



Bulletin

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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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the efforts of the Prices and Incomes Commission to elicit the support of all groups in the economy for its voluntary restraint program have as yet met with only partial success. The nominal increases in incomes arising from wage settlements has continued to average between 8 and 9 per cent, in an economy in which productivity cannot normally be expected to increase by more than 2½ to 3 per cent a year. Such settlements are bound to be largely illusory and eaten up in higher prices. As long as such increases persist, the durability of the more satisfactory price performance recently experienced will inevitably be called into question and sustainable economic expansion will be delayed.

The economic situation and outlook in Canada is, as always, much affected by what happens abroad. The United States is going through a difficult period of adjustment, with a halt in economic expansion and continued upward pressures on costs and prices. Many of Canada's other major trading partners are also subject to strong inflationary pressures. These external forces have contributed to the extraordinarily buoyant foreign demands for Canada's products. The result has been a trade surplus of unprecedented magnitude. The scale of this surplus, augmented by continuing long-term capital inflows, resulted in strong upward pressure on the Canadian dollar and a large build-up of foreign exchange reserves. The imminent danger that developing speculative forces would add to the already serious financing problems associated with the accumulation of reserves, led to the decision of the Government of Canada at the end of May not to observe for the time being a fixed par value but to allow the Canadian dollar to appreciate in the exchange market. The way in which Canada's international payments position will develop is not yet clear, though an appreciable decline in the present rate of trade surplus would not be surprising as temporary stimuli wear off and the appreciation in the exchange value of the Canadian dollar begins to take effect....

EASING OF PRICE INCREASES

In the past six months, substantial progress appears to have been made towards creating an atmosphere more conducive to reasonable cost and price stability and stable growth in the economy over the longer run. Excess demand has been eliminated, and there has been at least a tentative easing of price increases, mainly at the expense of industrial and farm profits. This has led to a number of adjustments in policy designed to guide the economy into a growth path that would limit the amount of slack in the economy to the minimum required to provide some continuing check to persistent inflationary tendencies....

Shortly after the beginning of 1970, interest rates abroad, particularly short-term rates, began to ease. The Bank of Canada permitted this development to have an effect on interest rates in Canada. This was partly to avoid creating any interest-rate

incentive for short-term capital to move into Canada, but it was also a recognition that, in the light of the amount of slack that appeared to be in prospect in the economy and the inevitable lags in policy effects, the tightening process had gone about as far as it was appropriate to push it....

The management of monetary policy during the second quarter was complicated by the upward pressure on the Canadian dollar in the exchange market, which gathered force at a time when there had already been a significant rise in bank liquidity and interest rates were declining. As the Government's Canadian dollar balances were used to buy foreign exchange, the total of privately-held currency and bank deposits began to expand at a rate that was a good deal faster than desirable over the longer haul (at an annual rate of 17 per cent over the quarter as a whole). At mid-May, the Government replenished its own balances to the extent of \$250 million through a special issue of treasury bills, adding further to bank liquidity. Under the circumstances, the Bank decided to offset this effect by an increase in the chartered banks' minimum secondary reserve ratio from 8 per cent to 9 per cent of deposit liabilities, but the bank rate was reduced at the same time. Unduly high interest rates would have encouraged capital inflows, and the Government's cash requirements would have been increased to finance further accretions to the Exchange Fund. The decision of the Canadian Government to allow the Canadian dollar to float for the time being has reduced this problem for monetary policy but not entirely removed it. The bank rate was reduced again at the beginning of June in the light of the potentially restrictive effects of the appreciation of the Canadian dollar, which seemed likely to occur after the decision to permit the exchange rate to float. In the aftermath of these and other events which created pressures in money markets, the high rates of monetary expansion and additions to bank liquidity continued during June, but these trends have since been moderated....

