

NOTES FOR VANCOUVER CHARTERED ACCOUNTANTS

(June 11th, 1970)

I am very glad that I was able to fit this meeting with you into my visit to Vancouver. Your Chairman made it clear to me that no extended remarks would be expected. In fact, he practically told me that at this stage in your proceedings anything beyond 10 minutes would be a bit more than the traffic would bear. So I do not have a carefully prepared script and my remarks are likely to be even a bit more disorganized than they generally are.

We have been going through and are still in a period of difficult economic adjustment in this country, which has raised a number of very perplexing problems of economic policy. Public discussion not unnaturally tends to concentrate on our difficulties in the form of unemployment and inflation, and it may not be out of the way to remind ourselves occasionally that the past nine years have been the largest and longest sustained period of economic expansion we have ever had in this country. Real output per head has gone up by more than 40 per cent and the average standard of living by about a third -- a very remarkable accomplishment. No part of the country has grown more rapidly than British Columbia, and every time I come back here I have been impressed, as I have again this time, by the great vitality of the region, by your new development of resources, and by the rounding out of your basic resource industries through the increase in the range of your manufacturing and service industries which has added to your capacity for self-generating growth.

At a certain point, a few years ago, it became apparent that the slack in the Canadian economy which was present at the beginning of the expansion had been taken up and that the amount of spending that was taking place in the economy was producing undesirable inflation instead of real growth. Since then, monetary policy has been basically directed to trying to moderate the growth of spending so as to limit the price increases and during the past 2 years the fiscal policy of the Government of Canada has also been restrictive in character.

If the curtailment of the growth of spending were immediately reflected in moderation in price and cost increases then it would be possible to move smoothly from an unsustainable rate of real growth to a sustainable rate up to our full potential. This would be a perfect-situation. Unfortunately, in this imperfect world, prices and costs are not so responsive. For this reason the moderation of demand brought about by fiscal and monetary policy gives rise to a decline in the rate of increase in real output, to greater slack in the economy and to increased unemployment. This is not, it goes without saying, the objective of policy, but it is the way the market system works. In due course, the inability of producers to pass on high increases in costs will increase their resistance to incurring them, but meanwhile there is an unfortunate amount of economic waste. All that one can say about it is that the alternative of letting the inflation continue unchecked would be even worse. I have given my reasons for believing this elsewhere and I do not intend to repeat them here.

I believe that there is an increasing amount of evidence that the broad economic policies that have been followed in the past couple of years are having their effect, though I admit that at times it has looked as though we were having the worst of both worlds -- high inflation and high unemployment. We have eliminated excess demand from the economy, which is a necessary preliminary to getting back to a position which will ultimately make possible renewed strong economic expansion. We have made a fair amount of progress in reducing the inflationary expectations which were so widespread and which played so important a part in frustrating our attempts to bring prices and costs under better control. In this we have had an assist from Mr. Dow and Mr. Jones. In the past few months the behaviour of the consumer price index has been distinctly encouraging. The year over year increase in May is down to 3.8 per cent, which compares with 6 per cent in the U. S.

The one area where we do not seem to be making progress is on the cost side of the economy. You will know of the recent initiative of the Prices and Incomes Commission to establish a specific guideline for wage and salary settlements. If it results in greater moderation in this field, it can shorten the period during which the over-all stance of policy has to be restrictive in the sense that it must always be aware of risk of a fresh outburst of inflation.

Meanwhile, monetary policy has recently been cognizant of the progress made in eliminating excess demand and has become slightly less

restrictive. The Bank Rate has been reduced twice in the past five weeks and we have conducted our operations in a way that has enabled the banks to add to their liquid assets, though they are still on the low side by historical standards, and bank loans have been flat for about a year. Interest rates have recently come down a good deal, particularly at the short end of the market. Somewhat similar developments outside Canada have played a part in this, though the decline in rates has been a bit greater here. The money supply held by the public, which had grown by less than 4 per cent last year, has recently increased considerably more rapidly, partly as a result of the large inflow of foreign exchange into Canada. This inflow resulted in the decision of the Government of Canada, as members of this audience will be well aware, to allow the Canadian dollar exchange rate to float, and the potentially restrictive effects of an appreciation of the Canadian dollar were one of the factors in the decision of the Bank of Canada to make a second reduction in the Bank Rate effective June 1st.

I mention these changes not to suggest that there has been a major shift in monetary policy but simply to indicate that policy is not immobile but adapts itself to changing circumstances. I still regard inflation as a major problem which we should try to solve with as little slack in the economy as possible.

It would be nice to conclude these remarks on a cheerful note. I myself feel pretty cheerful today, but that may be mainly because I am not in Ottawa. You are here all the time and

probably need no better reason for cheer. Anyway, let me conclude by saying this. Whatever our present worries are, I have no doubt at all that the underlying position of the Canadian economy is as strong as that of any country in the world. The only question that we have to settle is whether we will take full advantage of the great opportunities that are ours, or settle for something less.