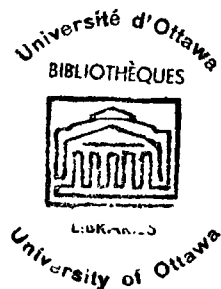


THE COYNE AFFAIR:
ANALYSIS AND EVALUATION

by Marcel D. Bélanger

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of Economics, Faculty of Social
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INTRODUCTION

In the short history of the Bank of Canada, the period from May 30, 1961, to July 13 of that same year, is of particular importance. For the first time in the Bank's history, a disagreement of major proportions occurred between the Governor of the Bank of Canada and the Minister of Finance. The principals involved in this disagreement were Mr. James E. Coyne, Governor of the Bank of Canada, and the Honourable Donald M. Fleming. The disagreement degenerated into an acrimonious public dispute, and was climaxed by Governor Coyne's resignation on July 13, 1961, after more than six and one-half years in office. The whole series of events surrounding this public dispute became known in Canada and elsewhere as "The Coyne Affair."

In the bright light of nearly a decade of hindsight, it seems appropriate to examine in depth and assess the nature, significance, implications and effects of the Coyne Affair and also to draw certain conclusions concerning the correctness of each set of arguments. In order to do this, the Coyne Affair is considered in its entire context; that is, this thesis goes beyond an examination and assessment of the events which occurred from May 30 to July 13, 1961 and considers certain aspects related to the structure of the Bank of Canada and to the conduct of monetary policy in the years preceding the

Coyne Affair and especially during Coyne's Governorship, in an attempt to unravel the elements which led to the celebrated affair. It is also concerned with the aftermath of the Coyne Affair, more particularly with its effects on the constitutional position of the Bank of Canada and on the performance of the Canadian economy in the years following the events of mid-1961.

To the best knowledge of the writer, no unified and detailed study of the Coyne Affair has been carried out to date. A book entitled The Economists versus the Bank of Canada¹ challenged Governor Coyne's economic views and conduct of monetary policy. Various articles written by academic economists have dealt with particular aspects of Coyne's economic views and policy proposals; these were published in the late fifties and early sixties. Among those was one written by David Smith and David Slater, entitled The Economic Policy Proposals of the Governor of the Bank of Canada.² The fore-mentioned works will provide the reference framework for this thesis. In addition, primary sources, especially personal correspondence between Mr. Coyne and Mr. Fleming, public

¹H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), ix-51 pages.

²D. Smith and D. Slater, "The Economic Policy Proposals of the Governor of the Bank of Canada," Queen's Quarterly, Vol. 68, No. 1 (Spring 1960).

speeches by the Governor and the Finance Minister, Parliamentary Debates and Committee Reports will be used extensively.

Chapter I will attempt to depict objectively the elements constituting and contributing to the Coyne Affair. It will contain an examination of the nature and significance of the event followed by an outline of the charges and counter-charges relating thereto and an evaluation of the possible causes of the episode. The next three chapters will search for a deeper understanding of the elements leading to the events of mid-1961. Accordingly, Chapter II will investigate the constitutional position of the Bank of Canada in the years preceding the affair. It will also examine the criticisms directed at the Bank's independence and its conduct of monetary policy from mid-1955 to mid-1961. Chapter III will be concerned with providing an understanding of Governor Coyne's economic views and policy proposals, while Chapter IV will outline the views of Coyne's critics with regard to the alleged weaknesses in his economic reasoning and policy proposals. Chapter V will examine and assess the aftermath of the Coyne Affair, particularly as it related to the Bank of Canada's relationship with the Government after mid-1961; its effects on the Canadian economy; the implications of some of Governor Coyne's "specific" policy proposals aimed at solving Canada's economic problems. A summary and conclusion will complete the thesis.

CHAPTER I

THE COYNE AFFAIR

1. Nature and Significance

The Coyne Affair per se can be defined as the series of events centered around the position of Governor of the Bank of Canada which took place from May 30, 1961 to July 13 of the same year. The events were initiated by a request from the Honourable Donald M. Fleming, then Minister of Finance in the Diefenbaker Government, for the resignation of Mr. James E. Coyne, incumbent Governor of the Bank of Canada. A series of violent charges and countercharges, in the form of verbal and written statements, ensued and finally led to Mr. Coyne's resignation from office.

More precisely, the Coyne Affair was concerned with the serious divergence of opinion between the Governor of the Bank and the Minister of Finance as to who had the ultimate responsibility for monetary policy in Canada, the Bank of Canada or the Government. In addition to the basic issue of responsibility, the Governor of the Bank and the Minister of Finance did not agree on the relative priority to be given to Canada's economic objectives. Consequently, this situation led to a conflict of opinion as to the appropriate policies to be undertaken by the Bank of Canada.

Around these points revolved a number of other issues which, while secondary to the basic conflict, were still very important and closely linked to the dispute. A first issue touched on the question of whether it was appropriate for the head of a central bank to disagree publicly with Government economic policies, as Mr. Coyne had done in speeches across Canada, from late 1959 to mid-1961.

A second issue was whether a Bank Governor in complete disagreement with government policy was morally obliged to resign from office before the end of his mandate. As will be seen in Section 2 of this Chapter, Governor Coyne did not think so, under the circumstances which prevailed at the time.

As a corollary to this issue, the affair raised the point of the course of legal, political or other action available to a government confronted with the refusal of a senior public servant when in basic disagreement with government policy to resign from office. In the case of the Governor of the Bank of Canada in mid-1961, were the steps taken by the government for his removal from office in line with the conditions of tenure of the position of Governor, as specified in the Bank of Canada Act, that is, "during good behaviour?"¹ These were some of the secondary issues

¹Canada, An Act to Incorporate the Bank of Canada, Chapter 13 (8) (5) (Ottawa: Queen's Printer, 1952), p. 190.

engendered by the Coyne Affair.

Because it is almost impossible to separate the position of Governor from that of the institution of which he is head, it can be said that the Coyne Affair involved directly the Bank of Canada and touched on its role as "an independent body carrying out national policy in the public interest."² Also, the Government of Canada and, particularly the Department of Finance, through the person of the Minister of Finance, became directly involved because of the latter's role in coordinating Canadian monetary, fiscal, and debt management policies.

Furthermore, the Coyne Affair was of great interest to the Parliament of Canada. Members of both the House of Commons and the Senate of Canada, undoubtedly because of the political implications, were keenly interested in the affair.

In considering further the involvements in the Coyne Affair, one cannot overlook the academic economists who, led by H. S. Gordon, were no doubt the most staunch critics of the Bank's conduct of monetary policy as well as of Mr. Coyne's economic views and policy proposals. Late in 1960, in view of their loss of confidence in the ability of the

²Canada, The Report of the Royal Commission on Banking and Currency (Ottawa: King's Printer, 1933), paragraphs 207 and 219.

Bank of Canada under Mr. Coyne's management to play its proper role in resolving the serious economic difficulties then facing Canada, the academic economists, in a letter addressed to the Minister of Finance, urged Mr. Fleming to take whatever action might be necessary to change the management of the Bank of Canada.

The Coyne Affair also involved Canada and its people, because the future of the country and the welfare of the Canadian people depended upon the proper functioning of its public institutions, the Bank of Canada being one of the most important.

In summary, the Coyne Affair was the single most disturbing episode in the short history of the Bank of Canada. As the public dispute between the Governor and the Minister of Finance developed, it became evident that a major effort would be necessary to restore the prestige surrounding the position of Governor of the Bank of Canada and for the Bank to regain its effectiveness. A clarification of the concept of the relation between the Bank of Canada and the Government also became imperative. Failing this, the stage would be set for the appearance of awkwardness and uncertainty in the Bank of Canada's conduct of monetary policy, and Canada's attempt to achieve its economic objectives in the future would be thwarted.

Before a consideration of the possible causes contributing to this turn of events, an outline of the unfolding of the events as they occurred and of the charges and countercharges between May 30 and July 13, 1961, will be recalled. This will be the purpose of the second part of this Chapter.

2. Charges and Countercharges

The whole series of charges and countercharges began on May 30, 1961, when the Minister of Finance, Mr. D. M. Fleming, at a meeting attended by the Deputy Minister of Finance, Mr. Kenneth Taylor, and the Governor of the Bank, Mr. Coyne, informed the latter that the Cabinet would turn down any recommendation put forward by the Board of Directors of the Bank for his reappointment to a second term as Governor of the Bank of Canada.³ Furthermore, the Finance Minister requested Coyne to submit his resignation in time for the Board of Directors' meeting scheduled for June 12 and 13, in Quebec City, some six and one half months before the expiry of his seven-year term of office.

The main reason given by Mr. Fleming as to why the Government would not approve Mr. Coyne's reappointment to a new term of office lay in the fact that statements in public speeches delivered by the Governor across Canada, from late 1959 to mid-1961, had turned out to be embarrassing to the Government and were being used by its opponents in Parliament and elsewhere for political purposes.

³The developments of this encounter were related by Mr. Coyne in one of three letters to Mr. Fleming dated June 9, 1961 and released on June 13, 1961. On June 14, 1961, in a statement before the House of Commons, Mr. Fleming also related this encounter. See Canada, House of Commons Debates, 4th Session, 24th Parliament, Vol. VI (Ottawa: Queen's Printer), 6314-6316.

The reason for Mr. Fleming's request for the Governor's immediate resignation was, first, that it would be undesirable for the latter to be holding office as Governor for the next seven months, knowing that he was not to be reappointed. The second reason offered was that, in the words of the Minister of Finance, "Mr. Coyne's continuation in office as Governor of the Bank of Canada would stand in the way of the implementation of a comprehensive, sound and responsible economic programme designed to raise the levels of employment and production in Canada."⁴ Thirdly, in the course of the discussions of May 30th, questions were raised regarding the action taken by the Board of Directors of the Bank, between 1955 and 1960, to amend the Bank's Pension Fund By-law, and particularly those provisions which affected the pension of the Governor and the Deputy Governor. Mr. Fleming later charged in this regard: "The Government considers that the Governor was lacking in a sense of responsibility in keeping with his high office, in accepting an additional benefit worth \$13,000 per annum for life, without ensuring that the matter was brought to the attention of the Government."⁵ There was also the question of whether these amendments to the Pension Fund By-law should have been published in the Canada Gazette within thirty days of their

⁴Ibid.

⁵Ibid.

date of enactment. Lastly, during the encounter of May 30, Mr. Fleming cited, in support of his request for Governor Coyne's resignation, the fact that senior officials of several chartered banks were against the policy introduced by the Bank of Canada in November 1956, whereby the Bank rate was set every week. It was also briefly mentioned that several bankers, in their annual reports, had mentioned that they could not get sufficient indication from the Bank of Canada as to the orientation of monetary policy.

Mr. Coyne was apparently taken by surprise by the nature of these charges and considered it best to reconsider the request for his resignation. On June 9, he wrote three confidential letters to Mr. Fleming. These letters served to answer the charges laid on May 30th and indicated that he would refuse to resign as Governor. The following excerpts from Coyne's letters reveal the nature of his answers. A full text of all three letters is contained in Appendix I of this thesis.

Referring to statements which he had made in public speeches, Mr. Coyne countered: "You (Mr. Fleming) first spoke to me about this matter on March 18 last and I have not made any speeches since... I told you I had no further speeches scheduled ... but that of course I saw nothing improper in the making of speeches or in anything that

I had said."⁶

Answering the charge that the Cabinet would not approve a recommendation for his reappointment, he wrote:

The proper procedure would have been to discuss the matter with the Board of Directors, since, under the Statute, it is they, not the Government, who have the duty of forming a conclusion in the first instance as to whom they wish to appoint as Governor, and ascertaining whether the Government approved.⁷

To Mr. Fleming's request that he should resign without waiting for the expiry of his present term, he noted: "I see no difficulty in the Board of Directors, if they see fit, making an appointment of my successor with the approval of the Governor-in-Council to take office in due course and with some period of overlap."⁸

Replying to the charge that the Government had been contemplating certain programmes which it thought the Governor would be bound to disagree with, Mr. Coyne wrote that two Directors of the Bank, like himself, learning of this charge, did not know what this meant. He continued, "The Bank has in fact always co-operated fully with respect to government policies and measures."⁹

⁶J. E. Coyne, Letter to the Hon. D. M. Fleming, Minister of Finance (Ottawa: June 9, 1961), p. 1 (hereafter cited as Letter "A").

⁷Ibid.

⁸Ibid., p. 2.

⁹Ibid., p. 3.

Concerning the matter of amendments to the Pension Fund By-law, Mr. Coyne stated that an opinion was given by the Deputy Minister of Justice to the effect that approval by the Governor-in-Council was not required. Coyne further wrote: "The Board certainly acted in good faith in the belief that they had the power and the sole responsibility in this matter."¹⁰ Also, in this letter B, Governor Coyne wrote that a lengthy account of the history of the discussions and the actions taken by the Board of Directors concerning amendments to the Pension Fund By-law had been sent to Mr. Fleming on April 7, 1961, by the Chairman of the Special Committee of the Board. According to Coyne, Mr. Fleming had persisted in concealing this document. On this same issue, Coyne concluded that there was nothing in the Bank of Canada Act to the effect that amendments to the Pension Fund By-law should have been published in the Canada Gazette within thirty days.

In the third letter of June 9 (Letter C), Mr. Coyne accused Finance Minister Fleming of having on a number of occasions denied any responsibility of himself or of the Government for monetary policy in Canada, on the grounds that under the present Bank of Canada Act the sole

¹⁰Bank of Canada, Letter from Mr. J. E. Coyne to the Hon. D. M. Fleming, Minister of Finance (Ottawa, June 9, 1961), p. 1. (hereafter cited as Letter "B").

responsibility for such policy rested with the Bank of Canada.

The nature of Governor Coyne's answers to Finance Minister Fleming's charges of May 30 set the tone for the Bank's Board of Directors' meetings held on June 12 and 13. During these meetings, it appears that no new arguments were advanced as to why Coyne should resign. Nevertheless, on June 13, the Directors brought forward a resolution, the text of which had in effect been discussed with Mr. Fleming on the 12th of June. The text of the resolution read as follows:

Resolved that it is in the best interests of the Bank of Canada that the Governor do immediately tender his resignation to the Board of Directors of the Bank, and further that this action and decision on the part of the Board has been taken after prolonged consideration and with regret.¹¹

All the Directors present voted in favour of the motion, with the exception of Mr. George Crosbie of Newfoundland. Mr. Coyne then immediately adjourned the meeting. He issued a press statement to his Ottawa office, in which he described Mr. Fleming's accusations of May 30 as "slander upon my own integrity... I cannot and will not resign quietly under such circumstances."¹²

¹¹Canada, House of Commons Debates, Vol. VI (Ottawa: Queen's Printer, June 14, 1961), p. 6315.

¹²J. E. Coyne, Press release (Ottawa, June 13, 1961), p. 2.

On June 14, Mr. Fleming, pressured by the Opposition, presented his views on the matter before the House of Commons. In his statement, the Finance Minister criticized Governor Coyne's series of public declarations of policy on issues "quite outside the realm of central banking and the rigid and doctrinaire expression of his views often and openly incompatible with Government policy."¹³ The Government's policies, according to Mr. Fleming, were expansionist in that they were aimed at the creation of more trade, more production and employment; the policies advocated by Mr. Coyne were restrictionist, restrictive of trade, production and employment. He also informed the House that Governor Coyne had not been told of the forthcoming budget and therefore had no right to express views about it. He continued: "In my last two budgets and in various other public statements, it has been clear for some time that there have been major differences of opinion with the frequently expressed views of the Governor on economic matters."¹⁴ Furthermore, he stated that Coyne had lost the confidence of the Board of Directors of the Bank of Canada and of the Government and that by refusing to resign Coyne had disregarded a request from the Government and defied the formally expressed wish

¹³Canada, House of Commons Debates, Vol. VI (Ottawa: June 14, 1961), p. 6314.

¹⁴Ibid., p. 6315.

of the Board that he should resign immediately in the best interests of the Bank. The Finance Minister also charged that Mr. Coyne, in issuing a press release prepared before the Board had reached its decision on June 13, had left the public with the false impression that the only request for his resignation had come from the Government. In closing, he announced that the Government would shortly invite Parliament to take appropriate legislative action to meet the needs of the situation.

On June 19, Mr. Coyne made public a confidential memorandum which he had written to the Minister of Finance on February 15, 1961. This twenty-four page paper was entitled The Requirements of Economic Policy To-day, and its object was to assist in developing a programme of full employment and renewed economic growth. In releasing this memorandum, Coyne wanted to prove that the economic policies which he had advocated had not been restrictionist, restrictive of trade, production and employment. According to Coyne, Mr. Fleming had refused to discuss with him the contents of this memorandum.

The next day, while delivering his budget speech, Mr. Fleming expounded at length on the relations between the Government and the Bank of Canada. In his exposé, he mentioned that Governor Coyne clearly disagreed with the four foundation stones of the budget which his Government

had just presented. (These four points are outlined in Chapter IV).

Three days later, still faced with Mr. Coyne's refusal to resign, Mr. Fleming introduced Bill C-114 before the House of Commons. Its one clause read:

The office of the Governor of the Bank of Canada shall be deemed to have become vacant immediately upon the coming into force of this act.¹⁵

A few days following the introduction of Bill C-114 in the Lower House of Parliament, Governor Coyne wrote another letter to Finance Minister Fleming, bringing forth his most serious counter-charges. In it, he mentioned that the Government, through the Minister of Finance, had denied him the opportunity of defending his actions before a Committee of the House of Commons. He wrote: "It is inconceivable that the Governor of the Bank of Canada should resign and thereby default in performance of the public trust specially laid upon him by Parliament -- not by the Government -- merely because the Government of the day asks him to."¹⁶ He also wrote:

The terms of Bill C-114 make it clear that you, Mr. Fleming, and the Government are still not prepared to accept a broad and ultimate responsibility for monetary policy, but merely want to have the

¹⁵Canada, House of Commons Debates, Vol. VII (Ottawa: Queen's Printer, June 23, 1961), p. 6934.

¹⁶J. E. Coyne, Letter to the Hon. D. M. Fleming, Minister of Finance (Ottawa, June 26, 1961), p. 6.

power to change the Governor at a time when it suits your political purposes to do so.¹⁷

He continued by noting that the haste and suddenness in demanding his resignation suggested that the present Government had a plan to call a snap election and thus compel the Bank of Canada, under a new Governor of their own choosing, to assist them in financing expenditures and programmes not authorized by Parliament. He then accused the Government of manipulating the Board of Directors, dismissing members as their terms expired and appointing new ones to replace them. Finally, Governor Coyne requested that all the charges which had been laid be reviewed by a Parliamentary Committee where, in his words: "I can be given a fair opportunity to be heard and where they could be submitted to the judgment of public opinion."¹⁸ This request and the whole matter surrounding the Coyne Affair were vehemently debated before the House of Commons on June 26, July 4 and 5.

On July 6, Governor Coyne issued a press statement and also released information with regard to the liquidity reserves ratio events of 1956-1957. (This topic will be considered in the next section). In the press release, referring to the request for his resignation, the Governor accused Mr. Diefenbaker, then Canadian Prime Minister,

¹⁷Ibid., p. 1.

¹⁸Ibid., p. 5.

of being the "evil genius behind the whole matter."¹⁹

On July 7, Bill C-114, entitled An Act Respecting the Bank of Canada, was read for a third time in the House of Commons and passed by a vote of 129 to 37. The next day it appeared before the Senate of Canada for its ratification. A motion was adopted to the effect that the Bill be referred to the Standing Committee on Banking and Commerce and that Mr. Coyne be called as a witness. As a consequence, Mr. Coyne was given his "day in court".

The proceedings before the Senate Committee began on July 10, Mr. Coyne appearing as the sole witness. The Committee held seven sessions over a period of three days. During that time, Coyne presented evidence and answered the charges which had been levied against him with respect to his behavior as Governor of the Bank of Canada.

On July 12, 1961, he climaxed his presentation with the following statement:

Honourable Senators... do you find the defendant guilty of misbehavior in relation to his office, justifying the decision of the Government to procure his resignation or forcible removal or do you find him not guilty?

.....
A verdict of not guilty will not prevent my immediate departure from office, but it will permit me to retire honourably and hold up my head among my fellow citizens as one whom this body of honourable Senators of Canada declared to be a man of honour

¹⁹Bank of Canada, Press Statement of J. E. Coyne, Governor, Ottawa, July 6, 1961.

and integrity, devoted to the best interests of the Bank of Canada and to the general welfare. That can only be said if this bill is defeated.²⁰

On the next day, the Committee of the Senate, by a vote of sixteen to six, adopted a motion to the effect that the Governor had not misconducted himself in office. Mr. Coyne then issued his resignation, effective at five-thirty p.m. the same day. On July 14, 1961, the full Senate, by a vote of thirty-three to sixteen, confirmed the Senate Committee's "not guilty" verdict. On July 24, the Board of Directors of the Bank of Canada announced the appointment of Mr. Louis Rasminsky as the new Governor to succeed Mr. Coyne. The Coyne Affair had ended.

3. Causes

In retrospect it is clear that the Coyne Affair did not originate in a vacuum. As Senator Brooks rightly pointed out in the debate which followed Mr. Coyne's presentation before the Senate: "There has been a great gulf created between the Bank of Canada, under the Governorship of the Governor of the Bank of Canada, and the Government of Canada. And it is not something that has come up only since May 30.

²⁰Canada, Senate Proceedings of the Standing Committee on Banking and Commerce, No. 3 (Ottawa: July 13, 1961), p. 206.

This has been accumulating over the past number of years."²¹ With this point in mind, the possible causes of this episode will be considered.

In an attempt to delve into the possible reasons for the turn of events such as that surrounding the Coyne Affair it seems appropriate, at the outset, to examine the prevailing political and economic conditions of the time.

From the political side, the Conservative Party, under the leadership of the Honourable J. G. Diefenbaker, had gained power in 1957, although only as a minority government. However, in an election the following year, the Conservatives obtained the largest majority ever in Canada, winning 208 of the then 265 House of Commons seats. It should be pointed out, however, that senior public servants had become accustomed to working with a Liberal Government, since the Conservatives had been out of office for over twenty years. Because most senior public officials retained their jobs when the Conservatives came to power, it can be assumed that a natural climate of apprehension and mistrust existed between these officials and the new government. It appears that this climate was manifested in the relationship between the Bank of Canada's senior officials and the Cabinet Minister, especially the Minister of Finance.

²¹Ibid., p. 226.

Furthermore, by 1961, the popularity of the Tories had decreased tremendously, largely as a result of deteriorating economic conditions. A statistical profile of general economic conditions in Canada reveals that at the end of 1960 and in early 1961, Canada was experiencing its worse decline in economic activity since the years of the Depression, the trough of the business cycle coming in March of 1961. In 1960, the gross national product in current dollars had risen by only 3.2 per cent over 1959 and only 2.5 per cent in constant (1957) dollars. Unemployment in the last quarter of 1960 had achieved a seasonally adjusted rate of nearly 8 per cent of the total labour force. The index of industrial production had advanced only 3.8 points in 1960. Total private and public investments were 1.9 per cent below the level of 1959, with residential construction down by some \$263 million. The Canadian net balance of international indebtedness stood at \$16.6 billion as opposed to \$15.3 billion in 1959.