At present, the Bank is trying to steer a very narrow course. While it must clearly be mindful both of the degree of slack that exists in the economy and the length of time it takes for changes in monetary conditions to have their full effect, it does not wish to sacrifice the significant gains that have been made in reducing the strong inflationary forces in the economy by excessive or premature monetary expansion. So long, however, as care is taken not to ease restraints too rapidly, business will continue to find it difficult to pass cost increases on in the form of higher prices, while the slower rate of increase in prices should lead people to moderate their wage and salary increases. And once the resumption of satisfactory and sustainable growth in the economy is achieved, we should be rewarded with a better productivity performance which will permit a higher proportion of the rise in incomes to be real rather than illusory....

AIR PIRACY

Mr. Mitchell Sharp, Secretary of State for External Affairs, made the following statement to members of the press, on September 8:

The Canadian Government and, I believe, the Canadian people are outraged by this latest massive outbreak of air piracy which has brought the lives of hundreds of innocent, non-involved people into acute danger and caused unnecessary suffering and distress.

Criminal acts of this kind which menace the security of air travel everywhere are of vital concern to Canada and a direct threat to the safety of Canadians who are among the world's most extensive travellers.

At a time of ceasefire when there is room for cautious hope for a resolution of the Middle Eastern conflict, these hijackings can only act as a further irritant to a situation already tense and difficult.

Canada is pursuing, as a matter of the utmost urgency, the search for a solution to the problems posed by air piracy and air sabotage. We are deeply involved in the initiatives taking place at the United Nations and particularly in ICAO, where we have been playing an active part. Effective international agreement to end these dangerous and cowardly acts is essential as is effective international co-operation to help the national governments involved to deal with criminal acts of this kind.

MANITOBA'S WILD RICE

Wild rice, a primitive and, up to now, uncultivated grain, is the only cereal crop that grows wild in Canada. First recognized for its high nutritional value by the Indians, explorers and pioneers, wild rice is today regarded as a delicacy. Its growing popularity and demand in many market areas has increased the price of the grain significantly. The result has been the development of a small but successful industry in Eastern Manitoba, providing employment for the local native population of the area.

Two miles south of PR313 lies a 1,260-acre shallow lake, called Lac du Bois, where one of the largest single wild rice beds in Manitoba has operated for more than 50 years under the name of Williams Wild Rice Farm. Five to six hundred acres of high-quality wild rice are harvested annually and processed in a mill on this property. To date, harvesting has been a combination of hand-picking followed by a mechanical harvester clean-up.

PIONEER COMPANY

This wild rice company has had to overcome many obstacles since its inception in 1915, when all phases of the operation were done by hand. Better processing and harvesting methods were accomplished with the development of mechanized equipment.

In the 1940s, the average crop was 45,000 pounds of green rice. By reseeding and a measure of water control, the average annual crop rose to 83,000 pounds by the 1960s. In 1963, when railway service to this area was abandoned, Williams Wild Rice Farm built its own private four-mile road to PR313. The processing plant was rebuilt and a diesel electric system installed.

In 1969, as a result of a water-shed engineering study, 1,200 cubic yards of bedrock and clay were removed from the Lac du Bois outlet. When completed, this water-control project should bring an additional 100 acres into regular production for the 1970s.

The company, now reorganized under the name of Du Bois Wild Rice Ltd., has joined with other Manitoba producers to form Wild Rice Developments Ltd. This firm will undertake a pilot project this year for the paddy production of wild rice. It is intended that this new development will stabilize the supply of Canadian wild rice, and enable Manitoba to retain and expand its present export markets.

VISITORS FROM GHANA AND TURKEY

Prime Minister K.A. Busia of Ghana and Foreign Minister Ihsan Sabri Caglayangil of Turkey will shortly pay official visits to Canada.

Dr. Busia will visit Ottawa and southwestern Ontario from November 8 to 13. This visit will contribute to the continuance of the close friendly relations that now exist between Ottawa and Accra.

Mr. Caglayangil will spend two days in Ottawa from September 28 to 30, during which he will discuss bilateral and multilateral matters of common interest with government officials. This will be the first time the Turkish Foreign Minister has made such a visit to Canada.

