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Canada's monetary policy and its posture for the future

Addressing the Swiss-Canadian Chamber of Commerce in Montreal on September 21, R.W. Lawson, Senior Deputy Governor of the Bank of Canada attributed some validity to the view that the extraordinary successes of industrial societies in recent decades had contributed to their own economic problems by generating unrealistic expectations about the future.

Mr. Lawson explained as follows, then went on to speak about inflation, stability and Canada's monetary policy and its posture for the future:

* * * *

The thing that I find to be most unrealistic about economic expectations is that they count on a continuing rapid increase in real income without giving anything like adequate attention to what is required to achieve the increase in production that makes an increase in real income possible. They count on the goose to lay larger and larger golden eggs without looking to the care of the goose. Rapid and sustained growth in real income cannot be achieved by assuming it; it must be earned by efficient effort in a highly competitive world.

I am here touching on the question of economic incentives in our societies. With due regard to the world's environmental problems I do not see any serious impediment to substantial further economic growth in our societies if the structure of incentives encourages it....

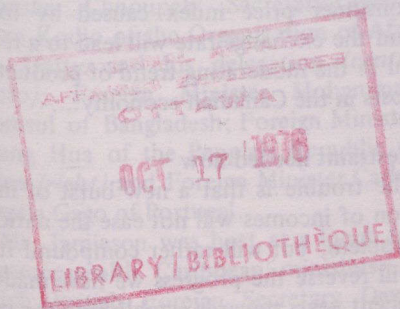
How, one might ask, can it be that some of our societies seem to expect to reap what they are not willing to sow? I suppose that the answer to that lies mainly in the complexity of our modern societies. From the point of view of an individual the link between sowing and reaping has become somewhat attenuated. You will have no trouble in thinking of a variety of contemporary social practices that work in this direction. These practices undoubtedly have many advantages but they also have the disadvantage that, if more needs to be sown, it is easier for each of us to comfort himself that it is somebody else's responsibility to do it. We thus have a problem of incentives in our societies.

I believe that the problem of incentives has been exacerbated by the inflation of recent years because the inflationary process has further attenuated the link between economic contribution and economic reward.

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...Some of our societies have been dazzled by their post-Second World War economic successes and have grown casual about the requirements for further economic success. In this country at least, that state of affairs seems to me to have been a contributing factor to the surge of inflation that we had in the first half of the 1970s because it encouraged the belief — widely held for a time, and even now still flourishing in some quarters — that if we in Canada would only keep on expanding money incomes and expenditures fast enough the goose could be relied on to do her bit — a high and rapidly rising flow of Canadian output (in real terms) would pour forth. Whatever the merits of that view of economic dynamics, it was pushed too hard at that time. The incentives to produce were not strong enough to give rise to the desired increase in production and we got unwanted inflation instead. We have been living with the debilitating consequences of that ever since.

A good example of how inflation has recently been complicating Canada's economic life is to be found in our international trade. In the last two years or so we have continued to run a large deficit in our international trade in goods and services despite the fact that we have had a significant amount of unemployed re-



Twenty-one years ago tomorrow...

The late Lester B. Pearson, Prime Minister from 1963 to 1968, was named winner of the Nobel Peace Prize for his role of intermediary in the Suez crisis. He was the first Canadian to be awarded a Nobel Prize.

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