In the face of such adverse economic conditions, the Minister of Finance espoused a policy of monetary ease to remedy the situation, while Mr. Coyne, on the other hand, was advocating a policy of restraint. Needless to say a policy of restraint was not seen with great enthusiasm in Government ranks, especially since persistent rumors of a

forthcoming general election were being circulated across the country at the time.

Thus, it can be advanced that as a result of the interplay of political and economic forces, conditions were ripe for a clash to develop between the Governor of the Bank and the Minister of Finance. The outcome of the events, however, should not be attributed solely to political and economic conditions. Other factors contributed to the Coyne Affair and for purpose of clarity a distinction will be made between possible distant and proximate causes.

Distant Causes

The term distant causes is taken to mean the various facts, events and circumstances which contributed indirectly to the events of mid-1961. In the light of this definition, the first cause and possibly the most important one can be found in that piece of legislation governing the Bank of Canada, the Bank of Canada Act.²² As of mid-1961, this Act omitted any reference to the precise relationship between the Bank of Canada and the Government. This fact led to vast uncertainty with regard to the ultimate responsibility for monetary policy in Canada. As will be seen in Chapter II, Section 1, the official interpretation of the concept of an

²²Canada, An Act to Incorporate the Bank of Canada, Chapter 13 (Ottawa: Queen's Printer, 1952), pp. 187 to 208.

ideal relation between the Bank of Canada and the Government changed significantly from 1934 and mid-1961. It was not until 1967 that a precise outline of the relation between the Bank of Canada and the Government became legally incorporated in the Bank of Canada Act.

A second distant cause for the turn of events can be explained by the apparent lack of worthwhile communication between Mr. Coyne and Mr. Fleming. This problem stemmed possibly from their conflicting personalities and possibly also, as mentioned earlier, from mutual apprehension and mistrust. The weak line of communication between the two appeared to originate also in their different understanding of Canada's economic problems and solutions to them. Various events during Mr. Coyne's first five years in office brought to the fore their disagreement on economic matters and led to a strained and difficult relationship.

One of these came in November 1957, when the Governor stated his disagreement over the Minister of Finance's suggestion that the chartered banks' agreed minimum liquid assets ratio be reduced from fifteen to thirteen per cent. Fleming's contention was that this action would stimulate an increase in bank loans and particularly loans to small businesses by encouraging the chartered banks to reduce their holdings of Treasury bills and other liquid assets. Coyne vehemently opposed this suggestion and in two letters

addressed to Mr. Fleming on November 19 and December 5, 1957, he stated his refusal to adhere to Mr. Fleming's idea, saying: "I do not think such a position would be sound and I do not think you (Mr. Fleming) should expect me to sponsor a proposal which I cannot in good conscience agree with."²³ The incident died out, but Mr. Fleming, during the heat of the Coyne Affair, stated with respect to the event that the Government's relationship with the Governor of the Bank of Canada, in regard to monetary policy and monetary operations, had been set within the framework of the position which the Governor took in November, 1957.²⁴

A third point of importance, which undoubtedly led indirectly to the request for Mr. Coyne's resignation, was the large and important debt management operation known as the Conversion Loan of July-September 1958. The Canadian fiscal authorities had decided that, in order to clear away the substantial number of Victory Bonds which were approaching maturity and also to restore confidence in Government bonds, Victory Bonds totalling over \$6.4 billion should be converted into longer term issues. Mr. Coyne was one of the main architects behind this operation, which lengthened

²³J. E. Coyne, Letter to the Hon. D. M. Fleming, Minister of Finance (Ottawa, December 5, 1957), p. 2.

²⁴Canada, House of Commons Debates, 4th Session, 24th Parliament (Ottawa: Queen's Printer, June 26, 1961), p. 7040.

the maturity date of over \$5.8 billion of Victory Bonds (45 per cent of the then outstanding marketable debt), coming due from 1959 to 1966. The operation extended the average maturity of the public's holdings by almost seven years, that is, to fourteen and three-quarters years. To achieve this end, the terms were made extremely attractive and the operation was presented as a patriotic endeavour. Moreover, the prices of Victory Bond issues were raised and fixed so that throughout the operation, the Bank of Canada had to support bond prices in the face of a rapid upward adjustment of interest rates in the United States. When market support was withdrawn, market prices fell and rates increased. As a result, credit conditions tightened considerably in Canada.

Although the operation was a large success as far as lengthening the maturity of the debt was concerned, its wisdom was questioned by many, in view of the fact that it revealed fundamental conflicts in economic policy. For example, a large budgetary deficit of \$1.4 billion had been announced in June 1958 to combat recessionary tendencies in the economy. Thus the Conversion Loan operation defeated the government's fiscal policy objectives. An hypothesis as to the reason for Mr. Coyne's full support of the operation was formulated by D. H. Fullerton.²⁵ He wrote that

²⁵D. H. Fullerton, The Bond Market in Canada (Toronto: Carswell, 1962), p. 247.

Governor Coyne strongly disapproved of the size of the budget deficit and decided to push the Conversion Loan as a countervailing technique, in order to ensure that the economy did not pick up steam too rapidly, as it had from 1955 to 1957. It can thus be concluded that the events of mid-1961 suggest that the long shadow of the Conversion Loan was present, although unacknowledged.

A fourth distant cause to the affair lay in the fact that the financial community and some Canadian academic economists had gradually lost confidence in the Bank of Canada's policies and leadership. During Mr. Coyne's term of office, it appears that there were no regular consultations between the Bank of Canada and the financial community, for example, with the chartered banks, in order to explain the Bank's broad aims and policies. Furthermore, Mr. Coyne was accused by two economists, H. S. Gordon and L. M. Read²⁶ of having twisted the money supply figures in the Bank's Annual Report for 1957, so as to give the impression that a tight money policy never existed from mid-1955 to mid-1957, when in fact the Bank of Canada had pursued such a policy.

²⁶H. S. Gordon and L. M. Read, "The Political Economics of the Bank of Canada," Canadian Journal of Economics and Political Science, Vol. 24, No. 4 (November 1958), pp. 465-482.

Proximate Causes

It can be said that although the above-mentioned distant causes contributed indirectly to the Coyne Affair, the real genesis of the affair appeared to lay in the following two proximate causes: the public speeches made by Mr. Coyne, and the letter from the academic economists requesting Governor Coyne's dismissal.

Public speeches

The already uneasy relationship between the Diefenbaker Government and the Bank of Canada was aggravated in the fall of 1959, when Mr. Coyne launched a series of precedent-shattering public speeches in which he became an exceedingly vocal critic of the Canadian economy. From November 16, 1959 to March 17, 1961, the Governor delivered some twelve speeches across Canada. His main theme was that Canada had been living beyond its means, living by the proceeds of foreign capital. The reasons given by Mr. Coyne for making these speeches were as follows:

- (a) to encourage greater public information and public discussion of sound monetary policies;
- (b) to point out how monetary policy was affected by activities in other fields of economic policy;
- (c) to point to the growing danger to the Canadian economy and to the maintenance of sound money that lay in the continuation of very large deficits in

- our balance of payments and in the growing domination by foreign corporations;
- (d) to emphasize that monetary policy could not do the whole job alone;
 - (e) to bring prominently before public opinion the fact that unemployment, in general, was not likely to be overcome merely by the use of monetary policy;
 - (f) to encourage widespread discussion about the economic problems then facing Canada.

As will be seen in Chapter IV, Coyne's views and proposals put forward in these speeches created a series of mixed reactions from various groups, for example, the academic economists, the press, etc. Most important, these speeches had become embarrassing to the Government, whose prime objective then was to eliminate recessionary tendencies in the economy and no doubt, Coyne's views and proposals on economic matters contained therein, led to the Finance Minister's request for the Governor's resignation on May 30, 1961.

The Academic Economists

The second major factor contributing directly to the Coyne Affair was a letter, sponsored by Professor H. S. Gordon, which was circulated to Canadian University economists in December 1960. It was addressed to the Minister

of Finance and urged him to take whatever action might be necessary for the dismissal of Mr. Coyne. The text of this letter is contained in Appendix II. The issue would possibly have remained unnoticed by the public if it had not been for a leak of the letter to the press and the subsequent wide publication of its content, even before many economists had received it. Originally the letter had been signed by ten economists from Carleton University and the University of Toronto. Despite the fact that it had been made public, twenty-nine economists representing nine Canadian Universities signed the letter which was then forwarded to the Minister of Finance.

Professor Gordon pointed out in the Preface of a book entitled The Economists Versus the Bank of Canada,²⁷ that these academic economists protested only because they believed that the seriousness of the situation demanded it. These economists had defied tradition by not attacking the policy itself, because as they said "we believed, and we had powerful reasons for believing, that the present Governor is an independent source of economic difficulty and instability in Canada."²⁸ The Minister of Finance simply

²⁷H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. vii.

²⁸Ibid., p. viii.

acknowledged the letter, but no doubt this letter influenced his decision to request Coyne's resignation on May 30, 1961.

In the foregoing pages, an attempt has been made to outline objectively the elements constituting and contributing to the Coyne Affair. The next three chapters will be devoted to the search for a deeper understanding of the elements leading to the events of mid-1961. The first of these will be concerned with an investigation of the role of the Bank of Canada in the years preceding the affair.

CHAPTER II

THE BANK OF CANADA IN THE YEARS PRECEDING THE COYNE AFFAIR

In the process of formulating and implementing public policy in Canada, the Bank of Canada, established in 1934, is one of the country's most important institutions. Its role is stated generally in the Preamble of the Bank of Canada Act, which reads:

Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influences fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion.¹

During the period extending from July 3, 1934, when the Bank of Canada Act was passed, to mid-1961, when the Coyne Affair erupted, the constitutional position of the Bank of Canada changed considerably. Furthermore, the role of the Bank in the sphere of economic policy evolved significantly. After World War II, the Bank became more and more concerned with the way in which monetary policy was combined with other economic policies in the attempt to attain the

¹Canada, An Act to Incorporate the Bank of Canada (Ottawa: Queen's Printer, 1952), p. 187.

broad economic objectives of the community. This new emphasis, as explained by Governor L. Rasminsky a few years ago, arose,

In part out of the continued accumulation of central banking experience. In part it results from developments in economic thinking and knowledge. ... For the most part, however, it reflects the greatly increased responsibility that has been assumed by the governments of most countries, ... for the attainment of specific economic goals, and in particular for the maintenance of high levels of employment and rising standards of living of all sections of the population.²

However, during Mr. Coyne's governorship, the Bank of Canada came under severe criticism for the manner in which it employed monetary policy as a stabilization technique. In addition, the Bank's autonomy and the authority of its management were strongly challenged.

Thus, in order to have a better understanding of the events of mid-1961 and before a consideration of Governor Coyne's economic reasoning and policy proposals, it seems appropriate to examine (1) the constitutional position of the Bank of Canada from 1934 to mid-1961, (2) the criticisms levied at the Bank's independence and (3) the criticisms directed at the Bank's monetary policy from mid-1955 to mid-1961.

²L. Rasminsky, "The Role of the Central Banker Today," The Canadian Banker, Vol. 74, No. 1 (Spring 1967), p. 31.

1. The Constitutional Position of the Bank
of Canada from 1934 to mid-1961

The constitutional position or status of the Bank of Canada is understood to signify the system of fundamental rules and principles governing the Bank of Canada, as it affects its relationship with the government. As mentioned in Chapter I, Section 3, the original Bank of Canada Act omitted any formal reference to the exact relationship between the Bank of Canada and the government. It will become evident, however, that the official interpretation of this relationship changed significantly between 1934 and mid-1961.

A discussion of the relationship between the Bank of Canada and the government during the twenty-seven years from 1934 to mid-1961 focuses on two distinct periods: (a) the period mid-1934 - mid-1955; that is, from the creation of the Bank of Canada to the emergence of "tight money" in mid-1955; (b) the period mid-1955 to mid-1961; more precisely, to the appointment of Mr. L. Rasminsky as Governor of the Bank on July 24, 1961. The first period will be discussed very briefly, as the question of the constitutional position of the Bank of Canada has been considered at length in various articles and textbooks.³ The second period, however, because

³In this regard, see E. P. Neufeld, Bank of Canada Operations and Policy (University of Toronto Press, 1958), pp. 3 to 20; also H. S. Gordon, "The Bank of Canada in a System of Responsible Government," The Canadian Journal of

of its relevancy in examining the elements constituting the Coyne Affair, will be analysed in greater detail.

Period mid-1934 to mid-1955

Following a recommendation of the Report of the (Macmillan) Royal Commission on Banking and Currency (1933), the Bank of Canada was created in 1934 and was originally thought of as being subject only to the ultimate sovereignty of Parliament and thus "free from the fear of interference for political ends in operating the delicate mechanism of the national monetary and financial machine."⁴ Central bank policy was regarded as being "national policy in the sense that it was not dictated by the government of the day or by financial interests but rather was formed by directors from

Economic and Political Science, Vol. 27, No. 1 (February, 1961), pp. 1-22. The former distinguishes between three periods in the evolution of the constitutional position of the Bank of Canada up to 1956: (a) period mid-1933 - late 1935, which he termed "Attempt at Independence," (b) late 1935 to the Bank of Canada Act amendments in mid-1936, known as the period of "Effective Government Control" and (c) the period mid-1936 to 1956 "The Clarification of the Concept." H. S. Gordon's discussion of the same topic, but from 1934 to 1961, distinguished between two periods, demarcated by the emergence of tight money, about the middle of 1955. Also, the recently published textbook by G. F. Boreham, et al, Money and Banking, Analysis and Policy in a Canadian Context (Toronto: Holt, Rinehart and Winston, 1969), pp. 212-222, discusses the changing relations between the Bank of Canada and the government from 1934 to 1967, as well as the relationship between the Central Bank and the government in other countries.

⁴Canada, The Report of the Royal Commission on Banking and Currency (Ottawa: King's Printer, 1933), paragraph 219.

various other occupations and concurred in by the government-approved Governor."⁵

The above constitutional position did not last long, since under a new Liberal government, the Bank of Canada Act was amended in 1936 and again in 1938, giving effect to a more direct role of the government in central banking. As a result, the monetary policies which the central bank decided to adopt were intended to be in harmony with the views of the government of the day.

In 1941, Mr. Ilsley, then Minister of Finance, in a lengthy statement to the House of Commons⁶ asserted clearly and without equivocation the doctrine that the central bank's policy was subservient to that of the government and that a bank management that was unwilling to carry out the government's policy would be expected to resign. Mr. Abbott, the next Minister of Finance, was in complete agreement with this position.

In 1954, the Governor of the Bank, Mr. G. Towers, presenting evidence before the House of Commons Banking and Commerce Committee, also agreed with this official interpretation of responsibility when he stated before the Committee

⁵E. P. Neufeld, Bank of Canada Operations and Policy (University of Toronto Press, 1958), p. 8.

⁶Canada, House of Commons Debates, Section 4 (Ottawa: Queen's Printer, 1941), p. 3936.

that "the Bank's monetary policy was the policy of the Government and that if the management of the Bank disagreed seriously with the Government's policy and was unwilling to implement it, then there would have to be a change in the management."⁷ However, the precise stage at which a governor would be expected to resign in the case of a major disagreement was uncertain. Nevertheless, it was broadly the consensus of opinion that the ultimate responsibility for overall monetary policy was the government's alone, but that the execution of it should be left to the Bank's management. This interpretation, however, did not stand the test of time.

Period mid-1955 to mid-1961

In December 1954, Mr. J. E. Coyne became the second governor of the Bank of Canada. In May 1956, appearing as a witness before the House of Commons Standing Committee on Banking and Commerce, Mr. Coyne essentially reiterated his predecessor's statement on the concept of the constitutional position of the Bank. He stated:

Mr. Towers did point out, of course, as anyone must, that if the government of the day were sufficiently displeased with the bank or the management of the bank, they could put in motion steps which would bring a change in the management. At some stage in that process, if the government were so determined

⁷Canada, House of Commons, Standing Committee on Banking and Commerce, No. 16 (Ottawa: March 30, 1954), p. 883.

as to make a real issue of it, a public issue presumably, the governor would have to resign.⁸

Mr. Coyne, however, seemed to disagree with Mr. Towers on the matter of government responsibility for monetary policy. He stated:

I do not think it follows ... that because the government can bring about the removal of the governor of the bank therefore the governor of the bank must do whatever the government wants him to do. ... The bank is not in the position of daily receiving instructions or indeed receiving instructions at all from the government in those matters which by statute are assigned to the responsibility of the management of the bank...⁹

From this statement, Mr. Coyne seemed to imply that the Bank of Canada was autonomous in formulating and implementing monetary policy.

In 1956, Mr. W. E. Harris, the Liberal Minister of Finance, disclaimed any responsibility for the current restrictive policies of the Bank of Canada manifested in, among other things, the rise in the Bank rate. Supported by Prime Minister L. S. St. Laurent, he suggested that the proper interpretation of the Bank of Canada Act was that it was designed to "vest in the officials of the Bank independent authority."¹⁰ Mr. D. M. Fleming, then financial critic for

⁸Canada, House of Commons, Standing Committee on Banking and Commerce, 3rd Session, 22nd Parliament, No. 10 (Ottawa: May 22, 1956), p. 373.

⁹Ibid.

¹⁰Canada, House of Commons Debates (Ottawa: Queen's Printer, August 10, 1956), p. 7352.

the opposition, vehemently opposed this position and stated that the principles of responsible government were being undermined and threatened by the government's failure to accept responsibility for the Bank of Canada.¹¹

The same Mr. Fleming, after he had become Minister of Finance in 1959, in contrast to his previous position on the concept of responsibility for monetary policy, reversed his stand on the matter and asserted that the Bank of Canada, not the government, was responsible for monetary policy. He thus stated: "I wish to make it quite clear that the government, as such, does not exercise control over the money supply or over the amount of money in circulation."¹² He also dissociated the government from any responsibility for monetary policy by drawing a sharp distinction between monetary policy for which the Bank of Canada was exclusively responsible on the one hand, and debt management policy and fiscal policy for which the government was solely responsible on the other.

This strict division of responsibility between the Bank and the government was apparently acceptable to Mr. Coyne. Before the Canadian Club in Montreal, in 1959, he said: "We thought the best approach was for the Bank of

¹¹Ibid., p. 7457.

¹²Canada, House of Commons Debates (Ottawa: Queen's Printer, Session of 1959), p. 3098.

Canada to exercise its responsibility for money supply ... while the government exercised its responsibility for fiscal policy and public debt policy."¹³

Thus, according to both Mr. Fleming and Mr. Coyne, the Bank was autonomous in the formulation and implementation of monetary policy in Canada. In the early sixties, however, Mr. Fleming seemed to have realized that the demarcation of responsibility was unworkable, as he and Mr. Coyne disagreed about the country's economic objectives. Also, the Bank of Canada and the government were apparently at odds as to the monetary policy which should be conducted.

Although he had maintained during his years in office that in the case of a major disagreement on policy matter, the governor should resign, Mr. Coyne refused to follow this principle when confronted with the request for his resignation in May of 1961. What is more surprising is that during the heat of the Coyne Affair, Mr. Coyne seemed to have radically changed his position on the question of the relation between the Bank and the government. In a letter to the Finance Minister, on June 9, 1961 and released on June 13, 1961, he wrote:

I have expressed the view frequently, and I have no doubt this has been reported to you, that the

¹³J. E. Coyne, Speech delivered at the Meeting of the Canadian Club (Montreal, November 16, 1959), p. 14; see also, Bank of Canada, Press Release, November 16, 1959.

relationship of the Bank to the Government should be clarified and the overriding responsibility for monetary policy declared to rest on the Government (as it always has done in fact) by appropriate provision in the statute.¹⁴

He continued:

I have never myself held or expressed the view that the Bank of Canada is a free-wheeling agency so independent that it can carry on monetary policy contrary to the wishes of the government[,] and support government policy, insofar as action by the Bank of Canada may be relevant.¹⁵

This latter statement was apparently in direct conflict with the Governor's own assertion in 1956, before the Commons Banking and Commerce Committee and again in 1959, before the Canadian Club in Montreal, where he seemed to agree that the Bank of Canada was autonomous in formulating and implementing monetary policy.

The following conclusion of Mr. Coyne's letter bore close resemblance to the clarification of the concept of responsibility enuntiated by Mr. L. Rasminsky, when the latter took over as Governor. It read:

I have long felt that the Bank of Canada Act should contain certain provisions similar to those in the Bank of England Act, Section 4(1) and (2) of which read as follows:

4(1) The Treasury may from time to time give such directives to the Bank as, after

¹⁴J. E. Coyne, Letter to the Hon. D. M. Fleming, Minister of Finance (Ottawa, June 9, 1961), p. 1.

¹⁵Ibid., p. 2.

consultation with the Governor of the Bank, they think necessary in the public interest.

- (2) Subject to any such directives, the affairs of the Bank shall be managed by the Court of Directors in accordance with such provisions (if any) in that behalf as may be contained in any charter of the Bank for the time being in force and any by-laws made thereunder.¹⁶

It is difficult to explain why Mr. Coyne's views on the above matter changed substantially from 1959 to 1961. One explanation is that an exchange of ideas on the matter of the constitutional position of central banks between Governor Coyne and Lord Cobbold, then Governor of the Bank of England, shortly before the Affair erupted, contributed to Coyne's reversing his stand on the matter.

By way of comparison, it should be pointed out that in other countries, the relationship between the central bank and the government "ranged from a position of almost complete independence in normal times to that of a mere bureau of the finance department."¹⁷ A number of central bankers from the Commonwealth and other countries (Canada excluded), presented briefs and gave oral evidence to the British Committee on the Working of the Monetary System (1959) headed by Lord Radcliffe, and all the central bankers stated

¹⁶Ibid., p. 3.

¹⁷G. F. Boreham, et al, Money and Banking, Analysis and Policy in a Canadian Context (Toronto: Holt, Rinehart and Winston, 1969), p. 218.

that their policies were fully integrated with those of their governments and that the government accepted full responsibility for the basic monetary policies of their institutions.

Another possible reason as to why Governor Coyne reversed his position on the matter of the relation between the Bank and the government may be explained by the fact that the Bank of Canada's status of independence and the Bank's monetary policies had come under severe criticism at the end of the fifties and early sixties. Thus Mr. Coyne may have realized that a clear-cut clarification of the concept of responsibility for monetary policy along the lines which he suggested on June 9, 1961, was warranted in order for the Bank to fulfill its role adequately. The next two sections of this chapter will examine these criticisms.

