REMARKS OF LOUIS RASMINSKY
GOVERNOR OF THE BANK OF CANADA
BEFORE A MEETING OF THE CANADIAN CLUB OF VANCOUVER
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While I have had several occasions to address British Columbia audiences during the past few years, I am particularly pleased to have been invited back at this precise time. In a few months, you will be marking the centenary of your entry into Confederation, and I am grateful for this opportunity to extend to you my best wishes for your next hundred years.

I was prompted by the occasion to refresh my memory of the early history of British Columbia's association with Canada. My researches revealed much that was truly inspiring and also much that was, for an Easterner anyway, rather disconcerting. I found, for example, that Senator W. J. Macdonald, who played an important part in the affairs of this part of the world for twenty years before Confederation, wrote to a leading political figure within two years of that event: "The present administration must be very distasteful to you.... and as you remark, not one of them that you would care to have for a friend, or to ask to your house". The same sweeping judgment of Canadians is to be found in the letter of the wife of an outstanding British Columbia member of Parliament on the occasion of her first visit to Ottawa: "I never in my life saw such a collection of downright ugly and awkward looking men".

I can only express the hope that such judgments have mellowed over the years and that the historian of British Columbia, Margaret Ormsby, had a better perspective when she wrote "for the crowds of Canadians who had gathered on the streets of Victoria at midnight on July 19, 1871 to hear the bells rung and the guns fired, and to see the Roman candles lighted, the arrival of the first corps of railway surveyors in August 1871, had promised the enlargement of professional, commercial and political opportunity".

This promise has, I think, been amply fulfilled, in spite of occasional difficulties and set-backs. No part of the country has grown more rapidly than British Columbia and no part holds out greater promise of still further growth. Over the past quarter century, an extraordinary spurt in the economic development of British Columbia has taken place and the rapid growth in job opportunities has led to the doubling of the Province's population since 1948. The past decade alone has seen employment rise by nearly 60 per cent, almost twice as rapidly as for Canada as a whole, and personal income has risen by an impressive 125 per cent. You are richly endowed with natural resources in your forest, mining and power industries and are constantly developing new ones. You have been rounding out your resource base by increasing the range of your manufacturing and service industries and adding to your capacity for self-generating growth. Vancouver has come to play an increasingly important role as a financial as well as a commercial centre and the past couple of years have witnessed the establishment of the Bank of British Columbia with its head office here. The

Bank of Canada has recognized the growing importance of Vancouver as a financial centre by permanently stationing officers here to keep in touch with these developments and give what help we can.

I would also like to think that during the past quarter of a century, the Industrial Development Bank, a subsidiary of the Bank of Canada, has played a significant, if modest, role in fostering industrial development in the Province. As you may know, the IDB was set up to help in the development of smaller businesses which need additional fixed term capital but which, because of their relatively small size, or lack of an established earnings record, or their geographical location, have been unable to obtain the required financial assistance elsewhere on reasonable terms and conditions. It is of interest to recall today that during its first year of operation the IDB made seven loans in British Columbia for a total amount of $138,000 from one branch office in Vancouver. Twenty-six years later, in 1970, it authorized over 1,000 loans totalling nearly $50 million to businesses of all kinds in the Province. We now have branch offices in Kelowna, Prince George, New Westminster and Victoria, as well as Vancouver, and will shortly be opening a new branch office at Cranbrook. At the close of its last fiscal year the IDB had $121 million outstanding or committed to more than 2,500 businesses in British Columbia representing every type of business activity in the Province from fish plants, tugboats, bulk loading wharves, lumber mills, manufacturers and retail stores to ranches, motels, ski resorts, etc. Moreover, decisions on more than 90 per cent of the loan applications received from businesses in the Province itself are taken right here, without any need for reference beyond the local branch or the regional office in Vancouver.