CHOLERA VACCINE FOR WHO

Canada is contributing vaccine valued at \$50,000 to the World Health Organization's campaign to control the present widespread outbreak of cholera in the Middle East and North Africa.

The Secretary of State for External Affairs, Mr. Mitchell Sharp, announced recently that the contribution would be made immediately through the Canadian International Development Agency in response to an emergency appeal received by the Minister of National Health and Welfare from the Director-General of the WHO.

The Canadian contribution will purchase about 300,000 doses of vaccine from Connaught Medical Research Laboratories of Toronto, and will also cover the cost of transportation to affected areas in the developing countries where local resources are not equipped to combat this new threat to public health.

GROUP OF SEVEN'S FIFTIETH ANNIVERSARY

The fiftieth anniversary of the official beginning of the Group of Seven was marked by a six-month retrospective exhibition of 200 of their works at the National Gallery of Canada, which closed on September 6. The exhibition will open at the Montreal Museum of Fine Arts later this month.

The great popularity of the Group of Seven – for many Canadians, the only important artists their country has produced – is discussed in the catalogue by Dennis Reid, assistant curator of the National Gallery. Besides preparing the

catalogue, Mr. Reid organized both this exhibition and one for the Art Gallery of Ontario, reproducing the Group's first showing at that gallery in May 1920.

The "incredible staying power" of the Group, whose popularity has grown steadily through the years, is explained as follows by Mr. Reid: "All members of the Group except Harris had a firm training in the business of commercial art, and this undoubtedly led them to strive for qualities of eye-catching design and immediacy of impact.... What was needed, they felt, was a direct and unaffected mode of painting derived from an ex-



North Shore, Lake Superior

Lawren S. Harris



The Solemn Land

J.E.H. Macdonald

perience of the land that all Canadians, if they would only look about themselves, would have to acknowledge as being true and worthwhile."

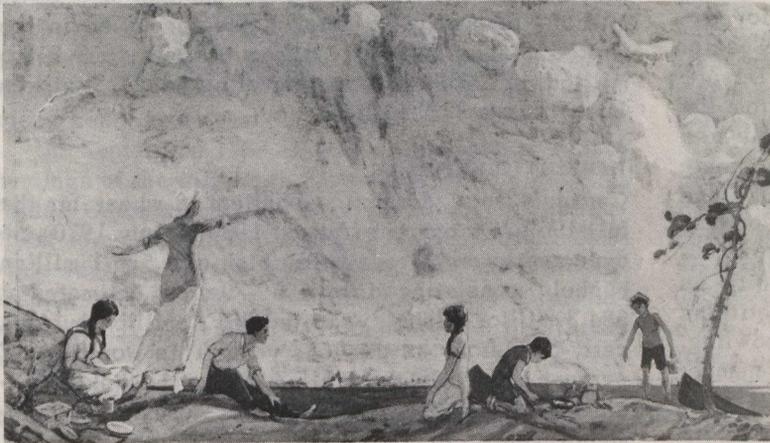
Mr. Reid writes that the Group's painting was a reaction against the atmospheric, moody type of representation so fashionable at the time. The Group's members saw this as "being foreign to the true experience of the Canadian landscape, which, to them, was direct in its impact and almost overwhelming in its suggestion of immense grandeur and power".

Despite the unity of the members of the Group, it is misleading, according to Mr. Reid, to speak of a unity of style. "Their interests are clearly personal and tend to run off in a number of directions," he observes. However, their confrontation with nature was clearly their most significant common characteristic and this is what has struck such a responsive chord among Canadians. The public has responded by "elevating them to a position in the Canadian cultural pantheon shared only by a few hockey stars and a handful of beloved politicians".



Stormy Weather, Georgian Bay

F.H. Varley



The Picnic

Arthur Lismer

Photos by courtesy of The National Gallery of Canada, Ottawa.



Fire-Swept, Algoma

Frank H. Johnston

MORE GOLD FOR TOP BRASS

An increase in annual pay of up to 5 per cent has been approved by Treasury Board for senior officers in the Armed Forces, effective January 1, 1970.