2. Criticisms of the Bank of Canada's Independence

In the changing political and economic environment after 1954, not only the Bank's policies (to be examined in Section 3), but also the question of the Bank's independence came under close scrutiny and became subject to wide criticism. Referring to such criticism, E. P. Neufeld then wrote:

The force and the persistence of the criticism may in part be explained by a coincidence of

events which included a move towards severe monetary restraint, a change of governor at the Bank of Canada, two national elections, and a change in government.¹⁸

One of the most severe critics no doubt was H. S. Gordon, who, in the book entitled The Economists Versus the Bank of Canada, expounded on the special and extraordinary constitutional status which the Bank enjoyed. He pointed out that partly because of the legislation and also to a very large degree because of the denial of the government responsibility for monetary policy made by Mr. W. E. Harris and Mr. D. M. Fleming, both Ministers of Finance, in the second half of the fifties, the Bank of Canada had, in his words, "been cut free from the chain of responsibility that is supposed to bind all governmental functions together in a democratic parliamentary system."¹⁹

He also questioned the Bank's direct responsibility to Parliament on the grounds that Parliament did not have the opportunity to debate the policies of the Bank. The Annual Reports of the Governor of the Bank to the Minister of Finance, although tabled in the House of Commons, were not presented for debate. Furthermore, the Reports were

¹⁸E. P. Neufeld, "The Bank of Canada's Approach to Central Banking," Canadian Journal of Economics and Political Science, Volume 24, No. 3 (August 1958), p. 332.

¹⁹H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 3.

not usually referred to the Standing Committee on Banking and Commerce for discussion. A private member could put forward a bill so that a special debate be held on the above matters, but H. S. Gordon's contention was that this action would be useless when the subject under discussion was not part of government responsibility.

Another point made by H. S. Gordon was that of the Bank's financial independence.²⁰ The Bank, although it received a large revenue each year chiefly from interest on its government bond holdings, did not publish a statement of operating expenditures, and these expenditures were not subject to examination by the Auditor-General. Thus, the operating expenditures of the Bank were not opened to public scrutiny. Professor Gordon concluded that central bank independence was unwarranted as, in his words:

Insufficient pragmatic reasons exist to justify the signal departure from the principle of political responsibility the Bank of Canada represents ... I do not think it can be shown that the preservation of democratic government requires its independence.²¹

Another critic of the Bank's independence was H. G. Johnson. The latter wrote on this subject:

²⁰H. S. Gordon, "The Bank of Canada in a System of Responsible Government," Canadian Journal of Economics and Political Science (February, 1961), Vol. 27, No. 1), p. 11.

²¹Ibid., p. 22.

The recent fracas over monetary policy in Canada suggests that some of the traditions that Canada has taken over from Britain may be inappropriate for the efficient conduct of policy. One of these is clearly the tradition of central bank independence...²²

While H. S. Gordon and H. G. Johnson's criticisms of the Bank's independence seem plausible, especially in view of the current inappropriate monetary policy and also because of the problems plaguing Canada at the time, an equally strong case could be made for preserving some measure of freedom for the Bank within government.

The original Bank of Canada Act would seem to indicate that the intention of Parliament was to set up an independent institution, mainly to avoid political interference. It can also be advanced that an independent central bank is able perhaps to take a further reaching view of monetary policy and is not subject to the same pressures that might develop within government to be responsive to short-term considerations.

There are a variety of views as to the appropriate legal relationship between the central bank and the government. At one extreme, there is the view that the central bank is no more than a technical arm of government, thus requiring no significant degree of independence. At the

²²H. G. Johnson, Canada in a Changing World Economy, Chap. IV (University of Toronto Press, 1962), p. 43.

other, there is the view that a wide separation between the power of the government to spend money and the power to create it is necessary; thus the Bank is completely independent of the government. Between these two extremes, there are a number of possible degrees of independence. Mr. L. Rasminsky, discussing the virtues of preserving a degree of autonomy, at one time stated:

There are important advantages in arrangements under which a central bank has enough independence to insulate the management of its operations from the political side of government and to ensure that the central bank can act as a formidable obstacle to the misuse of the monetary instrument. So far as basic policy is concerned, however, in most countries, it would not be regarded as acceptable for the central bank to be able to thwart the government if the latter is prepared to take a complete responsibility for bringing about a change of monetary policy in a way that causes the issues to be placed before the public in a clear and open manner.²³

As will be considered in Chapter V, the experience of the Bank of Canada since mid-1961, whereby the central bank preserves some measure of autonomy, on the whole seems to have worked out well.

Criticisms of the Authority of the Bank of Canada's Management

Associated with the criticisms of the Bank's independence were those directed at the authority of its

²³L. Rasminsky, "The Role of the Central Banker To-day," The Canadian Banker, Vol. 74, No. 1 (Spring, 1967), p. 35.

management. The responsibility for the affairs of the Bank of Canada rests with a Board of Directors, composed of the Governor as Chairman, the Deputy Governor and twelve directors. The Deputy Minister of Finance or a person delegated by him sits on the Board as an ex officio member and has no voting right.²⁴ Professor Gordon attacked specifically the strong position of the Governor and the Deputy-Governor of the Bank when he suggested that "the Bank's senior officials enjoyed a security of tenure that was second to none in the public service"²⁵ as they held office during good behaviour, and thus could be removed only after a joint address passed by both the House of Commons and the Senate. Consequently, it was very difficult to remove a Governor or a Deputy-Governor from office.

Secondly, on this same matter, Professor Gordon charged that the Governor was free to make his own policy decisions, as "in actual practice, the Board of Directors exerted practically no influence on the management or policies of the Bank. ... The Board of Directors of the Bank operated, then, not as a superior body to which the Bank's

²⁴Further details pertaining to the management of the Bank of Canada are contained in Bank of Canada, Evidence of the Governor Before the Royal Commission on Banking and Finance (Ottawa: May 1964), pp. 90-98 and 113.

²⁵H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 5.

management was subservient but as a buffer between the management and the Minister of Finance."²⁶ He further questioned the right of veto of the Governor, especially on the grounds that it was unlikely that the Board would succeed in passing a resolution that was against the wishes of the Governor, when the Governor was empowered by law to veto that decision. He concluded that it was quite clear that the management of the Bank was "placed in a position of almost unchallengeable power."²⁷

Another academic economist seemed to link the difficulties that Canada had with its central bank in the late fifties and early sixties not only to the excessive authority of its management, but also to the absence of specific economic policy objectives in Canada. He thus reasoned as follows:

It is not enough to select intelligent, responsible and well-trained people and to put them in charge of the central bank's policy operations armed only with general instructions to aim at some vaguely described desirable general objectives. Without concrete specification of the objectives to be aimed at and a clear understanding of the procedures to be followed in achieving them, it is only too easy for the central bank to cover up its mistakes or disguise the fact that it is pursuing other objectives than those intended, and only too

²⁶Ibid., p. 6.

²⁷H. S. Gordon, "The Bank of Canada in a System of Responsible Government," The Canadian Journal of Economics and Political Science, Vol. 27, No. 1 (February, 1961), p. 11.

difficult for outside observers to detect these mistakes or convert changes in objectives.²⁸

These were some of the major criticisms directed at the Bank's management. It could be argued with respect to H. S. Gordon's first charge, that of the tenure of office of the Governor, that although it is a somewhat cumbersome and embarrassing procedure to remove a Governor or a Deputy Governor from office without valid cause, there is no reason why it should be easy for a government to do so. It is assumed, however, that a Governor who found himself in clear and basic disagreement with the views of the government would resign, whether or not a directive were used.

The second charge levied by Professor Gordon concerned the relation between the Governor and the Board of Directors. It is true that the Bank of Canada Act provides that the formulation and conduct of monetary policy is intended to be carried on by the Governor of the Bank, on behalf of the Board of the Bank. However, the Governor of the Bank, in reaching his decisions, knows that he will have to explain and justify the policies which he has followed to this group of men, and the meetings with the directors are frequent enough that the Governor is aware at all times of the general

²⁸H. G. Johnson, Canada in a Changing World Economy, Chapter IV (University of Toronto Press, 1962), p. 42.

thinking of the directors with regard to monetary policy. With respect to the power of veto of the Governor, use of such action would be redundant under any directive system and, since it may at times inhibit Board discussion, the 1964 Royal Commission on Banking and Finance recommended its abolition.²⁹

It is difficult to assess the relations between the Governor and the Board of Directors during Mr. Towers' and Mr. Coyne's governorships. It is certain, however, that the members of the Board had quite frequent opportunities to see the top staff of the Bank in action and form their judgments as to whether they were up to their responsibilities. It is also difficult to assess the relationship between the Governor and the Bank of Canada's senior staff. However, both Mr. Towers and Mr. Coyne must have recognized the need for all the advice they could get from the people associated permanently with the Bank.

While it was true that the position of Governor from 1934 to mid-1961 carried a fair amount of authority, the manner in which it has been used by Mr. Towers and Mr. Coyne was different. For example, Mr. Towers, during his governorship extending from 1934 to the end of 1954, made infrequent

²⁹Canada, The Report of the Royal Commission on Banking and Finance (Ottawa: Queen's Printer, 1966), p. 551.

speeches, and his Annual Reports were extremely limited in scope and confined to the barest minimum of factual material. Under Mr. Coyne, the Annual Reports contained the Governor's opinions on matters of interpretation of public policy as well as a great deal of factual material that was quite valuable for public information and discussion. Also, Coyne, as opposed to Towers, publicly voiced his opinion on economic matters. Regardless of the fact that Governor Coyne's economic reasoning and economic proposals were strongly criticized (to be considered in Chapter IV), it can be argued that public statements from an independent governor with knowledge and wisdom can do a great deal to inform the public and to force attention upon important economic problems.

Thus in general, the criticisms levied at the authority of the Bank of Canada's management toward the end of Governor Coyne's term of office, when assessed objectively are for the most part unjustified, as one must keep in mind that Canada's system of responsible conduct of policy is different from that of the United States, where responsibility for the conduct of the policies of the central banking system or the Federal Reserve System is vested in a Board of Governors instead of in a Governor, acting on behalf of a Board of Directors.

3. Monetary Policy of the Bank of Canada
from mid-1955 to mid-1961:
Under Attack

It can be advanced that criticisms directed at the Bank of Canada's independence in the late fifties and early sixties had their genesis in the monetary policy of the Bank of Canada from mid-1955 to mid-1961.

The term monetary policy is defined as the operations of the central bank affecting the supply, availability and cost of money and credit. The theories concerning how monetary policy should be used, its effectiveness as a stabilization tool, and the conduct of policy itself have undergone some wide changes since the Bank of Canada was formed. Partly because of the Keynesian theory and also because of the belief that monetary policy was almost totally ineffective as a stabilization tool, monetary policy was, in the early years after World War II, virtually unused as a restraining influence to combat the postwar inflation or the exchange difficulties in 1947. However, with the outbreak of the Korean War in June, 1950, and the limits which heavy defence expenditures placed on using fiscal surpluses to combat inflationary pressures, monetary policy began to be employed more actively in Canada for the purpose of over-all economic stabilization and since then has been used in conjunction with other economic policies. However, although there is broad

agreement for the use of monetary policy as an economic stabilizer, there is no general agreement on just how monetary policy should be conducted and also no clear-cut agreement on how effective, efficient, or equitable monetary policy is - either as an anti-recessionary tool or as a restraint against price inflation. A point in case is the period mid-1955 to mid-1961, when monetary policy became the object of wide criticism.

In this section, it is not deemed necessary to examine in detail the monetary policy of the Bank of Canada, as this topic has been developed in various textbooks. Rather it is intended to review and bring together major comments and criticisms enuntiated by some academic economists with regard to the monetary policy of the Bank of Canada from mid-1955 to mid-1961. It should be pointed out that the monetary policy pursued by the Bank during that period can be traced for the most part, to Governor Coyne's economic reasoning and policy proposals, which will be considered in the next chapter.

It seems that one major criticism directed at Bank's conduct of monetary policy during the period mid-1955 to mid-1961 was that it had attached too much weight to the objective of restraining inflation and too little to that of maintaining employment. An attempt at explaining this fact was made by H. H. Binhammer, when he wrote:

During the period of the early fifties the authorities used monetary policy with some success to restrain the upward pressures on the price level. Unfortunately, the Bank of Canada, except in a few instances which were generally ill-timed, continued a policy of monetary restraint in the second half of the fifties when such a policy was no longer appropriate. In retrospect, it is clear that the Governor of the Bank vastly over-exaggerated the evil consequences of a moderately rising price index and paid insufficient attention to the social loss of slow growth and unemployment.³⁰

Professor H. S. Gordon was also critical of the Bank's monetary policy. He wrote:

The Bank has never under its present Governor, thrown its weight actively into the battle against unemployment since the present Governor took office. There was a fairly sharp recession in 1957-1958 and we are now in the middle of another one. The Bank did not pursue an active policy of monetary ease and expansion in either of these recessions. Thus when we survey monetary policy over the past five years we find that the Bank has consistently accepted only part of its responsibilities. It has acted strongly and vigorously against inflation but it has not acted at all against unemployment.³¹

During the period mid-1955 to mid-1957, the Bank of Canada pursued a tight money policy. From an economic standpoint, the Bank's monetary policy was correct, since it helped control the inflationary forces that were then clearly active in the Canadian economy. The criticism levied by

³⁰H. H. Binhammer, "Canada's Foreign Exchange Problems: A Review," Kyklos, Vol. 17, Cop. 4 (Switzerland, 1964), p. 640.

³¹H. G. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 13.

H. S. Gordon with regard to that period was not directed at the policy of the Bank, but at the fact that the 1957 Annual Report of the Governor to the Minister of Finance denied that tight money had even existed; in fact, Coyne asserted in the Report that the Bank had followed a policy of monetary ease, substantiating this statement by a money supply figure which included the bank deposits of the Federal government, whereas in previous years these had been excluded from the definition of the money supply. This new definition showed that money supply in Canada had increased by the substantial amount of \$376 million between August and December 1957.

In the period 1958 to 1960, the Bank of Canada was again strongly criticized for its approach to monetary policy. One critic, H. G. Johnson, wrote: "Instead of the expansionary monetary policy indicated by elementary theory as appropriate to the circumstances, the policy actually adopted was one of severe monetary contraction during the crucial period 1958-60."³²

It should be noted that in 1958, the money supply rose substantially, as seen in Appendix III, Table 1 - Currency Outside Banks and Chartered Bank Deposits - this rise was not the result of an active monetary policy on the part

³²H. G. Johnson, "Economic Nationalism in Canadian Policy," Lloyd's Bank Review, No. 74 (October 1964), pp. 25-35.

of the Bank but was rather a consequence of the Conversion Loan program of that year. In this regard R. C. McIvor wrote:

Its Conversion Loan Operation timing was most unfortunate, occurring as it did with the Government's large deficit, disorganizing the bond market and contributing to still higher yields in a period when the government was continuing to urge the need for expansionist policies.³³

This last view was apparently not shared by the central bank authorities who, in late 1958, virtually froze the money supply for the following two years, despite the fact that a short-lived economic recovery had given way to persistent recessionary tendencies by mid-1959. The monetary authorities' behaviour may have resulted from the fact that they had been too late and too easy in restraining the 1955-57 boom. Also, they were aware of the difficulties stemming from the high liquidity created in 1954 and were influenced by continuing price increases and fears of inflation. Thus, the policy of vigorous restraint contributed to the fact that the 1958-60 expansion was the weakest since World War II. In October 1960, the money supply rose but, as explained by H. S. Gordon, this rise "was due not to an active policy of the Bank of Canada but to congestion in the securities

³³R. C. McIvor, "Canada," Commonwealth Banking Systems, ed. W. F. Crick (Oxford: Clarendon Press, 1965), p. 444.

markets produced by the large issue of Canadian National Railways bonds at that time."³⁴

While in theory, the central bank directly controlled the quantity of money, in practice the central bank controlled only the Bank rate and the volume of chartered banks reserves and the level of required reserves. The Bank's use of these instruments of monetary control were also criticized, as will now become apparent.

The Bank Rate

With the development of the short-term money market in 1954, the Bank Rate, that is the rate charged to commercial banks and money market dealers for borrowing from the central bank, began to be used as a conscious tool of monetary management. The significance of changes in the Bank Rate was viewed by the financial community and interpreted by it as the official indication of central bank intentions. When the Bank of Canada, as part of its tight money policy from February 1955 to October 1956, increased the Bank Rate on numerous occasions, the result was that these variations began to be followed periodically by changes in short-term interest rates. These variations in Bank Rate became the object of public criticism. Consequently, on November 1,

³⁴H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 13.

1956, the Bank of Canada announced that it would henceforth no longer alter Bank rate as an act of policy, but rather would set it automatically at one quarter of one percent above the weekly tender price of 91-day treasury bills; this it adopted a floating Bank rate.

This new method of Bank rate adjustment was criticized by many, especially senior officials of several chartered banks, since prior to November 1, 1956, they believed that "the main influence of the Bank rate lay in the announcement effect rather than in any direct bearing on the cost of credit."³⁵ The bankers strongly requested that the Bank rate be set again as an act of policy by the Bank of Canada.

H. S. Gordon concluded in this regard:

The urging of chartered bankers that Bank Rate be restored as a publicly announced signal of Bank of Canada policy simply represents the fact that relations between the chartered banks and the Bank of Canada have deteriorated to the point where confidence and trust between them has almost ceased to exist.³⁶

The Bank of Canada, with the adoption of a floating rate, thus disclaimed responsibility for the rising cost and increasing scarcity of credit, seeking rather to lay the blame on market forces.

³⁵R. C. McIvor, "Canada," Commonwealth Banking Systems, ed. W. F. Crick (Oxford: Clarendon Press, 1965), p. 424.

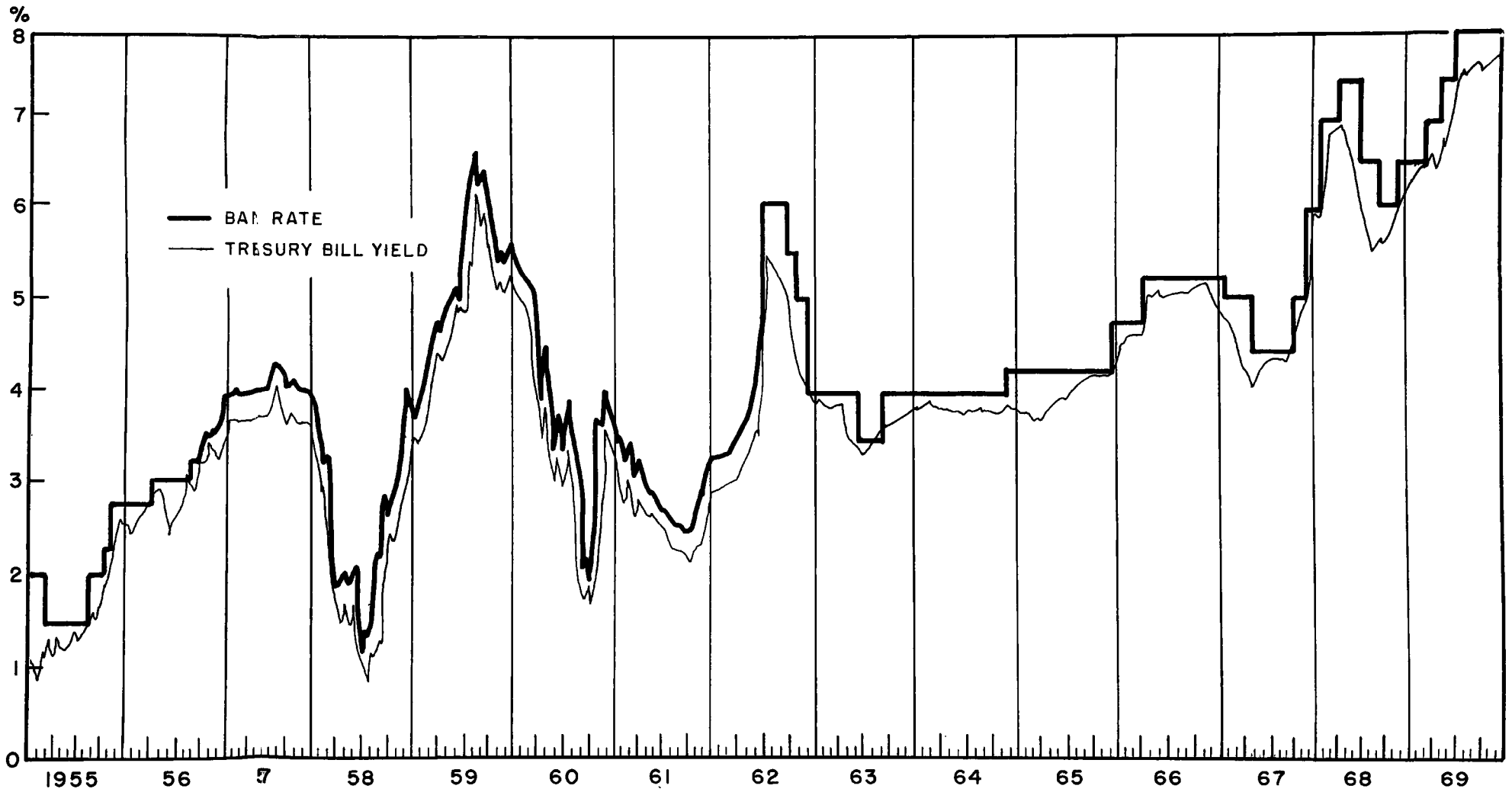
³⁶H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 31.

It should be noted, however, that even under a floating rate, the central bank still had some control over the Bank rate, as the Bank of Canada, being one of the bidders for treasury bills each week, determined somewhat their demand. Also by its control of the cash reserves of the banking system, the Bank influenced, to a certain extent, the bids that would be made by chartered banks and the treasury bill dealers. The supply of treasury bills, on the other hand, was determined by the Minister of Finance as he decided how much of the national debt would be financed by this particular type of government security. Thus, the monetary authorities controlled the supply of and, to some extent, the demand for treasury bills, the treasury bill rate and de facto the Bank Rate.

Another of Professor Gordon's criticism in regard to the floating Bank Rate was that since 1956, it "has undergone the same swings and gyrations as the Treasury Bill Rate ... These movements do not seem to make much sense from the economic standpoint."³⁷ Professor Gordon's point is demonstrated in Figure 1 - Bank Rate and 91-day Treasury bill yield between 1955 and 1969. With the exchange crisis of 1962, the Bank of Canada returned to a "fixed" Bank rate policy and thus the relative merits of the two systems remain a subject of controversy.

³⁷ Ibid., pp. 28-29.

Fig.1 CANADA: BANK RATE AND TREASURY BILL (a) YIELDS - 1955 to 1969



BANK OF CANADA, ANNUAL REPORTS OF THE GOVERNOR TO THE MINISTER OF FINANCE, 1955 TO 1969 AND BANK OF CANADA, STATISTICAL SUMMARY SUPPLEMENT, 1961 AND 1968.

(a) 91-DAY TREASURY BILLS. AVERAGE RATE AT WEEKLY TENDER.

Cash Reserves

The Bank of Canada's use of the instrument of chartered banks' cash reserve requirements was also criticized under Coyne's governorship. Prior to 1954, the commercial banks were required to keep a cash reserve of not less than five percent of their deposit liabilities payable in Canadian dollars, in the form of Bank of Canada notes and deposits with the Bank of Canada. This requirement ensured that banks held cash and liquid assets in some prudent proportion to their deposit liabilities.