Having dwelt a little upon the impressiveness of British Columbia's economic achievements when viewed over the broad sweep of years, I would be remiss if I did not also recognize the fact that during the past year or more you have had to face some difficult economic problems. I am thinking in particular of the problems of the forest industry associated with the rapid expansion in capacity since the mid-1960's, the slowdown of the North American economy, and the appreciation of the Canadian dollar. You have also had more than your share of labour disputes and during the past winter your unemployment rates were very high, in part as a result of the migration of unemployed people from other provinces. But in the past few months there have been signs that some, at any rate, of these problems are diminishing, as the faster pace of house-building activity in Canada and the United States revives the lumber market and as the economy as a whole shows signs of moving forward more rapidly. Another hopeful sign for this Province is the relatively strong investment outlook for 1971 -- the indicated increase for British Columbia is very much larger than for other regions of the country.

This leads me to the matters which I would like to talk to you about in the balance of my remarks today. First, I would like to deal with the problem which is foremost in everyone's mind at the moment, namely that of increasing the rate of growth in our economy and reducing unemployment from its present unacceptable level. I want, in particular, to tell you what the Bank of Canada has been doing about it. Then I would like to talk a little about some of the problems for policy in the period which lies a bit further ahead but which I think we need to be thinking about right now.

At the outset, I want to make it very clear that since the early months of 1970 monetary policy has been used vigorously to encourage a more rapid rate of growth in output and employment in the Canadian economy.

The contribution of monetary policy has been made by providing the banks with sufficient cash reserves to permit a substantial rate of growth of the financial system. This has contributed to much easier credit conditions in Canada, that is, to a much greater availability of, and to a much reduced cost of, borrowed money. Easier credit conditions have encouraged the growth of output and employment in Canada in two ways. They have made it easier for Canadians to undertake spending programs in Canada that are financed by borrowed money, and they have moderated the sharp upward pressure on the foreign exchange value of the Canadian dollar and in so doing have moderated the extent of the adverse impact of the exchange rate on our export industries and on our domestic industries which compete with imports.

A striking illustration of the easing of monetary conditions over the past year can be seen by comparing the level of interest rates today with those prevailing in the first quarter of 1970. The treasury bill rate, which was about 7 3/4 per cent during the first quarter of 1970, is currently at about 3 per cent, its lowest level since 1962. Other short-term rates have shown equally sharp declines. The fall in long-term interest rates has also been appreciable -- about one to one and a half percentage points -- though these rates remain unusually high in relation to the level of short-term rates.

The changes in the size and liquidity of the banking system also provide impressive evidence of the change in credit conditions that has taken place over the past year. For the twelve months ending March 1971 the major assets of the Canadian banking system increased by 13 1/2 per cent and the liquid asset position of the banks has recovered to the point where banks are anxious to make credit available to all creditworthy borrowers. This has, indeed, been the position for some time, and the banks' business and personal loans have increased at an average annual rate of about 15 per cent over the past five months. The increase in the money supply over the year ending March 1971, using a broad definition -- currency plus total privately-held bank deposits -- was 14 1/2 per cent compared with an average annual increase during the 1960's of 8 1/4 per cent.

As I have said, one of the major considerations that has led the central bank to follow a strong expansionary monetary policy in the last twelve months has been a desire, in the prevailing economic circumstances, to moderate the sharpness of the increase in the foreign exchange value of our currency after massive inflows of foreign exchange led to the freeing of the exchange rate last May. It is sometimes urged as an advantage of floating exchange rates that under this system the public authorities need not concern themselves about the state of the balance of international payments since this will automatically be kept in equilibrium by the exchange rate that emerges in the market from time to time. But this freedom to be unconcerned is one that no responsible monetary or fiscal authority could in fact indulge in. The reason is of course that the exchange rate itself, which produces the equilibrium in the exchange market, is far too important a price in the economic life of a trading nation to be ignored. I hardly need remind British Columbians of the problems which a considerable appreciation of the exchange rate can create for major export industries under certain circumstances, and of the uncertainties it entails in planning future investment. It also creates difficult problems for many sectors of domestic manufacturing industry which compete with imports or which have been successful in breaking into export markets. The growth of such industries has been an impressive feature of our economic development in recent years and one that we would all wish to see continue.

