserves to the banking system, and thus of the ability of the commercial banks to expand the scale of their own operations, the Bank of Canada is able to exert a broad influence over the growth of private liquidity and the state of credit conditions generally throughout the economy. We in the Bank of Canada are constantly appraising and re-appraising the use which we should make of our ability to influence the trend of credit conditions in Canada. We are continuously trying to understand what is happening in all parts of the country, why the economy is behaving in the way that it is, what main factors seem to be shaping its future course, and what monetary management can do to help make that course as steady and as favourable as possible.

Canada's external trade plays such a large part in our economy and our financial links with other countries are so important that a sound and manageable external position is absolutely essential to the health and prosperity of this country.

On two occasions within the last few years monetary policy has had to give special weight to keeping the external accounts in manageable order. The first was the foreign exchange crisis of June 1962. The programme of action to deal with that crisis included a very vigorous use of monetary policy -- you may remember that the Bank Rate was raised to 6 per cent for a short time -- and the resulting rise in interest rates played an essential part in restoring external financial balance before the crisis could seriously damage our economic expansion.

A year later we experienced another foreign exchange crisis -- this one caused by the announcement in July 1963 that the United States government intended to impose an Interest Equalization Tax. Fortunately this crisis was active for only a few days, the critical phase passing when an agreement was reached with the United States under which they would provide an exemption from the Equalization Tax in the case of new Canadian security issues. Even then anxiety lingered on until the announcement in September of large wheat sales to the Soviet Union removed the remaining uncertainty regarding Canada's external financial viability. Over the intervening two months monetary policy had to be framed in the knowledge that the country was living uncomfortably close to another critical eruption in the foreign exchange markets.

The condition of our external accounts is better than it was a few years ago. It is true that we still have a large deficit in our current transactions with the rest of the world -- that is, in the balance of our imports and exports of goods and services -- and we still need a large net inflow of capital from other countries to cover this deficit. But we have substantially reduced both the deficit and the required financing. In the latter 1950's the deficit reached nearly $1,500 million a year. In the years 1960 to 1963 it declined each year, reaching a level of $550 million in 1963. This contraction was widely welcomed both in Canada and abroad, and it has quite clearly made an important contribution to the improved performance of the economy during these years.

Part of the continuing shrinkage in the current external deficit in 1963 was due to special sales of wheat to the Soviet Union. This year -- in 1964 -- there have been still larger deliveries of wheat to the Soviet Union, but in spite of this it now appears unlikely that the deficit in 1964 will be less than that of 1963. In other words, if we exclude the special wheat sales, it looks as though the underlying trend towards a smaller current deficit may have stopped for the time being. There seems in fact to have been some widening out.

Some of the factors contributing to this development are reasonably clear. As we move further away in time from the 1962 devaluation of the Canadian dollar, there is bound to come a stage when rapid and continuous reduction of the current account deficit becomes much less easy to achieve. In part, too, the larger amounts that are being spent in Canada on capital equipment are finding their reflection in the import figures. At the same time I believe that positive and constructive action of a type likely to restrain, and in the longer run reduce, the current external deficit should be high on our list of national priorities. I have in mind, for example, the importance of increasing our productivity, of keeping up competitively with the rest of the world, and of reflecting very carefully before doing anything likely to add to the level of Canadian costs. If we can advance along these lines, we shall not only strengthen our international balance of payments but also improve the growing-power and resilience of the entire Canadian economy.

Canada's role as an industrial and trading nation in the world economy, like that of her principal trading partners, has been affected for the better since the end of the last war by the growth of co-operation among governments and central banks in the field of international finance. The main institution in this connection is the International Monetary Fund, an organization which, to put it in its simplest terms, works out agreed rules of good conduct in international monetary matters and maintains a pool of funds subscribed by members to help those who run into temporary balance of payments difficulties. The size of the IMF's pool of funds was enlarged by 50% in 1959 and now amounts to $16,000 million. At the Fund's Annual Meeting in Tokyo last September it was virtually agreed that a further increase of 25% would be brought about within the next year or so. I welcome this decision, and I am sure that it will greatly strengthen the international monetary system.

In recent years there has grown up, among a number of the central banks of the countries of the Atlantic area and Japan, a flexible system of bilateral arrangements by which these institutions can help each other to deal with foreign exchange crises. We in Canada were one of the early beneficiaries of this system during our foreign exchange difficulties of June 1962. We quickly repaid the assistance we received at that time from the Federal Reserve Bank and the Bank of England, and I am, of course, very pleased that our own position developed in a way which permitted us to render assistance in return to each of these banks, when, a little later on, opportunities arose to do so. We made a small advance to the Federal Reserve System of the United States when exchange markets were disturbed at the time of the tragic assassination of President Kennedy a year ago, and this autumn, as you are aware, we joined with other central banks in rendering some assistance to the Bank of England. I do not need to remind this audience how desirable it is from Canada's point of view that Britain should succeed in mastering its current economic difficulties as quickly as possible.

Central bank facilities of the kind I have just described complement the resources of the International Monetary Fund. Together, the two sorts of arrangement provide the monetary authorities of the world with a great deal of ammunition with which to counter the shocks and surprises that tend to upset the balance of international finance from time to time. These arrangements cannot and are not intended to relieve a country of the need to carry out those more fundamental repairs and improvements to its economy which are certain to prove necessary over time. What they can provide is a counter to speculation and a breathing space to give effect to appropriate domestic policies. In the case of Canada, this means that while we have available to us some massive international resources to help us meet certain kinds of short-term financial difficulty, our longer-run growth and our success as a trading economy are still very much in our own hands. And this is the note on which I should like to conclude. On the international as on the domestic scene, good financial arrangements can be very helpful, but they work no miracles. The true recipe for Canada's economic success in the world is still to be vigorous, flexible, efficient and competitive. To achieve the economic goals that Canadians seek, we need all the shrewdness and energy, the imagination and persistence that we can possibly mobilize.