At the revision of the Bank Act in 1954, provision was made for a variable minimum cash ratio for the banks and a change in the method of its calculation. The minimum cash reserve requirement was set at eight percent and the Bank of Canada was empowered to vary this rate anywhere between eight and twelve percent. The maximum rate of increase could not exceed one percent per month and the banks had to be given one month's notice of any increase in the rate. The banks were no longer required to retain reserves above a stated minimum at all times, but only on the average over a month. Thus, the cash reserve requirement of the chartered banks served primarily as a control device by which the Bank of Canada could influence the quantity of bank deposits.

In mid-1956, under a "voluntary" agreement with the Bank of Canada, the chartered banks began to maintain a

minimum secondary reserve of treasury bills and day-to-day loans, equal to seven per cent of their Canadian dollar deposits. Secondary reserves were different from other assets in that they were readily convertible into cash without a significant loss.

These cash reserve requirements were regarded as a blunt instrument of monetary control. When the ratio was altered, the change effected at the same time and to the same extent all the commercial banks, regardless of their individual reserve positions. A very small change in the reserve requirement resulted in a relatively large change in the aggregate available reserves and in the liquidity position of the banking system as a whole.

Table 2 in Appendix III shows the changes in the average cash reserve ratio and in the average liquid asset ratio, for the period 1955 to 1961. This table also shows the variations in the chartered banks' cash reserves and in their liquid assets during the same period. The manner in which the central bank approached this instrument of control from mid-1955 to mid-1961 was criticized among others by H. S. Gordon, who wrote:

The weapons of monetary management actually employed by the Bank do not correspond to the powers that are conferred upon it by law. Some of its legal powers ... have not been used at all. ... The Bank has never used its cash reserve power since this was given to it in 1954,

although there have been some occasions when it would have seemed appropriate.³⁸

Following his criticism of the Bank's inaction in varying the cash reserve ratio, H. S. Gordon gave examples of the Bank's inaction in varying the cash reserves:³⁹

(a) In May or April of 1957, recessionary forces were gathering strength, and a decline in economic activity continued throughout the remainder of 1957 and into 1958. Far from expanding cash reserves, the Bank held them throughout the whole latter half of 1957 consistently below the levels of 1956. The Bank did not expand the chartered banks' cash reserves at all until early 1958 - a full eight months after the recession had begun.

(b) The next period of recession began in the spring of 1960. Chartered banks cash reserves had been steadily falling during the latter part of 1959, though the economic recovery from the previous recession was not complete. During most of 1960, as the forces of a new recession gathered impetus, reserves were held consistently below the levels of the preceding year. In this case, the Bank of Canada missed the turning point in Canadian economic activity again, at least by nine months. He thus concluded that during the two recessions witnessed in Canada, while Mr. Coyne was

³⁸Ibid., p. 33.

³⁹Ibid., p. 35.

in office, the policy of the Bank of Canada was such as to worsen the economic situation rather than to strengthen it.

Professor Gordon also criticized the Bank for having requested the chartered banks, in May 1956, to keep a fifteen percent minimum liquid asset ratio by saying, "the Bank apparently prefers to use powers that it does not have by statute rather than use the one that Parliament has given it."⁴⁰

This criticism however ignores the fact that the central bank's fifteen percent minimum liquid asset proposal and eventual adoption was designed to speed up and make more predictable the response of the commercial banks to changes in monetary policy and to make it more difficult for the banks to convert their holdings of securities into cash reserves, undermining thereby the restrictive credit policies of the central bank and dislocating the securities market generally. This new device proved a useful measure of monetary policy and, in 1967, this arrangement was incorporated into the Bank Act and the Bank of Canada Act.

In the last two sections of this chapter, we have considered criticisms directed at the Bank of Canada's independence as well as at the Bank's monetary policy. However, no matter how forceful these criticisms, it was generally recognized that the Bank was not solely responsible

⁴⁰Ibid., p. 34.

for Canada's economic difficulties in the late fifties and early sixties. Professor Gordon recognized this fact, for he pointed out that

Even if the Bank were under different management and followed a different policy we would have economic difficulties in Canada at the present time. So far as remedial measures are concerned, a large part of the responsibility must fall on the shoulders of the Federal Government.⁴¹

In this same line of thought, R. C. McIvor wrote that the difficulties encountered by Canada seem to rest "not simply from the failure of the Government to integrate its monetary, fiscal and debt management policies, but from the recurring direct conflict of objectives in these areas."⁴²

⁴¹Ibid., p. 15.

⁴²R. C. McIvor, "Canada," Commonwealth Banking Systems, ed. W. F. Crick (Oxford: Clarendon Press, 1965), p. 454.

CHAPTER III

GOVERNOR COYNE'S ECONOMIC REASONING AND POLICY PROPOSALS

As already considered, severe criticisms were directed at the Bank of Canada's conduct of monetary policy during the late fifties and early sixties. In view of the fact that the Governor of the Bank of Canada is the "chief executive officer and on behalf of the Board has the direction and control of the business of the Bank,"¹ understanding Governor Coyne's economic reasoning as well as his policy recommendations is of major importance when considering the elements leading to the so-called Coyne Affair. Thus, the purpose of this chapter will be (1) to outline Mr. Coyne's views concerning Canadian economic conditions and consider his understanding of the problems facing the Canadian economy during his governorship, and (2) to outline Mr. Coyne's policy proposals.

1. Coyne's Views Concerning Canadian Economic Conditions and Problems

During the first half of the fifties, Canada's Gross National Product, measured in current dollars, showed an average annual rate of increase of 8.5 per cent, while that

¹Canada, An Act to Incorporate the Bank of Canada (Ottawa: Queen's Printer, 1952), p. 3.

for the second half demonstrated only an average annual rate of increase of 6.0 per cent. By the second quarter of 1960, there were some indications that the economy had entered a period of very slow growth. These led to a formidable exercise in economic analysis on the part of public officials, academic economists and many others as to what had gone wrong in Canada. The Governor of the Bank of Canada was no exception as, in the words of The Economist, he assumed the role of the "Grand Inquisitor of the Canadian Economy."²

For example, in a speech delivered on March 17, 1961, Mr. Coyne remarked:

A review of developments during the so-called "fabulous fifties" (in Canada) leads to the question, "What went wrong?" With one-third more capital investment each year in proportion to gross national product than in the United States, why did our gross national product not increase significantly more than in the United States? Why did our unemployment rise from a level below that of the United States to a level above that of the United States? Why did we have a continuing balance of payments deficit on a scale no other country in the world has ever experienced? Why did net foreign investment in Canada quadruple from four billion dollars at the end of 1949 to seventeen billion dollars at the end of 1960? Why did our costs of production in secondary industry rise more than costs of production in secondary industry in the United States? Why has secondary industry in Canada producing for domestic consumption languished while a tremendous increase occurred in our imports of the products of secondary industry abroad?"³

²The Economist, May 27, 1961, p. 915.

³J. E. Coyne, Speech Number 10, March 17, 1961, p. 12; Mr. Coyne's public speeches from December 1959 to June 1961 are numbered in chronological order. Complete references to these speeches may be found in Appendix IV.

Mr. Coyne had voiced his concern some time ago over Canadian economic problems. In fact, on various occasions during his governorship, he had attempted to answer many of the above questions. In contrast to his predecessor, Governor Coyne, beginning in 1956, expressed his views on Canadian economic conditions and problems through relatively more comprehensive Annual Reports to the Minister of Finance. Furthermore, Coyne's public speeches across Canada from late 1959 to mid-1961, raised various issues and contained numerous warnings and challenges for Canada. Unfortunately, the Governor's points were not always brought forward in a logical enough fashion to permit one to grasp immediately the source of his concern about the state of the Canadian economy. A careful consideration of Governor Coyne's Annual Reports to the Minister of Finance, as well as of the texts of some twelve speeches delivered by him, while Governor, will reveal the substance of his views on economic conditions and problems then facing Canada.

It should be noted that between 1955 and mid-1961, Governor Coyne's views on Canada's major economic problems did not seem to change significantly. From the early years of his governorship, one of Coyne's major concerns appeared to have been that of the ever-present danger of inflation, not only in Canada, but throughout the western world. In the 1956 Annual Report, he wrote: "In retrospect it is

clear that throughout the western world since the end of the second world war the dangers of inflation have been underestimated."⁴

It seemed, according to Mr. Coyne, that Canada was no exception. Even though the Bank had, since August 1955, applied a policy of monetary restraint, intended to dampen inflationary pressures that had developed after mid-1955, he expressed concern over rising prices and costs. In the 1956 Annual Report, he also pointed to other disturbing elements in the Canadian economy, such as excessive capital expenditures, a large increase in imports and a deficit in the balance of international payments; problems which, in Coyne's view, were attributable largely to an attempt at too rapid a rate of growth. These problems could, according to the Governor, lead to serious difficulties if unchecked. In this connection, he noted that

A hectic attempt to expand too fast is inconsistent with these objectives (high levels of economic activity and employment with stability of prices) and is also self-defeating. In addition to promoting inflation, it is bound to create excesses and distortions, overcapacity in some fields and deficiencies in others, and to end in a recession or depression which brings expansion for a time to an end. The greater the excess of attempted expansion over that reasonably attainable, the sooner will the recession arrive and the worse will be its rigours and difficulties in adjustments.⁵

⁴Bank of Canada, Annual Report for the Year 1956 (Ottawa, 1957), p. 23.

⁵Ibid., p. 10.

Further, he wrote:

I believe that total spending of all kinds in 1956 - the combination of capital expenditures, personal consumption expenditures and government expenditures, domestic expenditures as well as expenditures for imports - (at approximately \$29.7 billion) was at least \$1 billion greater than would have been desirable from the point of view of general stability and sound economic growth.⁶

He also warned about the danger of a continued current account imbalance when he advanced the view that

An import surplus or balance of payments deficit of the present size is the product and symptom of an excessive rate of spending in the economy, not just of a reasonable rate of real growth. It would be disturbing to think of an import surplus of such magnitude continuing for an indefinite period.⁷

In the Annual Report for 1957, having commented on the easier monetary conditions which had occurred as inflationary pressures had moderated in the latter part of 1957, he again expressed concern over the ill-effects of inflationary pressures in these words:

It is not surprising that the recent period of severe inflationary pressures should be followed in Canada, as in other countries, by a period of adjustment or recession; inflationary pressures inevitably create the kind of distortions which lead to some degree of reaction or recession. ... Surges of economic growth give rise to excessive optimism, and plans for physical expansion of industrial plant and equipment, of resource development and utilities, and of inventions, accelerate to a pace which far exceed the current capacity to

⁶Ibid., p. 14.

⁷Ibid., p. 20.

save. Unless adequate preventive measures can be taken, the result is rising prices and costs, and an increase in spending financed by credit on a scale which cannot continue on indefinitely.⁸

The recession, which had begun in the third-quarter of 1957, reached its low point shortly after the end of the first quarter of 1958. As it turned out, the subsequent upsurge in economic activity in Canada was not long-lasting, and by the second quarter of 1960, this rise in economic activity had ceased. The following excerpt from Mr. Coyne's Annual Report for 1958 seems to support the Bank's actions to maintain the money supply on a virtual plateau from October 1958 until August 1960, despite the fact that by mid-1959, there were persistent recessionary tendencies in the economy. Mr. Coyne wrote:

Looking back over the course of development in western countries during the past ten years or so, I cannot escape the conclusion that we could have achieved as great an increase in output and employment, and at the same time avoided many difficulties and hardships caused by inflation or fear of inflation, if governments and central banks had given higher priority to maintaining the value of money...

I believe that monetary policy must strengthen and re-affirm its determination to remain true to the basic principle of sound money. Perhaps the greatest obstacle to the proper use of monetary policy is the spread of the theory that democracies cannot have both high employment and stable prices, that they must inevitably choose between unemployment and inflation, that high employment can only be achieved by the acceptance or even the deliberate creation of

⁸Bank of Canada, Annual Report for the Year 1957 (Ottawa, 1958), p. 14.

some degree of inflation. I am certain that these views are fundamentally wrong.⁹

Thus, Mr. Coyne's concern over economic developments in Canada was not of recent date. Late in 1959, imbued with a feeling of responsibility to point out on a grand scale to the Canadian public the gloomy fate reserved for Canada if it did not solve its economic problems, such as rising prices and costs, large balance of payments deficits, slow-down in economic activity, etc., Governor Coyne embarked on a public speech-making campaign, where he advanced some rather alarming views concerning the state of the Canadian economy. Coyne's main theme for these speeches was epitomized in the phrase "Living Within Our Means." In these speeches, he essentially repeated the admonitions contained in the Bank's Annual Reports from 1956 to 1958. Before a delineation and analysis of the number of different, though related, issues which Coyne brought out in these speeches and also in the Annual Reports for 1959 and 1960 the following excerpts seem to serve as further summaries or syntheses of his views.

On the matter of inflation, the Governor stated that

The prevention of inflation is essential for the maintenance of steady growth at the maximum rate

⁹Bank of Canada, Annual Report for the Year 1958 (Ottawa, 1959), pp. 9-10.

that can be sustained without the excesses that lead down the path to dissipation of foreign currency reserves, and the incurring of such a degree of foreign debt as to produce in the end a foreign exchange and a foreign trade crisis which would seriously harm a country's economic structure for years following.¹⁰

It should be pointed out in this regard, that Mr. Coyne did not seem to define exactly what he meant by the term inflation. Rather, Mr. Coyne seemed to state generally or warn against the inherent dangers of inflation and to maintain that the Bank of Canada should, at all times, combat inflation.

In relation to Coyne's views on inflation, it can be said that undoubtedly there was an increase in prices during the period between 1950 and 1960, but less than the prices indices would indicate. As shown in Table 1, the consumer price index-using 1949 as a base-increased by 25.1 percentage points between 1950 and 1960, that is from 102.9 in 1950 to 128.0 in 1960, an average annual rate of increase of 2.2 per cent. The wholesale price index - using 1935-39 as a base - increased from 211.2 in 1950 to 230.9 in 1960, an average annual rate of increase of 1.0 per cent. Although price indices do not reflect accurately or completely all the changes in quality and service that are now included

¹⁰J. E. Coyne, Speech Number 2, January 18, 1960, p. 4. (See Appendix IV).

TABLE 1
 Consumer and Wholesale Price Indexes in Canada,
 1950-1969

Year	Consumer Price Index		Wholesale Price Index 1935-39 = 100
	1949 = 100	1961 = 100 ^a	
1950	102.9	79.6	211.2
1951	113.7	88.0	240.2
1952	116.5	90.2	226.0
1953	115.5	89.4	220.7
1954	116.2	89.9	217.0
1955	116.4	90.1	218.9
1956	118.1	91.4	225.6
1957	121.9	94.3	227.4
1958	125.1	96.8	227.8
1959	126.5	97.9	230.6
1960	128.0	99.1	230.9
1961	129.2	100.0	233.3
1962	130.7	101.2	240.0
1963	133.0	103.0	244.6
1964	135.4	104.8	245.4
1965	138.7	107.4	250.4
1966	143.9	111.4	259.5
1967	149.0	115.4	264.1
1968	155.2	120.1	269.9
1969 ^b	165.2 ^c	125.5	282.3

^aAs of January 1961, the 1957 weights replaced the 1947-48 weights, and a system of variable weights for seasonal foods was introduced.

^bIndexes for 1969 are subject to revision.

^cFigure for December 1969.

SOURCE: D.B.S., Prices and Price Indexes, Monthly, Cat. 62-002 (Ottawa: Queen's Printer).

in the things bought to-day, it should be noted that the increase in prices during the period 1950-1960 was much less than the increase in net output per capita or in personal incomes. While there was an increase in the cost of living during that period, the standard of living, as measured by Gross National Product, was improving at a faster rate.

Concerning the causes of Canada's economic problems, Mr. Coyne maintained that total demand in Canada in the late fifties had exceeded total domestic supply. He expressed the view that

In Canada, we have not only the usual cyclical problems which are not entirely within our own control because of our high degree of dependence on conditions in foreign markets, but a further problem or cause of instability, namely that total demand on the part of all elements in the community for goods and services for all purposes, both for consumption and for the creation of new production facilities and government works and housing combined has for some years been considerably greater than the amount which our own production capacity can satisfy.¹¹

He then pointed out that this excess in total demand for goods and services had been covered by imports of goods and services, made possible through foreign borrowing:

To a considerable extent inflationary pressures have been temporarily suppressed or diverted through the medium of foreign borrowing by Canadian governments and enterprises and the securing of capital from other forms of foreign investment in Canada,

¹¹Ibid., p. 9.

which have made possible from other countries of a volume of goods and services greatly in excess of our exports of goods and services, to such degree as to fill most of the excessive demand in Canada for such goods and services.

Put more bluntly, we have for at least five years been living beyond our means on a grand scale.¹²

He elaborated this point further in his Annual Report for 1959, when he wrote:

For some years, as I see it, the Canadian economy has been under the influence of excessive overall spending, which even in periods of relatively high unemployment resulted in an inflow of imports from other countries.¹³

In this same report, Mr. Coyne repeated similar warnings as those contained in his 1956 Report. This time however, being more explicit concerning the serious economic problems in Canada, he explained that

Attempts to induce growth for a short time at rates which in the aggregate cannot be expected to continue, bring set-backs and unemployment in their train. Such conditions of excessive demand create inflationary pressures which distort the structure of the economy and handicap the development of more stable economic sectors. The attempt to accomplish too much too fast has given rise to huge deficits in our international balance of payments on current account ... to a large and growing volume of foreign debt incurred by Canadian governments and businesses ... and has gone hand in hand with a growing degree of foreign predominance in Canadian business.¹⁴

¹²Ibid., p. 9.

¹³Bank of Canada, Annual Report for the Year 1959 (Ottawa, 1960), p. 7.

¹⁴Ibid., pp. 7-8. Mr. Coyne developed a similar theme in Speech Number 3, p. 5; also in Speech Number 2, p. 5 and in Speech Number 5, pp. 8 and 14. (For complete reference to these speeches, see Appendix IV).

In a speech on November 14, 1960, noting Canada's persistent balance of payments problems, he expressed with alarm the view that

We have reached a critical juncture in our affairs, when we can see more clearly than before the danger to the Canadian economy, and the urgent need to prevent further damage to the Canadian economy in the future, arising from the persistence of large deficits in our balance of payments, the great size and continuing rapid increase of foreign debt, the spread of foreign economic domination over much of our industrial life, and the distortions in our economic pattern and in our price and cost structure resulting from attempts in the past decade to do too much too fast, which caused over expansion in some fields of development and retarded growth of others.¹⁵

These passages, which were used to summarize Mr. Coyne's views, obviously raise a number of different though related issues pertaining to Canada's economic problems. These will now be considered individually.

It seems that Mr. Coyne regarded the difficulties facing the Canadian economy as being due to a desire to have a rate of growth in excess to that which was "sustainable" or "appropriate" to the economy. Attempts at too rapid a rate of growth was undesirable because it produced structural maladjustments in the economy and consequent instabilities. Too rapid a rate of growth would, in Governor Coyne's view, lead to economic contraction and subsequent unemployment. On January 18, 1960, he stated that:

¹⁵J. E. Coyne, Speech Number 6, p. 9.

To distort all economic relationships in order to pursue the single objective of an extraordinary and unsustainable rate of growth for a short time may be necessary in war-time. In peace-time it is an aberration which has led and must lead to inefficiency, misdirection of effort, and waste of resources in projects which prove to contribute little or nothing to efficient production or growth. Moreover attempts at excessive or misdirected growth are always followed by a period of contraction or much reduced growth, with consequent unemployment among those whose livelihood has become dependent upon construction and the production of capital goods, as for many others who have been drawn into employment in activities which could not continue on a scale previously achieved.¹⁶

Unfortunately, it seems that Mr. Coyne never defined exactly what he meant by too rapid a rate of growth. Between 1950 and 1960, as seen in Table 2, and using the "previously published" series of D.B.S. figures,¹⁷ Gross National Product in current dollars increased over 100 per cent from \$18,006 million to \$36,287 million. In constant (1957) dollars, it increased from \$23,114 million to \$34,144, thus an increase of some 48 per cent. As shown in Table 3,

¹⁶J. E. Coyne, Speech Number 2, pp. 2-3. (See Appendix IV).

¹⁷Dominion Bureau of Statistics, National Income and Expenditure Accounts, 1926-68 (Ottawa: Queen's Printer, 1969), p. 6. The D.B.S., in 1969, published a revision of the Canadian National Income and Expenditure Accounts covering the period 1926-68. The new accounts incorporated major statistical revisions and changes in definitions and structural presentation. The "previously published" G.N.P. figures differ somewhat from the "revised" figures. Although only the "previously published" figures were available at the time of the Coyne controversy, Table 2 includes both the "previously published" and the "revised" G.N.P. figures.

TABLE 2

Gross National Product in Current and Constant Dollars in Canada, 1950 - 1969

YEAR	Gross National Product				Annual Percentage Change in Gross National Product			
	Previously Published		Revised		Previously Published		Revised	
	Current Dollars (mill. \$)	Constant Dollars ^a (mill. \$)	Current Dollars (mill. \$)	Constant Dollars ^a (mill. \$)	Current Dollars	Constant Dollars ^a	Current Dollars	Constant Dollars ^a
1950	18006	23114	17955	23809	-	-	-	-
1951	21170	24531	21060	25004	17.6	6.1	17.3	5.0
1952	23995	26514	24042	27398	13.3	8.1	14.2	9.6
1953	25020	27525	25327	28862	4.3	3.8	5.3	5.3
1954	24871	26714	25233	28283	- 0.6	- 2.5	- 0.4	-2.0
1955	27132	29018	27895	31079	9.1	8.6	10.5	9.8
1956	30585	31508	31374	33780	12.7	8.6	12.4	8.6
1957	31909	31909	32907	34710	4.3	1.3	4.8	2.7
1958	32894	32284	34094	35462	3.1	1.2	3.6	2.1
1959	34915	33398	36266	36929	6.1	3.5	6.3	4.1
1960	36287	34144	37775	37994	3.9	2.2	4.1	2.8
1961	37471	35023	39080	39080	3.3	2.5	3.4	2.8
1962	40575	37195	42353	41778	8.2	6.2	8.3	6.9
1963	43424	39352	45465	43996	7.0	5.7	7.3	5.3
1964	47393	41876	49783	47050	9.1	6.4	9.4	6.9
1965	52203	44768	54897	50149	10.1	6.9	10.2	6.5
1966	58104	47670	61421	53650	11.3	6.4	11.8	6.9
1967	62068	49007	65608	55407	6.8	2.8	6.8	3.3
1968	67368	51451	71454	58041	8.4	5.0	8.9	4.8
1969 ^b	73612	53949	78100	60900	9.3	4.8	9.3	4.9

^a The "Previously Published" figures are in constant (1957) dollars whereas the "Revised" figures are in constant (1961) dollars.

^b The figures for 196 are Department of Finance estimates.

SOURCE: D.B.S., National Income and Expenditure Accounts, 1926-1956 and 1926-1968 (Ottawa: Queen's Printer).

