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RECENT DEVELOPMENT OF MONEY POLICY

At a meeting of the Board of Directors of the Bank of Canada in Quebec City on August 31, the recent evolution of monetary policy was reviewed within the context of the objectives of public policy and the developing economic and financial conditions outside and inside Canada. After the meeting, the Bank's Governor, Mr. Louis Rasminsky, summarized the review as follows in part:

For an extended period the major objective of public policy in Canada has been to put a stop to the erosion of the purchasing power of money resulting from the increase of almost 20 per cent in the consumer price index over the past five years. This preoccupation with inflation has not been based on doctrinaire considerations. Rather it reflects a recognition of the inequities and hardships inflation imposes on those members of the community least able to protect themselves, and a conviction, based on experience, that monetary stability is a prerequisite for sustained economic progress. When fiscal and monetary policies were tightened in the latter part of 1968, the objective was to reduce the growth of money demand (i.e., the growth of aggregate spending) in the economy, which was running at a rate in excess of 10 per cent *per annum*, to a rate consistent with the economy's capacity to provide a growing volume of goods and services under conditions of reasonable price and cost stability. This normal potential for growth has been calculated at about 5 to 5½ per cent a year. Over the past year, the growth of total spending has been reduced to about 7½ per cent a year, a rate which would fully sustain potential growth under conditions of reasonable price stability.

VOLUNTARY RESTRAINTS

The impact of the recent reduction of excess demand on the rise of prices and costs has, however, lagged in Canada as elsewhere, and there has been instead a temporary reduction in the rate of real growth of the economy and an increase in the number of people without work. To hold these undesired consequences to a minimum an attempt has been made to supplement the traditional instruments of economic policy with a program of voluntary restraint, designed to make costs and prices more responsive to the reduction in demand pressures.

The concerted efforts of the federal authorities for almost two years now to bring inflation under control have gradually been rewarded with some success, and in recent months there has been a noticeable tendency for prices to rise less rapidly. In the first half of the year, the rate of increase of the consumer price index in Canada has been about 3 per cent *per annum*, compared with over 5 per cent a year ago. At the same time, however, public policy has continued to be confronted by two important aspects of economic performance that are distinctly worrying.

First, unemployment has recently risen quite rapidly in all parts of the country, including those regions in which at the best of times it is relatively high. This is a matter of serious concern.

PIC MAKES LITTLE PROGRESS

Secondly, little apparent progress has been achieved in improving basic cost performance. Unfortunately,

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