

Now, a policy of continuously accumulating reserves or exporting capital is neither practicable nor desirable on economic grounds. It would reduce the rate of real capital formation in Canada and so reduce Canada's rate of real economic growth. Chances are that a policy of building up such an export trade surplus would create upward pressure on the Canadian dollar to the point that upward re-evaluation would become necessary, since continuous accumulation of reserves would not be possible. If that were to happen then the increase in the exchange rate would provide at least partial protection against foreign price increases, making possible a less restrictive domestic policy. What the chances would be of having adjustments in the exchange rate by letting it float or otherwise managing it, so that it would just exactly neutralize the impact on Canada of foreign price increases, cannot be known. I doubt that they would be very great.

In any case, it must be emphasized—and I think this is the main point to be made here—that that happy state will only have been reached after a period of domestic deflation and unemployment. At least, in my view, the chances are that this is about what would happen.

One conclusion that follows is that a policy of completely shielding the Canadian price level from the effects of higher import prices, in a world in which those prices seem to be rising persistently, would probably involve accepting a higher level of unemployment than would otherwise be the case, and eventually would require a quite different exchange rate system than the one Canada has now.

The question I ask is, what does this imply for Canadian economic stabilization policy? It implies that as long as world prices are rising, Canadian stabilization policy should probably not be so restrictive as to create price stability in Canada. In place of the phrase "world prices" we might just as well have used "U.S. prices" because of the predominant influence of the latter on Canada's import prices.

At the same time, to permit Canada's prices to rise persistently faster than world or U.S. prices would eventually lead to the reverse of what I have already outlined, that is, flight of capital, loss of reserves, increased trade deficit, further loss of reserves, exchange rate devaluation.

So that barring certain peculiar or special situations in Canada or the United States, and such other situations one can always think of that might interfere with the general processes I have referred to and assuming that Canada on the one hand does not wish to pursue a policy of higher unemployment and upward drift of the exchange rate, or, on the other hand, one of persistent exchange rate devaluation, its minimum price objective over the long term should be to keep prices in line with U.S. prices.

With these general points in mind, permit me now to explore the matter of Canada and U.S. price experience somewhat more closely than I have done up to this point, so as to obtain a better impression both of Canada's price experience, of the forces that have been behind it, and of the extent to which Canada has met the minimum price objective referred to in the preceding paragraph.

Reference here should be made to Table II. Table II shows that from 1958 until August 1966 Canadian consumer prices rose by almost 16 per cent, and U.S. consumer prices by 13 per cent. That is not a very big difference. Column 6 of that table shows further that since January of 1966 there has been no additional deterioration, that is, increase in Canadian consumer prices in relation to U.S. prices. Since January the ratio has been 102.5 somewhat consistently. So it was from 1963 to January 1966 that the deterioration occurred. Since January 1966 there has been no further deterioration of Canadian consumer prices in relation to U.S. consumer prices.