TABLE 3
Average Annual Rates of Growth of Gross
National Product in Canada,
1950-1969

Year	Previously Published		Revised	
	Current Dollars	Constant Dollars ^a	Current Dollars	Constant Dollars ^a
	Per cent			
1950-1955	8.5	4.1	9.2	5.4
1955-1960	6.0	3.3	6.2	4.1
1950-1960	7.2	4.0	7.7	4.7
1960-1965	7.6	5.5	7.7	5.7
1965-1969 ^b	9.0	4.8	9.2	4.9
1960-1969 ^b	8.1	5.2	8.3	5.4

^aSee footnote a, Table 2, Supra, p. 77.

^bSee footnote b, Table 2, Supra, p. 77.

Source: D.B.S., National Income and Expenditure Accounts, 1926-1956 and 1926-1968 (Ottawa: Queen's Printer).

the average annual rate of growth of the Gross National Product in Canada, between 1950 and 1960, as measured in constant dollars, stood at 4.0 per cent. In the first half of the 1950's, it had shown a 4.1 per cent average annual rate of increase, as compared to only 3.3 per cent in the period 1955 to 1960. In current dollars, "previously published" G.N.P. showed an average annual rate of increase of 8.5 per cent during the period 1950 to 1955, and only 6.0 per cent between 1955 and 1960. Thus the rate of growth of G.N.P. was slower in the second half of the fifties than in the first half. It should be pointed out that this phenomenon of slower growth was common in North America in the latter part of the 1950's, and was due to some extent to the weakened competitive position of the North American producers.

The Fifth Annual Review of the Economic Council of Canada, contained an analysis of the growth of incomes in ten western industrialized countries, for the period 1950-62. The measure used was National Income,¹⁸ and with regard to the average annual rates of increase of National Income in Canada, the Review stated:

¹⁸The measure used was National Income, a statistical grouping of the various kinds of income (wages, salaries, profits, rents, dividends, interest) which in Canada are equivalent to about three-quarters of GNP.

Canada's growth performance in 1950-62 appears to have been "about average" among the 10 countries ... - lower than in some European countries, but higher than in others, and not much different than in the United States.¹⁹

Thus, it is difficult to show that Canada was attempting to achieve too rapid a rate of growth, as Mr. Coyne had believed, and it can be assumed that Canada's average annual rate of growth in the 1950's and early 1960's was comparable to that of other industrialized western countries.

The same Economic Council of Canada Review agreed with Governor Coyne's contention that the underlying sources of economic growth revealed that growth in Canada was not achieved very efficiently. In a public speech, Coyne at one time stated: "We have absorbed, consumed or put to use a much greater volume of capital, without getting a commensurately greater rate of increase in production."²⁰ The Economic Council Review, in conclusion to an analysis of productivity in Canada between 1950 and 1962, indicated that "roughly two-thirds of Canada's rate of growth in National Income from 1950 to 1962 can be attributed to massive infusions

¹⁹Economic Council of Canada, "The Challenge of Growth and Change," Fifth Annual Review (Ottawa: Queen's Printer, September 1968), p. 9.

²⁰J. E. Coyne, Speech Number 2, pp. 11-12. (See Appendix IV).

of labour and capital; only about one-third can be attributed to factor productivity - that is, to gains in the efficiency with which labour and capital were combined in production processes."²¹ As can be seen from Table 4, G.N.P. per capita and G.N.P. per person working slowed down considerably between 1957 and 1961.

Related to Mr. Coyne's belief that Canada was attempting to achieve too rapid a rate of growth was his contention that Canada had suffered for many years from a serious problem of excessive spending on consumer and capital goods in Canada and abroad. Table 5 shows the annual value and percentage changes in total domestic demand in Canada from 1950 to 1968. It should be noted that the average annual rate of increase of total domestic demand,²² according to "previously published" figures²³ stood at 9.1 per cent for the period 1950-1955, as compared to 6.2 per cent for the period 1955-1960. Thus, contrary to Coyne's belief, total domestic demand, as can be seen, slowed down considerably in the

²¹Economic Council of Canada, Fifth Annual Review (Ottawa: Queen's Printer, September 1968), p. 9.

²²Total domestic demand is taken to mean personal expenditures and government current expenditures on consumer goods and services and gross fixed capital formation. It excludes value of physical change in inventories.

²³Dominion Bureau of Statistics, National Income and Expenditure Accounts, 1926-68 (Ottawa: Queen's Printer, 1969), p. 7. (See footnote 17, supra, p.76.

TABLE 4

Gross National Product Per Capita and Gross National Product
per Person Working in Canada, 1950-1969

Year	G.N.P. Per Capita				G.N.P. Per Person Working			
	Prev. Published		Revised		Prev. Published		Revised	
	Current Dollars	Constant Dollars	Current Dollars	Constant Dollars	Current Dollars	Constant Dollars	Current Dollars	Constant Dollars
1950	1323	1691	1319	1750	3618	4645	3608	4784
1951	1526	1769	1515	1803	4153	4812	4123	4905
1952	1681	1857	1684	1919	4642	5129	4651	5300
1953	1704	1875	1725	1966	4779	5257	4838	5513
1954	1646	1768	1670	1872	4743	5095	4812	5394
1955	1746	1868	1796	2000	5058	5409	5200	5793
1956	1921	1979	1971	2122	5476	5641	5617	6048
1957	1951	1951	2012	2123	5567	5567	5741	6056
1958	1945	1909	2016	2097	5764	5657	5975	6214
1959	2016	1928	2094	2132	5948	5689	6178	6291
1960	2049	1928	2133	2145	6083	5724	6332	6369
1961	2071	1936	2160	2160	6188	5784	6454	6454
1962	2200	2017	2296	2265	6518	5975	6803	6711
1963	2311	2095	2420	2342	6811	6172	7131	6901
1964	2476	2188	2601	2458	7170	6336	7532	7119
1965	2677	2296	2815	2572	7607	6524	8000	7308
1966	2926	2401	3093	2702	8124	6665	8587	7501
1967	3067	2420	3239	2736	8416	6641	8891	7508
1968	3265	2494	3463	2813	8938	6876	9480	7700
1969	3515	2576	3729	2908	9461	6934	10038	7827

SOURCE: D.B.S., National Income and Expenditure Accounts, 1926-1956 and 1926-1968; D.B.S., Vital Statistics, cat. 84-201 and D.B.S., The Labour Force, 1950-1969, Monthly, cat. 71-001 (Ottawa: Queen's Printer).

TABLE 5
 Total Domestic Demand in Canada, 1950-1968
 (in millions of dollars)

Year	Total Domestic Demand (current)		Percentage Annual Increase	
	Previously Published	Revised	Previously Published	Revised
1950	17718	17781	-	-
1951	20690	20634	16.7	16.0
1952	23511	23534	13.6	14.0
1953	25022	25274	6.4	7.3
1954	25415	26100	1.5	3.2
1955	27391	28360	7.7	8.6
1956	30996	31892	13.1	12.4
1957	33129	34148	6.8	7.0
1958	34400	35600	3.8	4.2
1959	35975	37243	4.5	4.6
1960	37001	38459	2.8	3.2
1961	38337	39787	3.6	3.4
1962	40603	42229	5.9	6.1
1963	43153	45035	6.2	6.6
1964	47423	49504	9.8	9.9
1965	52326	54692	10.3	10.4
1966	58627	61282	12.0	12.0
1967	62456	65392	6.5	6.7
1968	66998	70473	7.3	7.7

Source: D.B.S., National Income and Expenditure Accounts, 1926-1956, 1926-1968 and Quarterly Issues (Ottawa: Queen's Printer).

second half of the fifties. However, as shown in Table 6, total public and private investment in Canada between 1950 and 1960 increased by approximately 110 per cent. It is important to note the large increase in public investments, that is, outlays by various levels of governments, which increased by some 150 per cent between 1950 and 1960.

Mr. Coyne seemed to believe that a greater evil than spending in Canada was spending on consumer and capital goods produced abroad. In this respect, the Governor seemed to differentiate between imports of consumer goods and imports of capital goods. He made this distinction when he stated :

In the field of merchandise trade an important item in our trade deficit has been the volume of investment-type goods imported; that is, machinery and equipment for use in construction or for expansion of physical facilities in Canada...

In addition to such imports of capital goods, a further consequence of the excessive aggregate pressure on Canadian resources has been a rapid expansion in the importation of consumer goods, including, of course, parts and materials for further assembly or manufacture in Canada...

In other words, we are incurring foreign debt to pay for both a level of capital spending and a standard of comfort which are higher than would be justified in our own earning capacity.²⁴

Governor Coyne apparently believed that the problem of excessive spending on all goods and service produced abroad was the main cause for unemployment in Canada.

²⁴J. E. Coyne, Speech Number 2, pp. 14-15. (See Appendix IV).

TABLE 6

Total Public and Private Investment in Canada, 1950-1968

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
	millions of dollars																		
Total Public ^a	1026	286	1635	1650	1613	1660	2229	2618	2679	2568	2569	2483	2692	2889	3138	3888	4749	4906	5074
of which:																			
Federal	243	399	595	560	479	447	677	846	872	785	688	605	549	516	543	656	923	887	900
Provincial	491	540	617	650	659	712	992	1150	1137	1066	1124	1107	1196	1321	1584	1954	2364	2562	2605
Municipal	292	347	423	440	475	501	560	622	670	717	757	771	947	1052	1011	1278	1462	1457	1569
Total Private ^b	2910	453	3856	4326	4108	4585	5805	6099	5685	5849	5693	5689	6023	6504	7806	8977	10341	10416	10604
of which:																			
Bus. Enterprises	1952	468	2883	3049	2743	3039	4126	4524	3713	3906	4029	3957	4166	4513	5459	6468	7773	7688	7365
Instit. and Hous.	958	985	1023	1277	1365	1545	1679	1575	1972	1943	1664	1732	1857	1991	2347	2509	2563	2728	3239
Total Public and Private Investment	3936	739	5491	5976	5721	6244	8034	8717	8364	8417	8262	8172	8715	9393	10944	12865	15090	15322	15678

^aIncludes government built using, government gross fixed capital formation and public business fixed capital formation.

^bIncludes private housing and private business fixed capital formation.

SOURCE: D.B.S., Private and Public Investment in Canada, Annual (Ottawa: Queen's Printer).

(Table 7 contains data on the labour force and on unemployment in Canada between 1950 and 1969). Between 1958 and 1961, the number of unemployed as a percentage of labour force varied between 7.0 per cent and 7.1 per cent on an annual basis. Coyne did not apparently regard the post-war recessions and unemployment as being due to a deficiency of aggregate effective demand in the Keynesian sense; that is, he believed that aggregate demand during those years was sufficient to sustain an increase in employment since there was an increase in real investment equal to the gap between income and the consumption demand out of that income. According to him, recessions and unemployment were due rather to structural dislocations caused by excessive investment and expenditures in general, which had been misdirected towards the importation of goods and services produced outside of Canada. He explained his reasoning as follows:

Notwithstanding this scale of total spending, there has been unemployment of persons and under-employment of plant and equipment in particular localities and particular lines of industry in Canada, and failure of employment in the aggregate to expand commensurately with the increase in the labour force.

In other words, for some years total demand and total spending in Canada have been excessive rather than deficient, and have been misdirected from the point of view of maintaining balanced economic development and the lowest possible degree of unemployment in Canada.²⁵

²⁵J. E. Coyne, Speech Number 11, pp. 5-6. (See Appendix IV).

TABLE 7

Main Components of the Canadian Labour Market, 1950 - 1969

	Population ^a (thousands)	Civilian Labour Force (thousands)	Civilian Labour Force as a Percent of Population	Employed (thousands)	Unemployed (thousands)	Unemployed as a Percent of Labour Force
1950	1360	5162	37.9	4976	186	3.6
1951	1387	5223	37.6	5097	126	2.4
1952	1427	5324	37.2	5169	155	2.9
1953	1468	5397	36.7	5235	162	3.0
1954	1510	5493	36.3	5243	250	4.6
1955	1553	5610	36.1	5364	245	4.4
1956	1591	5782	36.3	5585	197	3.4
1957	1635	6008	36.7	5731	278	4.6
1958	1690	6137	36.2	5706	432	7.0
1959	1731	6242	36.0	5870	372	6.0
1960	1771	6411	36.1	5965	446	7.0
1961	1809	6521	36.0	6055	466	7.1
1962	1844	6615	35.8	6225	390	5.9
1963	1878	6748	35.9	6375	374	5.5
1964	1914	6933	36.2	6609	324	4.7
1965	1950	7141	36.6	6802	280	3.9
1966	1985	7420	37.3	7152	267	3.6
1967	2025	7694	37.9	7379	315	4.1
1968	2063	7919	38.3	7537	382	4.8
1969	2094	8163	39.0	7780	383	4.7

^aPopulation at the start of the periodSOURCE: D.B.S., The Labor Force, Monthly, Cat. 71-001 and D.B.S., Vital Statistics, Annual, Cat. 84-201 (Ottawa: Queen's Printer).

In order to solve the problem of unemployment, Coyne seemed to favor a reorientation of production in Canada in order to reduce the volume of imports, as in early 1960, he advanced the argument that:

If so much of our own productive resources were not devoted to construction, more could be utilized in production for export and more could be devoted to production of various kinds of goods for the domestic market at competitive costs and thereby bring a further reduction in the volume of imports.²⁶

In the Annual Report for 1960, Mr. Coyne again deplored the fact that so much spending was done on foreign goods and services as opposed to goods and services produced in Canada:

If appreciably more of total spending by Canadian had on balance been on goods and services produced in Canada the level of unemployment would have been much less than that which has actually been expressed.²⁷

In addition to creating unemployment in Canada, Mr. Coyne believed that Canada's excessive level of imports of goods and services contributed to its excessive balance of payments deficits in the 1950's. This latter point was of major concern to Governor Coyne as he elaborated on these large deficits in nearly all of his public speeches. His views on Canada's international balance of payments will now

²⁶J. E. Coyne, Speech Number 2, p. 15 (See Appendix IV).

²⁷Bank of Canada, Annual Report for the Year 1960 (Ottawa, 1961), p. 15. Coyne also made similar remarks in Speech Number 10, p. 15 (See Appendix IV).

be considered. He attributed Canada's problems in this respect to excessive capital expenditures. A representative expression of his position is as follows:

In our country, pursuit of an excessive and unsustainable rate of capital expenditure since the war has not only contributed to the unstable cycle of short-lived boom followed by recession but has also been responsible for a growing deficit in our international balance of payments, a large excess of imports of goods and services over our exports, increasing reliance on foreign resources to finance (directly or indirectly) both capital projects and consumption, and a great increase in our foreign debt and in the annual burden of debt charges.²⁸

With regard to Canada's commodity or merchandise trade, Mr. Coyne noted that while merchandise exports had increased between 1950 and 1960, merchandise imports had increased more rapidly. As can be seen from Table 8, merchandise exports increased from \$3.1 billion in 1950 to nearly \$5.4 billion in 1960, an increase of some 71 per cent. On the other hand, merchandise imports increased from \$3.1 billion in 1950 to some \$5.5 billion in 1960, an increase of close to 77 per cent. Coyne also deplored in many speeches Canada's growing net deficit in non-merchandise or invisible items, that is, freight and shipping expenditures, tourist

²⁸J. E. Coyne, Speech Number 2, p. 3. The subject of Canadian balance of payments deficits was covered in many other Coyne speeches among which Speech Number 3, p. 7 and p. 16; Speech Number 5, p. 3; Speech Number 6, pp. 6-9; Speech Number 7, pp. 1-2; Speech Number 9, pp. 3-16; before the Senate Committee on Manpower and Employment (Ottawa, April 26, 1961), pp. 12-14; and in Speech Number 10, pp. 15-17. (For complete references to these Speeches, see Appendix IV).

TABLE 8

Balance of Payments on Current Account in Canada, 1950 - 1968
(in millions of dollars)

Year	Merchandise		Merchandise Trade Balance	Non-Merchandise		Non-Merchandise Balance	Current Account Balance ^a
	Exports	Imports		Receipts	Payments		
1950	39	3132	7	1091	1417	-326	-319
1951	50	4101	-151	1197	1558	-361	-512
1952	49	3854	485	1334	1632	-298	187
1953	42	4212	-60	1341	1729	-388	-448
1954	44	3916	18	1314	1756	-442	-424
1955	42	4543	-211	1527	2003	-476	-687
1956	47	5565	-728	1638	2282	-644	-1372
1957	44	5488	-594	1635	2492	-857	-1451
1958	40	5066	-176	1562	2523	-961	-1137
1959	41	5572	-421	1662	2728	-1066	-1487
1960	42	5540	-148	1744	2829	-1085	-1233
1961	49	5716	173	1899	3000	-1101	-928
1962	47	6203	184	2036	3050	-1014	-830
1963	42	6579	503	2207	3231	-1024	-521
1964	48	7537	701	2509	3634	-1125	-424
1965	45	8627	118	2736	3984	-1248	-1130
1966	106	10102	224	3070	4456	-1386	-1162
1967	113	10772	566	3747	4812	-1065	-499
1968	113	12162	1376	3582	5069	-1487	-111

^aincluding gold production available for exports.

SOURCE: D.B.S., The Canadian Balance of International Payments, A Compendium of Statistics, from 1946 to 1965 and D.B.S., Quarterly Estimates of the Balance of Payments, cat. 67-001 (Ottawa: Queen's Printer).

expenditures and interest and dividends on foreign borrowings among others. Table 8 also shows that while Canada's receipts from non-merchandise trade increased from \$1.1 billion in 1950 to \$1.7 billion in 1960, or by some 52 per cent, its non-merchandise payments increased from \$1.4 billion in 1950 to \$2.8 billion in 1960, thus an increase of approximately 92 per cent. Between 1950 and 1960, with the exception of 1952, Canada incurred deficits in its current account and between 1956 and 1960, the deficits varied between \$1.1 billion and \$1.5 billion annually. Coyne also noted on various occasions that Canada's unfavourable balance of payments on current accounts since 1950 resulted from trade with the United States.

Furthermore, in most of his speeches and in his Annual Reports, Governor Coyne considered the "alarming" problem of large and growing volume of foreign borrowing incurred by Canadian governments and businesses.²⁹

Table 9 indicates Canadian long-term and short-term capital movements for selected years from 1950 to 1968. The only outflow of capital from Canada during that period

²⁹Mr. Coyne considered the topic of Canadian excessive foreign borrowing on several occasions, among which, in Speech Number 1, p. 17; Speech Number 2, pp. 3 and 22; Speech Number 3, p. 7; Speech Number 5, pp. 1, 3, 8, 13 and 14; Speech Number 6, pp. 1, 3, 4, 7, 9 and 10; Speech Number 10, pp. 17-18; and before the Senate Committee on Manpower and Employment (Ottawa, April 26, 1961), pp. 13-14. (Complete references to the above speeches are contained in Appendix IV).

TABLE 9

Long-Term and Short-Term Capital Movements^a in Canada for Selected Years from 1950 to 1968

	50	1952	1954	1956	1957	1958	1959	1960	1961	1962	1964	1966	1968
	millions of dollars												
Total Capital Movements in Long-Term Forms	10	455	599	1490	1320	1153	1179	929	930	688	820	1061	1544
Total Capital Movements in Short-Term Forms	31	-605	- 51	- 70	26	93	297	265	288	297	- 33	-258	-1010
Net Capital Movements ^b	41	-150	548	1420	1346	1246	1476	1194	1218	985	787	803	534

^a A minus sign indicates an outflow of capital from Canada.

^b Excluding changes in reserves and I.M.F. position

SOURCE: D.B.S., Quarterly Estimates of the Canadian Balance of International Payments, cat. 67-001, occasional cat. 67-505 (Ottawa: Queen's Printer)

occurred in 1952. During the period 1955 to 1960, net capital movements averaged ~~+~~\$1,221 million annually. These inflows of foreign capital were mainly in the form of direct investments.

In a speech, On March 17, 1961, Governor Coyne, having reviewed the balance of payments of the United States, turned to Canada's balance of payments and the balance of net indebtedness, that is, the amount by which the claims of non-residents against the Canadian economy exceed the claims of Canadian against other countries. He stated in this regard:

In our case the capital flow has been inward - "our net international indebtedness," in the official phrase, has greatly increased. The deficit in our current account has been balanced by the capital inflow ... The outstanding amount of net foreign investment in Canada has, therefore, more than quadrupled in these eleven years, from \$4 billion at the end of 1949 to \$17 billion in 1960.³⁰

Table 10 demonstrates Coyne's above-mentioned point. It is interesting to note however that, throughout his discussions on Canada's excessive foreign borrowing, Governor Coyne realized that the rate of saving in Canada was nearly the largest in the world. Table 11 shows some elements of saving and gross accumulation in Canada from 1950 to 1968. However, he urged that a reasonable increase in personal,

³⁰J. E. Coyne, Speech Number 9, pp. 3-4. (See Appendix IV).

TABLE 10

Canadian Balance of International Indebtedness for Selected Years from 1950 to 1965
(in millions of dollars)

	1951	1953	1955	1956	1957	1958	1959	1960	1961	1963	1965
A. <u>LIABILITIES (foreign capital invested in Canada)</u>											
Direct investment	4.5	6.0	7.7	8.9	10.1	10.9	11.9	12.9	13.7	15.4	17.2
Gov't, munic. bor and other long-term investments	4.9	5.5	5.7	6.6	7.3	8.1	9.0	9.3	9.8	10.7	12.4
Other investments	1.8	1.4	1.6	1.9	2.2	2.5	2.9	3.3	3.7	4.3	5.6
Total Gross Liabilities	11.3	12.7	15.1	17.5	19.6	21.5	23.8	25.6	27.3	30.4	35.2
B. <u>ASSETS (Canadian capital invested abroad)</u>											
Direct investment	1.2	1.5	1.7	1.9	2.1	2.1	2.3	2.5	2.6	3.1	3.5
Portfolio investments and other long-term	2.5	2.7	2.6	2.7	2.7	2.6	2.8	2.9	3.1	3.5	4.3
Other investments	2.2	2.5	2.7	3.0	3.2	3.5	3.4	3.7	4.0	4.5	5.3
Total Gross Assets	6.0	6.6	7.1	7.5	7.9	8.2	8.5	9.0	9.7	11.1	13.1
Canadian Net Indebtedness	5.3	6.1	8.0	10.0	11.8	13.3	15.3	16.6	17.6	19.4	22.1

SOURCE: D.B.S., The Canadian Balance of International Payments, A Compendium of Statistics 1946-1965, and Quarterly Estimates of the Canadian Balance of Payments, Third Quarter, 1968 (Ottawa: Queen's Printer).