For these reasons it has been a proper, and indeed an inevitable, concern of the Bank of Canada to endeavour, within the limits of a reasonable monetary policy, to ease the upward pressure on the exchange rate by encouraging credit conditions in Canada which reduce the incentives for Canadian borrowers to go abroad for funds and for non-residents of Canada to employ their funds in Canada.

In order to reinforce this approach to a desirable development of Canada's external payments position, which has, as you are aware, recently been characterized by a large surplus on current account, the Minister of Finance and the Bank of Canada have been asking Canadian borrowers to explore carefully the possibilities of doing their financing in Canada before they look abroad for funds. The Minister of Finance has recently released a letter reiterating and explaining this request, and I want to take this opportunity to make it clear that I continue to support this initiative. I regard it as very much in the national interest that all borrowers, whether they be public or private institutions, do as much of their financing in Canada as it is feasible for them to do. Since all regions of Canada will benefit in terms of production and employment, it is no more than a matter of enlightened self-interest, in the current economic circumstances, to co-operate in minimizing the upward pressure on the Canadian dollar which foreign borrowing tends to induce.

I now conclude this part of my remarks. I have burdened you with some figures indicating the rate of growth over the last year in the money supply, and with figures indicating the reduction in cost and the increased availability of borrowed money. I have done so because I want you to be aware of the extent to which monetary policy has been concerned with encouraging an increase in the rate of growth of production and employment in Canada. I have always been and I continue to be an advocate of flexibility in monetary policy, and I regard the expansionary policy of the Bank of Canada over the past twelve months as being warranted by and appropriate to the prevailing economic circumstances. At the present time there is certainly no shortage of money or credit to keep the Canadian economy from moving forward strongly.

May I now give you my personal assessment of how this policy has been working.

How clear are the signs that a revival of economic growth is under way? As is often the case in appraising the current economic situation, the evidence is less clear-cut and unequivocal than one would like. However, I believe that the recent evidence is encouraging. Total output in the economy rose substantially in the fourth quarter of 1970 and it appears that a good rate of growth has continued in the quarter just ended. The up-turn in output in the past half year has been accompanied by a modest reduction in unemployment after allowing for the adverse seasonal factors, though the actual level of unemployment is still too high. The seasonally adjusted unemployment rate appears to have reached a peak of about 6 3/4 per cent at the end of last summer, and since that time it has edged down to 6 per cent in March. We seem once again to be in a phase of general economic expansion, though there will no doubt be occasional hesitations and set-backs.

In the United States, as in Canada, a period of stronger economic expansion now seems to be getting under way. This will, of course, tend to underpin and reinforce our own recovery.

In short, it seems to me that a principal objective to which our economic policy has been directed in the past year is in the process of being realized, and that we can look forward to a good rate of economic expansion and to a continued reduction in the present high level of unemployment.

I would like finally to make some very brief remarks about some of the concerns for policy that lie a bit ahead, as the economic expansion gathers momentum. One concern must, of course, be to try to ensure that the on-going rate of growth in the economy is sufficient to ensure a steady reduction in the rate of unemployment. Given the relatively high rate of potential growth which we have in this country -- between 5 and 5 1/2 per cent by the usual reckoning -- it is apparent that we must aim, as we are doing, at achieving a rate of growth that is higher than this in order to bring unemployment down. This is an ambitious target but, as I have already tried to indicate to you, I think that the degree of easing which has occurred in monetary policy has been such as to facilitate a revival of this magnitude. In addition, we must not forget that fiscal policy too has been significantly expansive, and the Government's financial position shifted from modest cash surplus in the previous fiscal year to one of large borrowing requirements in the year just completed. In trying to assess the adequacy of the degree of stimulus provided by fiscal and monetary policy in the past year, it is important to remember that these policies do not have instantaneous effects on the economy. Indeed, the lessons of the last year or two remind us once again, all too painfully, that the lag between action and effect can be long. In present circumstances, this means that some of the fiscal and monetary stimulus applied in the last year to speed up the process of economic recovery has not yet had its full impact.