The salary revision applies to brigadier-generals and above. The new scale for brigadier-general is \$22,920 to \$24,360; major-general \$25,560 to \$27,000; and lieutenant-general \$28,680 to \$29,880.

The Department of National Defence will apply on January 1, 1971, the same salary ranges as now apply to senior executives 1, 2 and 3, their counterparts in the public service. The same merit principles which are followed in the public service will be used in determining salaries within the approved ranges.

SPECIAL GAMES HELD FOR RETARDED

Some 325 competitors aged from 10 to 33 took part in the first Alberta Special Games in Calgary this summer.

Sponsored by the Alberta Association for Retarded Children, with the assistance of the Special Services Section, Recreation Branch, Alberta Department of Youth, the games were for students from the various schools for the mentally retarded in the province, from opportunity classes in public and separate schools, and from the Alberta School Hospital and Deerhome, both located in Red Deer. Fifteen organizations from St. Paul to Lethbridge were represented.

Organized to provide as much opportunity as possible for participants to succeed, competitions were held in track and field, swimming, bowling, and floor hockey. There was about an equal number of boys and girls. Junior, senior and adult classes were further subdivided into ability levels. Events were held at Foothills Stadium, the Vocational Research and Rehabilitation Institute, and the University of Calgary.

COPPER CONTROLS EASED

Mr. Jean-Luc Pepin, the Minister of Industry, Trade and Commerce, has announced that all existing quantitative restrictions on the export of primary shapes of refined copper are removed, effective immediately. Quantitative restrictions on copper scrap and copper base scrap are also removed. Copper in all forms will remain on the export-control list but permits for exports of primary shapes and scrap will be freely issued.

A softening in the world demand for copper and a reduction in the current requirement of Canadian fabricators, coupled with the fact that the world

(London Metal Exchange) price for copper has fallen below the Canadian price, are the reasons for the removal of the quantitative restrictions.

In announcing the withdrawal of the export restrictions, Mr. Pepin said that the copper-supply situation would be kept under continuous review. He indicated that should circumstances again arise in which the adequacy of supply in relation to Canadian requirements was threatened by developments in the world market the Government would again expect that the reasonable requirements of Canadian users would be met by the Canadian copper industry.

WHEAT REVIEW

The highest wheat supplies on record, 2,471.3 million bushels, were held by Canada, United States, Australia and Argentina on or about July 1, 1970. This was 17 percent more than the 21,117.1 million bushels held a year ago. The previous record was set in 1961 at 2,219.5 million bushels.

Both Canada, with 1,070.5 million bushels, and Australia with 427.6 million, broke the records they set last year of 881.6 million bushels and 384.0 million, respectively. Stocks also increased in the United States to 895.4 million bushels from 818.6 million in 1969, and in Argentina to 77.8 million bushels from 32.9 million.

DOMESTIC SUPPLY

Canada's total domestic supplies of wheat for the full 1969-70 crop year (August 1969 to July 1970) are expected to reach an all-time high of 1,536.1 million bushels, consisting of the 1969-70 crop, estimated at 684.3 million bushels, and the 851.8 million bushels carry-over from the previous year. This would be 17 percent more than the 1,315.4 million bushels available in the 1968-69 crop year. If domestic requirements reach 165.0 million bushels, as expected, 1969-70 supplies available for export and carry-over are expected to total 1,371.1 million bushels - 18 percent more than the 1,157.7 million available in 1968-69.

EXPORTS

Canadian exports were 300.6 million bushels for the August-to-June period ending in 1970, slightly more than the 276.1 million exported a year earlier, but less than the previous ten-year average of 369.6 million.

Canadian farmers delivered 329.6 million bushels to elevators up to July 15, compared to 361.7 million bushels the previous year.

The total visible supply of Canadian wheat on July 15 was 407.8 million bushels, 5 percent less on the same date in 1969 (430.2 million bushels), and 3 percent less than in 1968 (419.7 million).