TABLE 11
SELECTED ELEMENTS OF SAVING & GROSS ACCUMULATION, 1950-1968

	Personal Saving		Corporations				Gross Accumulation ^b				Personal Saving		Corporations				Gross Saving			
	New	Old	Retained Earnings		C.C.A. ^a		Gross Saving		New	Old	New	Old	New	Old	Retained Earnings		C.C.A. ^a		New	Old
			New	Old	New	Old	New	Old							New	Old				
	millions of dollars																			
	Per cent of gross accumulation																			
1950	647	662	727	752	705	705	1,432	1,457	4,370	4,554	14.8	14.5	16.6	16.5	16.1	15.5	32.8	32.0		
1951	1,325	1,334	671	662	815	824	1,486	1,486	5,378	5,743	24.6	23.2	12.5	11.5	15.2	14.3	27.6	25.9		
1952	1,319	1,291	669	618	919	936	1,588	1,554	5,405	5,802	24.4	22.3	12.4	10.7	17.0	16.1	29.4	26.8		
1953	1,271	1,312	819	729	1,070	1,107	1,889	1,836	6,212	6,417	20.5	20.4	13.2	11.4	17.2	17.3	30.4	28.6		
1954	465	809	675	571	1,281	1,336	1,956	1,907	5,253	5,604	8.9	14.4	12.8	10.2	24.4	23.8	37.2	34.0		
1955	590	850	1,151	962	1,461	1,566	2,612	2,528	6,598	6,664	8.9	12.8	17.4	14.4	22.1	23.5	39.6	37.9		
1956	954	1,320	1,373	1,131	1,709	1,774	3,082	2,905	8,796	8,976	10.8	14.7	15.6	12.6	19.4	19.8	35.0	32.4		
1957	950	1,202	1,094	854	1,913	1,963	3,007	2,817	8,836	8,919	10.8	13.5	12.4	9.6	21.7	22.0	34.0	31.6		
1958	1,124	1,635	1,204	876	1,899	1,974	3,103	2,850	8,021	7,941	14.0	20.6	15.0	11.0	23.7	24.9	38.7	35.9		
1959	882	1,357	1,422	986	2,081	2,190	3,503	3,176	9,024	8,805	9.8	15.4	15.8	11.2	23.1	24.9	38.8	36.1		
1960	909	1,535	1,322	837	2,184	2,326	3,506	3,163	8,877	8,712	10.2	17.6	14.9	9.6	24.6	26.7	39.5	36.3		
1961	792	1,545	1,314	757	2,255	2,420	3,569	3,177	8,439	8,217	9.4	18.8	15.6	9.2	26.7	29.5	42.3	38.7		
1962	1,565	2,317	1,618	937	2,451	2,645	4,069	3,582	9,727	9,510	16.1	24.4	16.6	9.9	25.2	27.8	41.8	37.7		
1963	1,749	2,531	1,836	1,066	2,589	2,807	4,425	3,873	10,412	10,171	16.8	24.9	17.6	10.5	24.9	27.6	42.5	38.1		
1964	1,379	2,059	2,420	1,292	2,752	3,077	5,172	4,369	11,827	11,306	11.7	18.2	20.5	11.4	23.3	27.2	43.7	38.6		
1965	2,249	3,088	2,676	1,354	2,958	3,416	5,634	4,770	14,576	13,877	15.4	22.3	18.4	9.8	20.3	24.6	38.7	34.4		
1966	2,999	3,731	2,624	1,142	3,233	3,713	5,857	4,855	16,716	15,799	17.9	23.6	15.7	7.2	19.3	23.5	35.0	30.7		
1967	3,295	3,995	2,488	1,030	3,554	3,994	6,042	5,024	16,307	15,398	20.2	25.9	15.3	6.7	21.8	25.9	37.1	32.6		
1968	3,516	4,048	2,657	1,517	3,765	4,242	6,422	5,759	17,320	16,380	20.3	24.7	15.3	9.3	21.7	25.9	37.1	35.2		

^a Capital Consumption Allowances

^b Gross accumulation is equal to total domestic investment; the corresponding saving is equal to national saving plus saving made available by non-residents. To make the new and old series comparable, the unrevised series has been made to include the old estimates of government capital spending.

Source: D.B.S., National Income and Expenditure Accounts, 1926-1968, (Ottawa: Queen's Printer, August 1969), p. 22

governmental or other saving in Canada would obviously be a step in the right direction as when on January 17, 1961, he urged that

a programme for making ourselves independent of future imports of the savings of foreigners should include measures to increase our own rate of saving, with particular emphasis on whatever increase can be achieved in the rate of personal savings by Canadians.³¹

Associated with Mr. Coyne's view of excessive foreign borrowing in Canada was the closely linked problem of excessive foreign ownership. Coyne's concern seemed to resemble, in some respects, the observations on foreign ownership and control made in the Final Report of the Royal Commission on Canada's Economic Prospect to the effect that

Many Canadians are worried about such a large degree of economic decision-making being in the hands of non-residents or in the hands of Canadian companies controlled by non-residents. This concern has arisen because of the concentration of foreign ownership in certain industries, because of the fact that most of it is centred in one country, the United States...

We believe Canadians should have more tangible assurance than they now have that people who are responsible for the management of such foreign-owned concerns will, whenever reasonably possible, make decisions that are in the best interests of Canada; that such concerns in effect become more "Canadian" in outlook.³²

³¹J. E. Coyne, Speech Number 7, pp. 9-10; he also developed this aspect in Speech Number 2, p. 10. (For complete references, see Appendix IV).

³²Canada, Royal Commission on Canada's Economic Prospects, Final Report (Ottawa: Queen's Printer, November 1957), pp. 389, 392 and 393.

Mr. Coyne, for his part, deplored the high level of foreign control of Canadian industry when he said: "No other nation so highly industrialized as Canada has such a large proportion of its industry controlled by non-resident companies."³³

Later on in New York City, he obviously opted in favour of larger equity participation by Canadians in their industries which had become foreign-owned, when he said that:

Ownership and control of Canadian industries by United States industries is in some ways less desirable than would similar ownership and control by European interests.... European and especially English parent companies show a greater willingness to allow and even encourage Canadian participation in share ownership of business in Canada, either by public sale of stock or by going into partnership with native Canadian companies.³⁴

As a consequence of these views on excessive Canadian foreign borrowing and foreign ownership of Canadian manufacturing and resource industry, Mr. Coyne invoked in some of his speeches strong nationalistic arguments. For example, in March, 1961, he concluded a speech by claiming that

Most Canadians are firm believers in the adage of Abraham Lincoln that self-government is better than good government. In economic and social terms, self-development is better for rounded life and continued vigour of a nation like Canada, and will do more to satisfy national aspirations of every kind

³³J. E. Coyne, Speech Number 5, p. 22. (See Appendix IV).

³⁴J. E. Coyne, Speech Number 9, pp. 12-13. (See Appendix IV).

than the most ideal kind of purely economic development, if the latter involves perpetuation of large deficits in our balance of payments, continued reliance on endlessly growing foreign debt, and a continuously shrinking proportion of industry under domestic ownership and control. To achieve our goals we must solve our balance of payments problem with the outside world, and especially with the United States, and rely on our own resources, not only material factors, but resources of the human mind and spirit, in order to build our own economic future, and our own expression of national independence.³⁵

Finally, in this section, Mr. Coyne's views on Canadian exchange rates and on the use of monetary policy will be outlined. Firstly, on the topic of exchange rates, Governor Coyne attributed the premium rate on the Canadian dollar to an excess of foreign borrowing over imports. In 1960, Coyne developed his views on this subject, when he stated:

The fact is that at times the amount of foreign borrowing done by Canadians has exceeded even the large volume of imports then requiring to be financed and has led to a strengthening of the Canadian exchange rate ... I have no doubt that the marginal factor ..., has been the unnecessary and ill-advised borrowing in foreign currencies on the part of some provincial governments and municipalities and their agencies, whose operations have no connection with foreign exchange or foreign trade on which to base the servicing of foreign currency obligations.³⁶

In the latter part of the above statement, Governor Coyne seems to argue as if there were no foreign exchange

³⁵J. E. Coyne, Speech Number 10, p. 25.

³⁶J. E. Coyne, Speech Number 3, pp. 10-11. (See Appendix IV).

market and that only enterprises that earned foreign exchange directly were justified in incurring foreign debt.

Further, having implied that a premium exchange rate in Canada was undesirable, he warned that

If the Canadian dollar ever starts down the slippery slope of currency depreciation, as has been urged already by some, and as can happen to any nation that looks for apparently easy short-run gains without regard to the future, no one can say what the ultimate price may be at which these foreign debts will have to be redeemed.³⁷

While believing in the undesirability of a premium exchange rate, it seems that Mr. Coyne failed to specify in his public speeches, his exact position with regard to a desirable exchange value of the Canadian dollar. However, during a presentation before the Senate Committee on Manpower and Employment, on April 26, 1961, Coyne appeared to be somewhat more specific on this topic. He asserted that the devaluation of the currency or the depreciation of the international exchange value of the Canadian dollar, was definitely within the group of inflationary or "something for nothing" proposals.

This brought him to the conclusion that

We would do great damage to the Canadian economy as a whole and to many persons and enterprises in Canada by engaging in deliberate exchange devaluation or by utilizing the presumed powers of monetary policy with the definite object of putting the Canadian dollar to a discount. I do not suggest

³⁷Ibid., pp. 11-12.

that it is desirable to maintain a premium on the Canadian dollar, and indeed would hope to see such a change in our economic arrangement as would prevent a premium from developing again, but it is quite a different matter from attempting to bring about the inflation of all prices and all costs which is the chief effect and avowed objective of deliberate depreciation of the national currency.³⁸

Secondly, Mr. Coyne's views on the use of monetary policy will be reviewed. It is an accepted fact in western economies that monetary policy is only one tool of public economic policy and must be used in conjunction with other economic policies in order to fulfill its role as a stabilizing tool. Governor Coyne seemed to be in agreement with this general principle. Speaking on the need for Canada to strive for the goal of balanced economic growth with price stability, he stated:

Monetary policy cannot possibly do the whole job itself, and would be severely handicapped if left in sole possession of such responsibility. To say this is not to say that monetary policy cannot make an important contribution.³⁹

However, Coyne apparently believed that monetary policy was of limited use in combatting a recession. Before the Senate Committee on Manpower and Employment, he mentioned:

³⁸J. E. Coyne, Remarks Before the Senate Special Committee on Manpower and Employment (Ottawa, April 26, 1961), pp. 11-12.

³⁹J. E. Coyne, Speech Number 1, p. 2. (See Appendix IV).

The danger is that too much magic power may be thought to reside in monetary expansion and deficit finance and too little attention be paid to other fields of policy or other kinds of measures which in combination I believe are considerably more important.⁴⁰

On numerous occasions prior to his remarks before the Senate Committee, he had voiced his belief that "easy money" or large scale monetary expansion would not solve the problem of unemployment in Canada. On November 14, 1960, he noted that

Suggestions for large scale expansion and for central bank action designed deliberately to reduce interest rates or to reduce the value of the Canadian dollar, seem to me to be acts of defeatism, a despairing effort to find an indirect way, a magic way, an effortless and costless way to do something which can only be done by methods which involve real effort and a recognition of real costs, the burden of which can be shifted or shared by more employment and more production.⁴¹

Thus, essentially, these were Mr. Coyne's views on economic conditions in Canada as well as on various economic problems then facing Canada.

⁴⁰J. E. Coyne, Remarks Before the Senate Committee on Manpower and Employment (Ottawa, April 26, 1961), pp. 6-7.

⁴¹J. E. Coyne, Speech Number 6, pp. 23-24. Mr. Coyne also repeated his views against large-scale monetary expansion on various occasions, among which, in Speech Number 9, p. 8; and Speech Number 7, pp. 14-15. (For complete references to the above Speeches, see Appendix IV).

2. Mr. Coyne's Policy Proposals

In his various public speeches as well as in his remarks before the Senate Committee on Manpower and Employment on April 26, 1961, and also in his Annual Reports to the Minister of Finance, Mr. Coyne seemed to avoid making any "specific" or "concrete" policy proposals in an attempt to solve Canada's then economic problems. Rather, Coyne's proposals, on those occasions, remained essentially in the realm of general suggestions. Governor Coyne may have employed such a general approach in view of the diversity of backgrounds of his audiences, and perhaps also because of his belief that "specific" policy proposals should be made directly to the Minister of Finance. It was only in a confidential memorandum to Mr. D. M. Fleming, dated February 15, 1961,⁴² that the Governor put forward "specific" policy recommendations as a means to remedy the then major Canadian economic problems. Those "specific" policy proposals will be outlined in this section. First, however, Governor Coyne's "general" and public proposals to help solve Canada's economic problems will be discussed briefly. In some speeches, Coyne indicated "general" measures to improve Canadian economic

⁴²J. E. Coyne, The Requirements of Economic Policy Today, Memorandum to D. M. Fleming, Minister of Finance (Ottawa: February 15, 1961), 24 p.

conditions. The following excerpt exemplifies the scope of those "general" proposals:

There are not one but several major requirements for the prevention of inflation, the maintenance of sound and steady growth and the prevention or mitigation of fluctuations in the level of unemployment. One requirement, certainly, is the maintenance of a sound monetary policy, which means restraint in the process of expanding the stock of money. Another is moderation in spending and borrowing by governments and public bodies. A third is the development and maintenance of appropriate fiscal policies and public policies of various other kinds designed to promote sound expansion in private business but to discourage excessive spending throughout the economy.⁴³

With regard to the first requirement, that of a sound monetary policy, it has been pointed out in Section 1 of this chapter that, according to Mr. Coyne, large-scale monetary expansion to combat unemployment was to be avoided at all costs.

Concerning the second general requirement - that of moderation in spending and borrowing by governments and public bodies - he stated: "Under present conditions, general measures involving larger government deficits would not contribute significantly to an increase in employment in Canada."⁴⁴

However, before the Senate Manpower Committee, on April 26, 1961, having quoted Professor Samuelson's special

⁴³J. E. Coyne, Speech Number 2, p. 4. (See Appendix IV).

⁴⁴J. E. Coyne, Speech Number 3, p. 14. (See Appendix IV).

task force report on economic conditions in the United States and more specifically as it related to planned deficits, Governor Coyne qualified his earlier position as follows:

I do not quote these words in order to indicate opposition to government spending as such, and indeed I believe some degree of increased spending in some categories of expenditures is desirable. To rely on deficit finance for such expenditures, however, is to use a very dangerous drug, and I believe its use should be held to a minimum.⁴⁵

In early 1960, Mr. Coyne apparently pointed out in what areas moderation in spending should take place when he suggested that the best areas were in social capital investment and resource development investment. On that occasion, he asked:

Supposing we had been living within our means during the past five or six years, what would the difference in capital expenditures have been? ... It would have meant that we would have built fewer houses and perhaps lower cost houses This would have meant a smaller consequential expenditure on streets, sewers, etc., by municipalities. We would have built fewer miles of new high-cost highways, and would have tried to finance more on various expenditures by governments and government enterprises out of revenue instead of out of borrowing. We would have had somewhat less in the way of national resource development... would have needed less hydro electric development ... and would of course have had somewhat less spending on public buildings and other public facilities.⁴⁶

⁴⁵J. E. Coyne, Remarks Before the Senate Committee on Manpower and Employment (Ottawa, April 26, 1961), p. 7.

⁴⁶J. E. Coyne, Speech Number 2, pp. 16-17. (See Appendix IV).

In relation to the third requirement for steady growth and the prevention of inflation and unemployment, Mr. Coyne advocated the development and maintenance of appropriate fiscal policies designed to promote sound expansion in private business, while at the same time discouraging excessive spending throughout the economy. However, in his speeches, Coyne did not seem to elaborate on specific fiscal policy measures to promote sound expansion in private business. On this subject of expansion, the Governor was in fact quite vague, as he seemed to favor expansion of secondary industries and also export-producing industries. He stated:

In addition to whatever expansion of employment-increasing export industries may reasonably be expected, a large expansion of domestic secondary industry in various parts of the country is essential if we are to re-establish economic equilibrium between Canada and the rest of the world and also in order to provide for equilibrium in employment opportunities inside Canada itself.⁴⁷

While considering the subject of expansion of secondary industry, Governor Coyne singled out the problem of regional disparity in investment, when he expressed the view that

Canada can only be strong and meaningful in terms of national identity if each of its main economic regions is likewise enabled to develop and maintain a healthy economic structure.⁴⁸

⁴⁷J. E. Coyne, Speech Number 3, pp. 17-18. (See Appendix IV).

⁴⁸Ibid., p. 18.

Finally, in his public speeches, it seems that the closest Mr. Coyne came to suggest "specific" proposals, was on the subject of the adoption of controls. In order to solve Canada's problem of unemployment and its balance of payment deficits, Coyne, on one occasion in 1960, implied that the only non-inflationary way of dealing with such problems was through the protection of domestic industry. This action, he seemed to believe, would increase domestic employment and lower the Canadian propensity to import and thus reduce the current account deficit. He stated in this connection that

The cost of unemployment and of measures to promote increased employment are real and must be borne by someone. There are non-inflationary methods to deal with this, if the people of Canada are prepared to share the cost. ... In one way or another, those of us who are employed must contribute out of our resources to help share the cost of unemployment and to help create conditions in which greater employment opportunities will be available within Canada. ... We need to develop our domestic industry in such a way as to reduce our propensity to import⁴⁹

In contrast to the above-mentioned "general" proposals put forward in his public speeches, Governor Coyne's proposals contained in the memorandum of February 15, 1961, to Finance Minister Fleming, were far more "specific".

At the outset of this memorandum, Coyne pointed out that major changes in Canadian economic policy were required

⁴⁹Ibid., pp. 15 and 17.

if Canada was to achieve full employment and steady growth at a satisfactory rate. He agreed that monetary policy had a part to play in any anti-recession economic programme and also in fostering long-term economic growth. However, he maintained that the whole range of economic policy should be focused on the goals of promoting full employment and a satisfactory rate of economic growth without inflation, and restoring equilibrium in the balance of payments. Thus, Coyne's programme of action was aimed at the achievement of these goals and he accordingly outlined the following "specific" measures or fields of action:

(1) To reduce imports:

- (a) Introduce a temporary tariff surcharge of ten per cent on the value of imported goods, applicable on all goods except a limited list not produced in Canada. The result expected was an immediate stimulus to increased production of various goods in Canada.
- (b) Announce immediately the repeal of the provisions of the Customs Tariff, whereby motor car manufacturers in Canada may import parts, free of duty, from the U.S. up to forty per cent of the value of their cars. The aim was to give greater encouragement to the expansion of production of parts in Canada and to the setting up of facilities in Canada to produce such parts.

- (c) Reduce the exemptions from sale tax and customs duties applicable to tourists' purchases by
- (i) removing permanently the exemption from the Canadian sales tax on goods imported by returning Canadian travellers.
 - (ii) removing for two years the corresponding exemption from customs duties in the case of goods imported by returning Canadian travellers.

(2) To mobilize the supply of Canadian savings in Canadian industries:

- (a) Establish a National Development Corporation with the power to raise funds by sale of its securities to the government or to the public, without government guarantee. The aim was to retain Canadian ownership and control in Canadian enterprises.
- (b) Expand the lending power of the Industrial Development Bank.
- (c) Establish a Local Government Finance Corporation. The aim was to ensure that provincial and municipal governments would be able to obtain financing on a sound basis in Canada.

(3) To ensure uniformity in regional development:

Set up a special Department of government, charged with studying and promoting increased development in depressed

or slow-growth areas. This department would simply make recommendations to the Federal Government or to the provincial governments concerned.

(4) To increase personal saving by Canadians:

Encourage the creation of small savings institutions and also credit unions, local savings banks, etc.

(5) To relieve provincial government budgets:

Establish a National Highways System and a Federal Roads Administration, with a permanent staff responsible for the construction and the maintenance of all international and interprovincial highways in Canada. Federal expenditures on highways should be financed by a federal sales tax on gasoline and diesel fuel oil as well as by toll charges.

(6) To offset cyclical unemployment:

Provide the permanent nucleus for a Resource Development Agency which, in order to offset cyclical changes in employment in the private sector of the economy, would expand or reduce the number of its temporary staff.

(7) To alleviate the direct impact of a recession:

Increase the incomes of the unemployed, for example, through the payment of a special supplement of 25 per cent of regular unemployment insurance benefits, until the seasonally adjusted rate of unemployment remained

below four per cent of the labour force for three successive months.

(8) To produce over-all growth and prevent further foreign indebtedness:

Adopt new and higher taxes on luxury items of consumption and on personal income as part of the cost of a full-employment policy; also increase taxes on liquor and tobacco and implement a three-year temporary increase in personal and corporate income tax of three per cent, called a National Development Tax.

(9) To minimize deficit finance:

Without making "specific" proposals in the field, Coyne simply suggested that various revenue measures and various expenditures should be chosen as to secure the maximum impact with the minimum deficit or additional borrowing. The Governor further advanced that a deficit occasioned by a general reduction in personal income taxes or in corporation taxes would not make a worthwhile contribution, under the circumstances prevailing at the time to production and employment in Canada, as most of this general reduction in tax rates would go to increase net income of these who were not unemployed. Some part, probably a fairly large part, would be spent on imported goods and services, which would add to the balance of payments deficit and thus not increase

production and employment in Canada.

(10) To reduce the national debt:

Establish a Board of Commissioners for the National debt, empowered to seek professional advice, and consult with committees of investors to determine the term, interest rate and price of new issues of Government of Canada securities, and to operate a Sinking Fund which would receive (as a statutory charge on budget) an annual amount equal to one per cent of the total outstanding debt, to be employed for the purchase, in the market, of Government securities having a maturity at the time of purchase of more than five years.

(11) To reduce the volume of borrowing by the Government:

Establish a selling agency independent of the Central Mortgage and Housing Corporation, empowered to requisition mortgages from C.M.H.C. for resale on attractive terms to ensure a large continuing sale and actively promote the development of a mortgage market in Canada and institutions designed to operate in such a market.

(12) To prevent burdening of the market by large sales of securities by the Unemployment Insurance Fund:

(a) Increase the rates of contribution.

(b) Remove from the Fund the responsibility for non-insurable risks.

(c) In time of surplus, have the Fund invest in special non-marketable issues of Government securities of no fixed term, which would be redeemed by the Government whenever necessary to meet a drain on the Fund.

(13) To reduce heavy inflow of foreign capital:

Employ taxation measures (outlined further) and use the resources of the Exchange Fund to stabilize the value of the Canadian dollar at parity with the United States and, avoid the inflation, windfall gains and structural distortions of the economy involved in exchange depreciation or devaluation of the currency.

(14) To restrain consumer credit:

Give power, by a permanent statute, to the Governor-in-Council to set limits on and vary from time to time as to the term the minimum down payment, the finance charges etc., in the whole field of consumer credit and personal loans. This proposed measure would minimize waste in Canadian savings.

(15) Governor Coyne, in this same memorandum, gave a long description of uses of fiscal policy for economic purposes. The major fiscal policy measures which he proposed were as follows:

- (a) (i) grant several years exemption from income tax to new business enterprises and partic-

ularly those engaged in the production of goods which would replace imports.

(ii) examine the indiscriminate exemption from income tax for three years in the case of new mining operations, as it seemed possible for large profitable mines (often foreign-owned) to operate for years while paying little or no tax by simply opening up new ore bodies every three years as separate mines.