It is, of course, natural for us to wish to see as rapid as possible a rate of expansion, but we must balance this against the risk of creating so steep an upsurge in the economy that it would inevitably invite a repetition of the go/stop process which we all wish to avoid. The essence of policy, in present circumstances, must be to try to achieve on the one hand a rate of growth which is strong enough to ensure a steady reduction in unemployment while at the same time avoiding an expansion so rapid that it would over-shoot the mark. To over-shoot the mark would press the economy too hard against its physical limits for a period before the rate of demand growth could be moderated to what the economy can accommodate on a continuing basis and would generate a new wave of demand inflation. This danger was well set forth in greater detail than I can attempt today in the Economic Council of Canada's publication "Performance and Potential", published last September.

In thinking about these matters, we also have to keep in mind that we are commencing this new period of economic expansion before the process of cost inflation has been brought completely under control. We still have a pattern of increases in wages and salaries that is considerably in excess of our long-term productivity growth and which is not consistent with the maintenance of our recent price performance. In the past year the consumer price index rose by about 2 per cent, a very low figure by international standards, but this gives an unduly favourable impression of the underlying trends in the economy. The kind of erosion of profits and contraction in farm income which occurred last year, and which, along with the rise in the exchange value of the Canadian dollar, was a major element in the improved price performance, is something which cannot be expected to continue.

If we are to achieve a sustained economic expansion without the recurrence of serious inflation, there must be in the months ahead some downward adjustment in the average rate of increase in wages and salaries and other incomes. This is not out of the question and it may in fact be taking place to some degree. The improved productivity performance which normally accompanies a stronger rate of economic expansion should also help. But as long as wage and salary increases remain far in excess of long-term productivity gains we run a real risk of deteriorating price performance. For this reason, it seems to me to be still necessary -- tiresome though reiteration is -- to continue to focus public attention on the need for moderation in the setting of prices and incomes and to seek new ways to bring the common interest to bear more effectively on decisions in these areas. If such efforts fail and prices again start to rise rapidly while unemployment rates remain high, there is bound to be increasing support for formal controls to curb the present freedom to determine prices and incomes, even though it is far from clear that such controls would in fact be workable for long or that they would not create very difficult problems of their own.

Inflationary developments outside Canada obviously complicate our own efforts to move the economy forward at a brisk pace without triggering off rapid price increases. But for my part, I do not feel that we can afford to take a relaxed or defeatist attitude because the progress of some other countries in bringing inflation under control is discouragingly slow. In our own interests we must continue to be concerned to reduce to a minimum the domestic sources of inflation.

Mr. Chairman, I have tried in these remarks to outline the contribution that the Bank of Canada has been making to the task of encouraging more rapid economic expansion and reducing unemployment. I have tried to give you some impression, on the whole an optimistic one, of the direction in which I think the economy is moving. At the same time I have said something about a few of the problems that seem to be ahead. I fully realize that it may seem premature to some of you for me to be expressing concern at this point about the possibilities of further inflation when the economy is so clearly operating well below its potential. But I think that it is only prudent, even though our most immediate concern is the present high level of unemployment, that we should be giving thought to the best way of avoiding inflation in the future. There is a natural tendency to focus our entire attention on the economic problem that is most pressing at any particular time: but if we do not keep in mind all our economic objectives all the time, we can only contribute to unsatisfactory economic performance with alternating periods of inflation and high unemployment. We must strive to do better than this.