(b) Coyne also suggested various ways of varying the amount of depreciation allowances that could be charged against current income before tax, especially in those cases which seemed to serve a national purpose. For example:

(i) grant to small businesses the right to set their own depreciation allowances so that, if adequate profits were earned, the entire amount of the cost of new equipment, buildings, etc., could be charged to profits in the same year as the capital expenditure was made.

(ii) grant accelerated depreciation to companies expanding their operations in depressed areas or underdeveloped regions.

(iii) where valuable purpose was served, grant "initial allowances" or "special allowance" -

allowing depreciation charges to exceed 100 per cent of the value of the capital asset; the benefit of such provision should not go to large foreign-owned enterprises.

(iv) give generous depreciation allowances for the acquisition of capital equipment for use in research in Canada and in connection with the acquisition of Canadian capital equipment made in Canada.

(v) re-examine standard depreciation schedule which was too high, except in the case of smaller businesses.

(c) Re-examine depletion allowance permitted in the field of mining and oil production so as to limit such allowances to smaller enterprises or to those owned and controlled by Canadians.

(d) Counteract the special inducement afforded by the United States tax laws to American investors in Canadian resource development by levying a special tax on profits of companies they own or dividends paid to such investors equal to the amount of any special depletion allowances or tax exemption which they receive under United States tax law.

(e) Adjust corporation income tax and related taxes so as to encourage more saving and investment by

Canadians, for example, by extending the present rate of twenty per cent now applying on the first \$35,000 of profits to the first \$100,000 profits; by reducing the rate of corporate income tax to forty per cent in relation to all profits distributed as dividends, and increase the rate to sixty per cent on undistributed profits, in order to encourage greater distribution of corporate profits to Canadian shareholders; by terminating all agreements with other countries which limit the ability of the Canadian Parliament to legislate with respect to the withholding tax on income received by non-residents from Canadian sources, and raise the present rate of fifteen per cent to a new rate of twenty per cent and ultimately to thirty per cent.

- (f) In order to encourage domestic industry and discourage imports, re-examine excise taxes. For example, impose excise taxes on larger and more expensive categories of consumer goods such as on automobiles, where the seven and one half per cent excise tax on smaller and less expensive cars could be removed, and a much higher scale of rates be applied to more expensive cars.

Mr. Coyne also believed that the imposition of a Federal sales tax on gasoline would not only bring in

substantial revenue but would to some extent discourage consumption and thus ease our foreign exchange difficulties, and would also encourage the use of smaller cars, rather than larger cars which have a high U.S. dollar content.

Finally, apart from general or selective action in the field of tariffs or import restrictions, Governor Coyne suggested an examination of major categories of imports in order to find approaches or methods with or without tax incentives, which would help bring a substantial increase in Canadian production.

These in essence, were Mr. Coyne's "specific" policy proposals. It is interesting to note that a number of similar proposals to those suggested by Coyne were adopted in the years following his resignation. Chapter V of this thesis, while considering the aftermath of the Coyne Affair will examine the implications of some of Governor Coyne's "specific" proposals.

CHAPTER IV

VARIOUS REACTIONS TO GOVERNOR COYNE'S ECONOMIC VIEWS AND POLICY PROPOSALS

Mr. Coyne's economic views and the policy proposals advanced in his Annual Reports between 1955 and 1960, as well as in his public speeches, resulted in a variety of opinions as to their soundness. At one extreme, there were those who disagreed in large part with the Governor's views and policy proposals and who openly manifested their opposition. Among these were the Minister of Finance and numerous academic economists. At the other extreme, there were those who sympathized with some of Coyne's economic ideas, mainly newspaper editorialists. Although Governor Coyne's critics did not reject his views and proposals altogether, it seems that their criticisms far outnumbered the sympathetic comments put forward in connection with his economic views and proposals. The first two sections of this chapter will review some of Governor Coyne's critics' views and, when possible, their counterproposals. Although such a review does not claim to be all-inclusive, the critical viewpoints which will be considered appear to summarize the core of the opposition to his views and proposals. The Honourable D. M. Fleming's criticisms, in view of his predominant role in the Coyne Affair, will be considered in the first section

of this chapter, while the views of a number of academic economists will be discussed in the second section. The third section will examine the reactions of the press to Governor Coyne's economic ideas.

1. Honourable D. M. Fleming's Criticisms and Counterproposals

In retrospect, it is clear that Finance Minister Fleming and Governor Coyne did not always agree on certain matters pertaining to economics. For example, as noted in Chapter I, in 1956 Mr. Fleming had requested that the Governor persuade the banks to reduce their minimum liquid asset ratio from fifteen to thirteen per cent; Mr. Coyne was totally opposed to this idea. As it turned out, the matter did not develop into an open disagreement then. Later, however, when Mr. Coyne began his public speeches - during the latter part of 1959 - Mr. Fleming publicly criticized the Governor's economic views, in various speeches and particularly in the budget addresses of March 30, 1960, and of June 20, 1961.

It should be pointed out, nevertheless, that on occasions, Finance Minister Fleming gave some indication that he did not disagree altogether with the Governor's economic views. For example, on the subject of inflation per se and of the inherent dangers of inflation, it can be

shown that Mr. Fleming and Mr. Coyne held similar views. As we have seen, Coyne regarded inflation as an evil to be avoided at all costs and at all times. Mr. Fleming apparently also recognized the dangers of inflation, for, on October 8, 1959, he made the following point:

There is a prevalent belief that a measure of inflation, called "creeping inflation" contributes to growth. ... There can be no compromise with inflation in any of its forms, including its insidious creeping form. ... Inflation is the enemy of growth. We should not be deceived when it for a time dons the disguise of growth. Rather, both inflation and the anticipation of inflation increase instability in business. ... Both inflation and the anticipation of inflation destroy the basic processes of saving and investment. They dilute the purchasing power of accumulated money savings.

We have not lightly taken up the battle against inflation.¹

Furthermore, in closing some of his speeches, Mr. Fleming proposed to the Canadian people, as had Mr. Coyne, similar qualities of character necessary to prevent inflation. For example, Finance Minister Fleming's remarks contained such expressions as "enterprise and initiative", "self-discipline", "self-reliance and forbearance", "working and saving together"; he also concluded one of his speeches by saying, "we must be vigilant, realistic and determined in

¹D. M. Fleming, Expansion Without Inflation, Speech to the Empire Club of Canada (Toronto: October 8, 1959), pp. 16-17.

our efforts to resist the perils of inflation."² Governor Coyne, on the other hand, used the following descriptive terms: "hard work", "self-discipline", "independent", "industrious", "self-respecting", "anything that can encourage increased saving in Canada."

Thus, both Mr. Coyne and Mr. Fleming seem to have held similar views with regard to inflation per se and its dangers. Their agreement ends there, however, and a consideration of their respective assessments of economic conditions and prospects for Canada in the late fifties and early sixties shows them to be very far apart. For example, Fleming, in his budget speech of March 30, 1960, elaborated on specific points raised by Coyne in many of his speeches. One of these was concerned with economic growth in Canada in 1960. Contrary to Coyne's statements on the matter, Finance Minister Fleming made the point in this budget speech that "We can look optimistically to another year of solid expansion and balanced growth."³ Later on he voiced his belief that: "The balanced nature of our economic growth has contributed to price stability and price stability in turn, to balanced growth."⁴

²Ibid., p. 18.

³Canada, House of Commons Debates, 3rd Session, 24th Parliament, Vol. III (Ottawa: Queen's Printer, 1960), p. 2669.

⁴Ibid., p. 2670.

Furthermore, Mr. Fleming made it clear that he did not share Mr. Coyne's views on Canadian international economic relationships and the alleged danger that they represented for Canada's balanced growth, stability and independence. Fleming noted that Canada had incurred a fairly large deficit on merchandise and on current account during the year 1959 but, in contrast to Coyne, the Finance Minister looked at these deficits in an optimistic manner, that is, as the natural result of foreign exploitation of genuine investment opportunities in Canada. In this connection, he remarked that

In the goods sector our deficit amounted to about half the size of the record deficit of 1956. This improvement reflects the fact that imports were more affected by the intervening recession than were exports, while the recovery of 1959 saw sizeable increase in both.... Our deficit on account of services has steadily increased, reflecting higher dividend payments on successful investments by non-residents in Canada, higher interest payments, business fees of one kind and another, and increased travel and expenditure by Canadians abroad.⁵

Then, during the same address to the House, the Minister of Finance placed the balance of payments situation in the context of Canada's whole pattern of economic activity, internal and external, when he said:

What is significant is the use we make of all our resources, including the product of our own labour and equipment, and what we obtain as a result of

⁵Ibid., p. 2671.

our foreign transactions. What is important is that a substantial portion of these resources should be put into new capital investment, rather than into consumption, and that this new investment should be of a character that will promote the efficiency and productivity of our country.⁶

On another occasion, Mr. Fleming made a point of denying the relevance of Mr. Coyne's distinction between Canadian imports of physical capital goods and of physical consumer goods, when he remarked that

It has sometimes been suggested that because we are now importing rather more consumer goods and fewer capital goods, this would indicate an inadequate use of our capital from abroad. This, of course, is quite wrong. There are two points I should like to make in this connection. First, as a nation we are becoming relatively less dependent on imports, and a high proportion of the goods we need is being produced in our own factories. Second, in respect to the basket of goods we acquire with the capital from abroad, what really matters is not whether they are consumer goods or capital goods, but that of the goods and services available to Canada an adequate proportion should be devoted to sound investments which contribute to a strengthening of the overall Canadian economy.⁷

Governor Coyne held the view that Canada had used excessive foreign investment in achieving its growth. Mr. Fleming summarized his own position on the matter in the budget address of March 30, 1960, outlining the pattern of Canada's net foreign indebtedness and the cost of servicing its external debt. He claimed that

⁶Ibid.

⁷D. M. Fleming, Speech to the Manufacturers' Association (Toronto: April 19, 1960), p. 17.

Since 1950 we have been expanding very rapidly in resource development, in secondary industries, and in augmenting and modernizing our social capital, at rates considerably in excess of our domestic rate of saving. In this period the rate of increase in our net foreign indebtedness has exceeded the growth in national output, and the ratio of net foreign debt to gross national product is currently about 45 per cent. Thus in relation to our national product our net foreign indebtedness is to-day less than that what it was before the war and our ability to service it correspondingly greater. The net cost of servicing out external debt in 1926-1930 represented more than 4 per cent of our gross national product; in 1950 it was just over 2 per cent, and in 1959 it was just under 1 1/2 per cent. I do not anticipate that, if we manage our affairs prudently and properly, Canada will indefinitely continue to rely on capital from abroad as heavily as in the last few years.⁸

Table 12 elucidates Mr. Fleming's views by showing, among other things, the Canadian balance of international indebtedness as a percentage of G.N.P. for the selected years from 1930 to 1967. Table 13 depicts the cost of foreign investment in Canada in terms of interest and dividends paid to and received from foreigners for selected years from 1926 to 1969.

Governor Coyne had further made the point that Canadians were "Living Beyond Their Means," and in effect borrowing abroad in order to make possible too high a level of expenditures. Mr. Fleming, however, believed that

The initiative for this inflow has come in part from our own people who have borrowed abroad, and in part from foreign investors attracted by the

⁸Canada, House of Commons Debates, Vol. III, 1960, p. 2672.

TABLE 12

Canadian Balance of International Indebtedness
as a Percent of Gross National Product^a
for Selected Years from 1930 to 1967
(in billions of dollars)

	Canadian Liabilities to Foreigners	Canadian Assets Abroad	Balance of Indebtedness	Percent of G.N.P.
1930	8.0	1.5	6.5	113.4
1939	7.4	1.9	5.5	97.5
1945	7.6	3.8	3.8	32.1
1949	8.9	5.2	3.7	22.6
1953	12.7	6.6	6.1	24.3
1957	19.6	7.9	11.8	36.9
1961	27.3	9.7	17.6	46.9
1963	30.4	11.0	19.4	44.6
1965	35.2	13.1	22.1	42.3
1967	39.0	15.0	24.0 ^b	38.6

^aUsing "Previously Published" figures of G.N.P. at current prices; see footnote 17, Chapter III, *Supra*, p. 76.

^bPreliminary estimate.

Source: D.B.S., Canada's International Investment Position, 1926-1954; D.B.S., The Canadian Balance of International Payments, A Compendium of Statistics, 1946-1965 and D.B.S., Quarterly Estimates of the Canadian Balance of International Payments, Cat. 67-001 (Ottawa: Queen's Printer).

TABLE 13

Cost of Foreign Investment as a Percent of
Gross National Product^a in Canada, for
Selected Years from 1926 to 1969

Year	Interest and Dividends			Net Payment as a Percent of G.N.P.
	Paid to Foreigners	Received from Foreigners	Balance Paid	
	Millions of Dollars			
1926	240	32	208	4.0
1930	348	59	289	5.0
1939	306	51	249	4.4
1945	251	80	171	1.5
1949	390	83	307	1.8
1951	450	115	335	1.5
1953	404	165	239	1.0
1955	473	161	312	1.1
1957	594	153	441	1.3
1959	671	180	491	1.4
1961	764	213	551	1.4
1963	860	230	630	1.4
1965	1086	322	764	1.4
1967	1211	295	916	1.4
1969	1320	390	930 ^b	1.2

^aUsing "Previously Published" figures of G.N.P. at current prices; see footnote 17, Chapter III, *Supra*, p. 76.

^bPreliminary estimate.

Source: D.B.S., Canada's International Investment Position, 1926-1954; The Canadian Balance of International Payments, A Compendium of Statistics, 1946-1965 and Quarterly Estimates of the Canadian Balance of International Payments, Cat. 67-001 (Ottawa: Queen's Printer).

nature and the diversity of our resources. This direct investment ... is a reflection of strong confidence in our economic prospects and brings into Canada not only capital funds, but also technical know-how, and often also brings with it an assurance of export markets.⁹

With regard to Governor Coyne's belief that borrowing by provincial and municipal governments for social capital purposes as harmful, Mr. Fleming expressed a different view, when, in 1960, he asserted the following:

It is sometimes argued that borrowing abroad is unjustified. The argument appears to be that social capital does not generate export income. However, upon analysis the argument loses its validity. It is not necessary that each project for which funds are borrowed should itself earn export income, as long as it forms part of an overall pattern of development that strengthens our economy and our capacity to earn foreign exchange.¹⁰

On the related point of foreign control of Canadian industries, Mr. Fleming, in contrast to Mr. Coyne's contention, said in his March 1960 budget address, that

We welcome capital into Canada if, when here, it is willing to act as if it were Canadian and not as if it were foreign. During the past two years there has been increasing evidence in many quarters, that foreign capital in this country is becoming increasingly conscious of its Canadian responsibilities.¹¹

⁹Ibid., p. 2671.

¹⁰D. M. Fleming, Speech to the Canadian Manufacturers' Association (Toronto: April 19, 1960), p. 18.

¹¹Canada, House of Commons, Debates, Vol. III, 1960, p. 2671.

On the matter of proposals to solve Canada's economic problems, as considered in Chapter III, Mr. Coyne had implied in his public speeches that the flow of foreign investment should be curtailed by means of direct regulation of foreign exchange and investment. Apparently, Mr. Fleming drew such an inference, for he spoke out forcefully against government controls in his budget speech of 1960, claiming that

They may be justifiable in the midst of a national crisis. In peace and prosperity, in a free society, they are not warranted. Indeed, some of them would be unconstitutional. Moreover, I believe that some of these so-called remedies would actually cause the disease that they are supposed to prevent or cure. Government controls by interfering with freedom, cause confidence to falter, initiative to freeze and capital to take flight.¹²

It is apparent that Mr. Fleming's views on Canadian growth prospects, on the Canadian balance of payments as well as on the use of controls, differed sharply from those of Mr. Coyne. During the heat of the Coyne Affair, Fleming spelled out even more clearly the basis of his disagreement with Coyne's economic views and proposals. On the occasion of the budget speech of June 20, 1961, the Minister of Finance stated that Governor Coyne disagreed with the four foundation-stones of the budget which contained the government's steps for a comprehensive, sound and responsible

¹²Ibid., p. 2676.

economic programme designed to raise the levels of employment and production in Canada.¹³

Mr. Fleming told the House of Commons that essentially, the Government and the Governor disagreed on the following points:

- (a) While the Government believed that Canada should remain a law-abiding member of the international financial and commercial community, Governor Coyne's speeches exuded ultra-protectionism and isolationism.
- (b) While the Government believed that flexibility in the structure of interest rates was of importance to the pace of economic expansion and the level of employment, Coyne, in his Annual Report to the Minister of Finance for 1960 and in other statements, argued that the Central Bank had little influence on interest rates and the balance of payments.
- (c) While the Government was of the opinion that the exchange rates, like the rates of interest should be flexible, and that monetary policy and interest rates had an important role to play in relation to a flexible exchange rate, Coyne was totally opposed to a depreciation of the international exchange value

¹³Canada, House of Commons Debates, Vol. 105, No. 137 (Ottawa: Queen's Printer, June 20, 1961), pp. 6666-6667.

With regard to point(b)below, it should be noted that Coyne, in many speeches, clearly outlined his views on the near ineffectiveness of monetary policy as a stabilization tool.

of the Canadian dollar and to the use of monetary policy in this connection.

- (d) While the government was of the opinion that a substantial budget deficit, accompanied by appropriate flexibility of interest rates and exchange rates, would promote economic expansion, Coyne, on the other hand, had been preaching all across the country a far more austere and rigid doctrine.

These points seemed to summarize Fleming's opposition to Coyne's economic views and proposals.

2. Academic Economists' Major Criticisms of Coyne's Economic Views and Policy Proposals and Their Counterproposals

The academic economists represented the core of the criticisms directed at Mr. Coyne's economic ideas. The following two excerpts reflect the general tone of their opposition to the Governor's views on Canadian economic conditions as well as to his policy proposals. H. S. Gordon wrote in early 1961 that

His [Coyne's] interpretations of current Canadian economic conditions and problems appear to suffer considerably from this lack of general competence in economic analysis as well as from the lack of knowledge or consideration of important facts. The resulting policy prescriptions are extremely worrying to any economists, and they should be just as worrying to anyone else who is concerned

for the long-run welfare and progress of Canada.¹⁴

Another economist, H. E. English, in a letter to the editor of the Toronto Globe and Mail, on July 15, 1961, wrote the following:

I am one of those who last November called on the government to assert its responsibility for monetary policy. I have felt for some time that Mr. J. E. Coyne's administration of monetary policy has been unsettling the financial markets to a degree which would make it difficult to lower interest rates even if he wanted to. I also consider that his prescription for economic policy is misguided and impractical in its most essential elements. Furthermore, I am confident that most economists will agree with these views.¹⁵

These and other economists however, were more specific in their criticisms, as will now become apparent.

Economists' Opposition to Coyne's Economic Views

Governor Coyne's economic views were criticized by economists long before the Coyne Affair erupted in 1961. In fact, in an attempt to understand the reasoning behind the Governor's actions in the conduct of monetary affairs, economist Harry C. Eastman, early in 1958, undertook an

¹⁴H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 37. Gordon, in similar terms, also criticized Mr. Coyne's economic views in an article entitled "Central Banking and Responsible Government," in The Canadian Journal of Economics and Political Science, Vol. 27, No. 1, February, 1961, p. 20.

¹⁵H. E. English, Letter to the Editor, "The Government and Mr. Coyne," Globe and Mail, July 15, 1961.

examination of the Annual Reports of the Governor to the Minister of Finance, for the years 1955 to 1957. He concluded that Coyne's views of how monetary policy worked was unorthodox in that Coyne had modified the orthodox doctrine of monetary policy by introducing an upper as well as a lower limit to fluctuations in the price of money, that is, in the rate of interest. According to Eastman, the Governor's logic was as follows:

During periods of inflationary pressure, interest rates cannot be raised sufficiently to check price increases, hence, in periods of recession rates cannot be lowered to the full extent to facilitate a revival, for such a lowering might produce inflationary conditions at a later date. Inflation cannot be checked, and if unchecked will produce a recession, according to Mr. Coyne's business-cycle theory. The implied paradox then is that we must have a recession now in order to avoid it later.¹⁶

The author went on to give examples of the consequences of Mr. Coyne's disbelief in the functioning of prices. He cited firstly, the Governor's failure to expand appreciably the quantity of money; in Coyne's view, this failure would lead to inflation followed by a renewed recession. Secondly, he noted Governor Coyne's persistence in keeping the long-term rates of interest high. A University of Manitoba economist, Clarence L. Barber, also stated in this regard that

¹⁶Harry C. Eastman, "The Economic Consequences of Mr. Coyne," The Canadian Forum, Vol. 38 (May 1958), pp. 31-32.

When unemployment began to increase in 1957, there should have been a concerted effort on the part of the Bank of Canada to reduce interest rates in order to eliminate the incentive that existed for borrowing in the New York and other foreign markets.¹⁷

In his examination of the Bank's Annual Reports from 1955 to 1957, Eastman concluded that

The reports of the Governor show him to be consistent, independent and forceful in the fulfillment of his duties. These are high virtues in a public servant who bears great responsibility for the economic welfare of the country, provided that he brings to the exercise of his functions a grasp of the problems with which he must deal.¹⁸

When Mr. Coyne began his public speeches in late 1959, many more of his views were challenged by a number of academic economists. With respect to Canadian economic objectives in the late 1950's and early 1960's, Coyne voiced his belief that monetary and other government policies should be directed towards the attainment of three specific objectives, namely full employment, stability in prices and a maximum rate of sustainable economic growth. A criticism from H. S. Gordon on the above view was that Coyne had attached undue importance to the objective of price stability. Commenting on the Governor's remark in a speech in January 1960, to the effect that a sound currency and price stability were

¹⁷Clarence L. Barber, "Wrong Cures Used on Economy," Montreal Gazette, June 9, 1961.

¹⁸Harry C. Eastman, "The Economic Consequences of Mr. Coyne," The Canadian Forum, Vol. 38 (May, 1958), p. 148.

essential to the maintenance over a long period of fruitful economic growth and a consistently high level of employment, Gordon remarked critically:

What Mr. Coyne is saying is that not only is price stability one of the major economic objectives of a modern state but that it must be recognized as the paramount objective. He is saying that we cannot have sustained growth without price stability and we cannot have full employment without price stability. We must regard the prevention of inflation as essential to the achievement of all other objectives.... Mr. Coyne never develops this argument in any way. He advances no evidence to support it, but seems to be content simply to assert it as if it were economic dogma.¹⁹

In order to substantiate his point, Professor Gordon cited the study which had just been carried out by the I.M.F. on the relation between price changes and economic growth in several countries over long periods of time. The conclusion reached by this study was that there did not seem to be any distinct general relationship between price changes and economic growth, since periods of rapid growth had been accomplished sometimes by rising prices, sometimes by falling prices, and sometimes by stable prices. There was no evidence that growth had been sustained for a longer time when it had been accompanied by stable or falling prices.

Thus, like Finance Minister Fleming, on the matter of economic objectives, Gordon concluded that "inflation

¹⁹H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 38.

control and price stability is merely one of the economic objectives of the modern state and we must make choices among the various objectives..."²⁰

Concerning Canada's economic situation in the late 1950's and early 1960's, it has been shown previously that Governor Coyne deplored the prevailing economic conditions and viewed the difficulties facing the economy as being due to a desire to have a rate of growth in excess to that which was "sustainable" or "appropriate". Canada, according to Coyne, was suffering from structural maladjustments resulting from excessive spending in Canada and abroad, which had led to economic contraction and subsequent unemployment, as well as balance of payment problems. He believed that total demand for goods and services in Canada had exceeded total supply and had been covered by imports of goods and services. He also contended that a very large part of private and public investment in Canada in the second half of the fifties was premature, wasteful, speculative and unproductive. Canada's problems, according to Coyne, were essentially inflationary in origin.

On the point that Canada had been attempting too rapid a rate of economic growth, Professors English and Gordon advanced that

²⁰Ibid., p. 39.

His [Mr. Coyne's] suggestion that such high growth rates are not sustainable brings to mind the conclusions of the Harrod-Domar growth models, and it may be that Mr. Coyne is thinking along these lines. These models have assumed a closed economy and an argument along such lines would not enable Mr. Coyne to link the growth problems directly with the balance of payments problems as he is anxious to do. A 26 per cent of G.N.P. investment rate financed exclusively by domestic savings would be just as "unsustainable" as the same rate made possible by foreign investment. Such an investment rate would be unstable per se and Mr. Coyne's exhortation to higher domestic savings as a remedy would be invalid in this context. We must therefore conclude that either Mr. Coyne is not thinking in terms of dynamic models such as Harrod's and Domar's, or else he has not understood these models.²¹

Many economists agreed with Governor Coyne's belief that Canada was suffering from structural maladjustments. However, most of them disagreed with Coyne's views as to the causes for Canada's structural problems. For example, academic economists D. Smith and D. Slater wrote:

We agree with Mr. Coyne that there is a large element of structural disequilibrium in the Canadian balance of payments and unemployment situations. ... But we do not believe that Canada's structural problems are mainly inflationary in origin, nor that the Canadian economy is poised on the edge of runaway inflation.²²

²¹H. E. English and H. S. Gordon, Some Notes on the Discussion of the State of the Canadian Economy and the Balance of Payments, Initiated by Recent Statements of Mr. J. E. Coyne (no date), p. 24.

²²David Smith and David W. Slater, "The Economic Policy Proposals of the Governor of the Bank of Canada," Queen's Quarterly, Vol. 68, No. 1 (Spring 1960), appearing in E. P. Neufeld, Money and Banking in Canada (Toronto: McLelland and Stewart, 1964), p. 322.

To substantiate their point, the authors examined changes in price levels and wage earnings in the United States, the United Kingdom, Canada, Australia, and a number of Western European countries in recent years, and found some support for Mr. Coyne's contention of relatively larger inflation in Canada, but not sufficient to indicate excessive inflation in Canada. Rather, according to Smith and Slater, Canada's structural disturbances were:

Mainly of the "real" variety, due to a (non-cyclical) decrease in the external demand for Canadian exports, a shift in Canadian demands towards some imports, and a deterioration in the competitive cost position of a number of import-competing industries.²³

These economists further stressed the point that the most important symptom of Canada's real structural disturbances had been the unusually low level of Canadian exports relative to Canadian productive capacity during the last few years. They remarked that

Whereas Mr. Coyne puts the main emphasis on an unusually high level of imports, we stress the fact that Canadian exports have been unusually small... We attribute the recent changes in Canada's external trade to real changes, whereas Mr. Coyne relies mainly on a relatively large inflation in Canada as an explanation.²⁴

They also disagreed with Governor Coyne's views on excessive public investment expenditures in Canada. They wrote, in this regard:

²³Ibid.

²⁴Ibid., p. 323.

We are more inclined to the view that Canada suffers from under-investment rather than over-investment in the public sector and in human beings, particularly when we recall the long period of neglect of investment in the public sector in the 1930's and during the war, the extremely high rate of growth of the Canadian urban population during the last twenty years, and the rapid technological changes that are taking place in the world.²⁵

On the same matter, namely the causes for Canada's structural problems, Professor W. C. Hood, in a presentation before the Senate Special Committee on Manpower and Employment late in 1960, seemed to reach similar conclusions as those arrived at by Smith and Slater. Having noted that the rates of growth of the two prime sources of increased demand in the post-war period, that is, foreign demand for Canadian raw and semi-finished materials and Canada's population, had decreased, he concluded that

The decline in the rates of growth of demand from these two prime sources with the consequent slowing down of the demands which they induce indirectly, has left us in the position of having large amounts of excess capacity in various sectors of the economy.

The emergence of excess capacity in the face of the decline in the rate of growth of our primary expansive factors must be held to be responsible for the great weakness in capital spending ... which is the proximate cause of the decline in the rate of growth of our national output and employment.²⁶

²⁵Ibid., p. 324.

²⁶Canada, Proceedings of the Senate Special Committee on Manpower and Employment, No. 2, (December 8, 1960), pp. 84-85.

Furthermore, Professor Hood, without referring to Governor Coyne by name, disagreed with the latter's apparent contention that Canada's difficulties were in part attributable to an increase in imports. He reasoned:

It is sometimes argued that our present difficulties are to be attributed to the increase in our imports. This argument has two facets. On the one hand it has been contended that over the past several years Canadians have overindulged themselves by importing too heavily and in so doing, by some unexplained mechanism have brought on the slowing down in the rate of economic advance which we are now experiencing. This argument, to my mind, loses all significance when it is recalled that imports as a proportion of G.N.E. have, on the average, shown a modest downward trend since 1951. ... On the other hand, it is argued that recently there has been an increase in our imports of goods and that this is a major cause of our difficulty. It is true that in 1959 imports of goods were higher than they were in 1958. It is also undoubtedly true that certain of our industries have been subjected to stronger competition from imports in the past year or so than they were prior to this. But standing against these facts are the further facts that imports in 1959 were only a minutely larger proportion of national income than in 1958, and that in 1960, to date, imports of goods are running at approximately the same level as in 1959. The opposing considerations lead me to the conclusion that while certain industries have been faced with problems of adjusting that have been rendered more difficult by the decline in the economy's rate of growth, the decline in the rate of growth itself cannot be explained by these examples of import competition.²⁷

Mr. Coyne was also criticized by some economists for his approach to the problem of foreign borrowing by

²⁷Canada, Senate Special Committee on Manpower and Employment (Ottawa: April 26, 1961), p. 86.

Canadians and investments by foreigners in Canadian industry. One of these was Professor Gordon, who reserved strong criticisms for Governor Coyne's views on foreign borrowing. He pointed out the contradiction in Coyne's statements dealing with excessive Canadian foreign borrowing and its effects on the Canadian economy in the following terms:

On one occasion he [Mr. Coyne] ... said that this foreign borrowing was one of the causes as well as a symptom of inflation because it financed investment expenditures that could not otherwise be made. Later in the year, however, as public concern for unemployment grew, he turned this argument on its head and began saying that the inflow of foreign funds was a main cause of unemployment. ... This is quite clearly a case of inconsistent reasoning, but I am not sure that Mr. Coyne would recognize it as such.²⁸

In addition, Gordon believed, as did Mr. Fleming, that Canada's foreign borrowing should be placed in perspective by comparing the country's net foreign indebtedness and the cost of servicing its external debt to the Gross National Product. Gordon concluded that Canada had not been living beyond its means, in other words, from foreign borrowing, since foreign capital had been used to increase the output capacity of the economy so that both Canada and its foreign lenders were able to reap economic benefits.

Professor Hood appeared somewhat more sympathetic than Gordon to Coyne's idea that the rate of capital inflow

²⁸H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 41.

in the late fifties and early sixties had been a major cause of Canada's difficulties. In this regard, he stated:

I am not so inclined to resist this argument, though I should express it in quite this way. I have contended that a major cause of the decline in our rate of growth has been the decline in the rate of growth of our exports of certain classes of goods. The falling off of this growth rate has meant, given other prevailing economic conditions, that our import of capital has been larger than it would otherwise have been, but it is the falling off of these exports rather than the import of capital per se to which I should attach major significance. While in my opinion the present rate of capital inflow is not a factor of primary significance in explaining the source of our present difficulty, certain policies which I would deem appropriate in the present circumstances would have the effect of reducing the capital inflow.²⁹

Later in his presentation, he advanced the opinion that the primary emphasis in economic policy should be upon measures that would most readily and effectively stimulate the demand of residents and non-residents alike for Canadian output.

Associated with the criticisms of the inflow of capital in Canada were those dealing with foreign ownership of Canadian industry. On this point, Professor Gordon seemed to agree with Governor Coyne's concern over the excessive foreign ownership in Canada. He qualified his concern when he said:

²⁹Canada, Senate Special Committee on Manpower and Employment (Ottawa: April 26, 1961), p. 87.

It will, however, do us no good to go into an emotional bender over "foreign domination" of our industry
 Mr. Coyne speaks on this question in emotion-charged terms and in the process has given voice to some of the least rational elements in Canadian politics at the present time.³⁰

Professor Gordon believed that ownership in itself was of little importance, since from the economic standpoint what mattered were the policies which foreign firms followed in their actual operations rather than who owned the industries. In the process, he disagreed with Governor Coyne's nationalism, which he termed "narrow parochialism."³¹

With regard to Coyne's nationalistic pronouncements and proposals, Professors Smith and Slater wrote:

Programs to promote economic nationalism have all too often resulted in the promotion or support of national mediocrity and reduced standard of living. We are prepared to believe that Mr. Coyne seeks an economic nationalism of excellence rather than of mediocrity, but we believe that many of his policy recommendations would really sustain and promote third rate economic performance, when judged by world standards.³²

Another of Governor Coyne's economic views criticized by the academic economists was that pertaining to the exchange rates. The most adamant critic on this point was Professor

³⁰H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), pp. 45-47.

³¹Ibid., p. 47.

³²Smith and Slater, op. cit., p. 320.

Clarence L. Barber, who advocated putting the Canadian dollar to a discount. This view was contrary to Coyne's belief that a deliberate exchange devaluation brought about by the powers of monetary policy, in order to bring the Canadian dollar to a discount would do great damage to the economy. Professor Barber, holding the opposite view, wrote:

Because Canada's unemployment problems have become so serious I think the best solution to our present difficulties would be to abandon our freely fluctuating exchange rate and return to a fixed exchange rate at a depreciated value. . . . Restoration of a fixed exchange rate would have the major advantage that business firms could immediately begin planning on this basis. And since this change would make imports appreciably more expensive it should give a considerable boost to employment in Canada. This change should also greatly reduce the pressure for higher tariffs or other forms of protection against which so much has been heard in recent months.³³

Professor Barber realized, however, that his proposal carried with it danger signs of inflation. But he pointed out that

Depreciating the Canadian dollars will have a once-for-all impact on prices in Canada. But with the idle plant and unemployed labor that is present in Canada there is no reason to suppose that the resulting price rise should amount to more than 2 or 3 per cent.³⁴

³³Clarence L. Barber, "Nail Down Our Dollar Rate to Solve Canada's Troubles," Financial Post (October 22, 1960).

³⁴Ibid.

Economists' Main Criticisms of Governor Coyne's
Policy Proposals

It is very difficult to grasp the nature of Coyne's policy proposals, since throughout his speeches and in his Annual Reports, his recommendations remained in the realm of the general. This fact was clearly pointed out in an editorial of the Winnipeg Tribune, which read:

Everyone who listened to Mr. Coyne's speeches during the past two years wished he would be more specific. The bank governor was ready enough to get down to cases in his diagnosis of what was wrong with the economy, but he became vague as a cloud when he started talking about remedies.³⁵

The academic economists, no doubt, also found it difficult to understand the nature of Governor Coyne's policy proposals. Only on the matters pertaining to Coyne's views on the use of Canadian economic policies and to his protectionist proposals were they able to launch their criticisms.

Professors Smith and Slater seemed to present the economists' general consensus of opinion in their opposition to Governor Coyne's views on economic policies and also on the use of monetary policy in achieving economic objectives when they wrote that

We believe that Mr. Coyne's economic policy prescriptions are wrong, partly because of errors in

³⁵Winnipeg Tribune Editorial (June 21, 1961).

his diagnosis of Canada's current economic circumstances and partly because of errors in judgments about how the economic system works and responds to various policies.³⁶

Although these authors agreed with Governor Coyne that monetary policy could play only a limited role in achieving economic objectives, they believed, in contrast to the Governor, that an easier monetary and fiscal policy would substantially increase the level of output and employment in Canada.

In addition to the above views, strong criticisms were directed at Governor Coyne's apparent protectionist proposals. In some of his speeches, Coyne seemed to advocate the adoption of immediate policies of protection (higher tariffs or some other form of import restrictions or controls), in order to solve the problem of excessive foreign imports and foreign indebtedness. These proposals were strongly condemned by a number of academic economists. For example, Professor Gordon wrote that

We have achieved one of the highest standards of living in the world by taking advantage of our natural riches and making use of the great opportunities of the modern world for international trade and international specialization. The preservation of this high standard of living and the promotion of its steady rise still depends greatly upon this international specialization of trade.³⁷

³⁶Smith and Slater, op. cit., p. 318.

³⁷H. S. Gordon, The Economists Versus the Bank of Canada (Toronto: Ryerson Press, 1961), p. 50.

Professor Harry G. Johnson, following this line of thought, pointed out the possible inflationary effects of protectionism, when he voiced this opinion:

There is perhaps some scope for arguing seriously that it is desirable to prolong and intensify a severe recession in order to restrain an extremely mild upward movement in prices. But it is incredible that while basing his [Mr. Coyne's] policy on the overriding need to prevent inflation, he should appear to endorse protectionist methods of raising employment which, if applied, would in all probability have a more inflationary effect than would monetary expansion.³⁸

Another professor, Peter Sinclair, considered a different dimension to Governor Coyne's suggested protectionist policies, when he queried:

Does his study of world economic development these last 50 years suggest that nationalism and protectionism are the roads to peace and prosperity? - I suggest, No.³⁹

These were some of the economists' criticisms emanating from Mr. Coyne's "general policy" recommendations.

In June 1961, when Governor Coyne made public his "positive action" programme of February 15, 1961, which was aimed at achieving increased production and employment in Canada, some academic economists' comments appeared in a Canadian daily newspaper. Their comments displayed a mixed reaction to Coyne's "specific" proposals contained therein.

³⁸Harry G. Johnson, Interview, Montreal Daily Star (April 27, 1961).

³⁹Peter Sinclair, "Economist Disputes Coyne's Thesis," Montreal Daily Star (March 29, 1961).

Professor Slater was quoted as saying with regard to these "specific" proposals:

It is a comprehensive package of policies that appears to reflect a great deal of thought and consideration ... They are directed toward the immediate unemployment problem as well as the longer term questions of foreign ownership and control and economic growth. They appear to have a fairly strong "beggar thy neighbour" tone. There is little doubt that they would have short run effects of stimulating employment. The longer term effects are more uncertain.⁴⁰

Professor Neufeld was not so sympathetic to Governor Coyne's proposals, for he offered the following opinion:

It seems to me that the proposals reflect one characteristic of Mr. Coyne. This is to ignore or fail to understand the subtleties of economic processes. It is just not possible in my view to bring about great changes in our trade relations with other countries, in our tax structure and in our industrial complex through the means of a crash program.... To raise tariffs 10 per cent is a superficial approach and a direct protectionist device which will subsidize all Canadian producers whether efficient or inefficient.⁴¹

Professor Gordon also voiced his strong opposition to the proposals when he stated that

The entire memorandum is a hodge podge.... The main theme of Mr. Coyne's thesis is the elimination of all foreign imports and investment. The program might reduce unemployment but at the cost of making us all poor. Our present difficulties can only be solved by strictly

⁴⁰"Economists Reaction Mixed: Coyne Modern Robin Hood," Toronto Daily Star Editorial (June 20, 1961).

⁴¹Ibid.

domestic measures - lower interest rates, looser money, lower taxes and more government spending.⁴²

3. Reactions of the Press to Governor Coyne's Views and Policy Proposals

In addition to drawing out numerous comments from the academic economists, Governor Coyne's public speeches received wide attention from yet another group, the press. In fact, the press coverage of Coyne's speeches was quite extensive. Practically all major dailies carried lengthy excerpts from his speeches and many contained editorial comments as well.

Upon scanning these newspaper comments, the reader realizes that the reporters and editorialists found it difficult to put their finger on the exact point of Mr. Coyne's concern. Their reports relied heavily on direct quotations from his speeches while the comments found in editorials and in financial pages lacked sophisticated economic analysis. Notwithstanding this fact, it is interesting to note that the comments of the press concerning Coyne's economic views seemed to change somewhat between late 1959, when the Governor began his public speeches, and mid-1961. At the outset of Coyne's speeches, the newspaper comments and

⁴²Ibid.

editorials appeared quite receptive to his views, especially to those relating to the overall theme of "Living Within Our Means." At times, it appeared that some comments were more emotional than rational. The following excerpts demonstrate some of these favourable comments. An editorial on January 22, 1960, asserted that

The timeliness and soundness of Mr. Coyne's advice cannot be doubted. The question is: will it be heeded by governments at all levels, by business and industry and by individuals and families. Failure to do so will bring a day of accounting which may have serious and painful consequences to Canada and its people.⁴³

Another daily offered the following general, unsubstantiated comment that "no thoughtful Canadian will quarrel with Mr. Coyne's objectives - a stable dollar and economic self-reliance for Canada."⁴⁴

The Vancouver Sun stated with regard to Mr. Coyne's warnings of the need for Canadians to live within their means: "It is the first forceful challenge that has been made from so high a level to current complacency, and it was overdue."⁴⁵

⁴³Regina Leader Post, Editorial, "Living Beyond Our Means," (January 22, 1960).

⁴⁴Toronto Daily Star, Editorial, "Coyne Offers Harsh Advice," (December 16, 1959).

⁴⁵Vancouver Sun, "Coyne at Long Last Refreshing, Fortright," (March 28, 1960).

While these and other⁴⁶ editorial comments and reports appeared sympathetic to the general theme of Governor Coyne's speeches, a few newspapers quoted the views of individuals who were somewhat more explicit in sympathizing with some of Coyne's economic ideas. For example, Mr. Arnold Hart, the President of the Bank of Montreal, was quoted as saying that

Mr. Coyne deserved the highest praise for his recent speeches which brought before the country the real facts of the case. ... Recent official monetary stringency is in my view an essential and unavoidable means towards preserving the purchasing power of our money and our competitive position in world trade.⁴⁷

On the matter of large capital inflows in Canada, a newspaper quoted economist E. M. Bernstein, former director of the International Monetary Fund, as agreeing with the Governor's view that Canada's large inflows of foreign capital and massive deficits in the balance of payments must be reduced. Bernstein reasoned as follows:

Because of the excessive inflow of foreign capital (and the consequent deficit in the balance of payments on current account), output and employment

⁴⁶Other articles sympathetic to Mr. Coyne's statements appeared, among others, in the Saskatoon Star Phoenix, "Living Beyond Our Means" (January 20, 1960); Chronicle Telegraph (Que.), "Mountainous Foreign Debt at Root of Unemployment" (November 18, 1960); an editorial in the Peterborough Examiner entitled "The Binge," (no date available) and in The Financial Times, "Coyne's Warning Barely in Time," (no date available).

⁴⁷"Stable Money Supply Only Policy," Montreal Gazette (February 23, 1960).

in Canada are far below the level that would be justified by home demand.

The balance of payments deficit on current account is probably one of the principal factors that has kept unemployment in Canada at a persistently high rate in recent years - 6 per cent to 7 per cent from 1958 to 1960...

Under a system of flexible exchange rates, a large capital inflow causes an appreciation of the dollar, induces a decline in exports and a rise in imports (relative to what they would otherwise be) and forces a balance of payments deficit equivalent to the capital inflow.⁴⁸

Bernstein, in his defense of Coyne on the above points, found himself isolated for, as shown in Section 2 of this chapter, most other economists attributed Canada's economic problems in the late fifties and early sixties to a falling-off of exports rather than to an import of capital per se.

In early 1961 and later, during the heat of the Coyne Affair, while some newspaper comments remained sympathetic to Governor Coyne's overall economic views, it appears that a large number of editors and reporters became somewhat more critical of Coyne's ideas. A point in case was an editorial in March 1961 which stated that

Mr. Coyne should be combatting deflation, a continuing and increasingly high level of unemployment. One deterrent to sound expansion of this kind is the Bank of Canada's policy of high interest rates. Mr. Coyne's dead hand has rested

⁴⁸ The Financial Post, "E. M. Bernstein, Top World Economist Says Coyne is Right," Vol. 55 (June 10, 1961), p. 1.

too long on the Department of Finance. It is time Mr. Fleming shook it off.⁴⁹

Another critical point was made, this time to the effect that

At a time when more than 8 per cent of Canada's labour force is out of work, the Governor of the Bank of Canada is going about the country raising the spectre of inflation.⁵⁰

Concerning Mr. Coyne's "general" proposals to solve Canada's problems, again the press comments and reports were quite vague. However, some editors indicated their strong opposition to Coyne's "general" proposals. Among these was an editorial in late 1960, which resembled the criticisms of some academic economists concerning Coyne's implied proposal for the use of controls in order to help solve Canada's problems. This editorial view read as follows:

We have been living beyond our means The direction we should be heading to solve our present difficulties is clear. Instead of considering restrictions, tariffs, quotas and the like, as the protectionists are advocating, or making threatening gestures which can only have the effect of restricting or scaring off development capital, we should be devoting all our energy to expanding the whole range of our trade, more particularly our export industries,

⁴⁹Toronto Telegram, Editorial, "Mr. Coyne is Out of Touch," (February 2, 1961).

⁵⁰Fredericton Daily Gleaner, Editorial, (March 7, 1961).

striving to keep our costs competitive, striving to be more efficient in every part of the productive process.⁵¹

Although another newspaper report argued on the matter of Coyne's "general" policy proposals:

It is to the credit of Mr. Coyne that he opened people's eyes to the dangers in the present economic situation, but it is regrettable that he limited himself to generalities and did not suggest concrete remedies.⁵²

When the Coyne Affair per se erupted in June 1961, the Canadian newspapers accorded prime importance to the events. It appears that many major Canadian newspapers believed that Governor Coyne's economic views and proposals did not constitute an important issue. In this connection a newspaper editor commented:

The immediate issue in the dispute between Finance Minister Fleming and Governor Coyne of the Bank of Canada is not whether Mr. Fleming is right in his economic theories, but whether or not an agency set up by government can be permitted to conceive itself as being more powerful than government itself.

The charge against Mr. Coyne is not lack of integrity or lack of ability, but open rebellion against the wishes of a formal majority of the Canadian people.⁵³

⁵¹Winnipeg Free Press, Editorial, "Expand the Base" (December 7, 1960).

⁵²A. W. Schippers, "The Man on the Sidelines: The Reconstruction of Canada," De Nederlandse Courant Voor Canada (Scarboro: February 11, 1961).

⁵³Weir, Harold, Vancouver Sun, Editorial (June 19, 1961).

Nevertheless, of those editors and reporters who did believe that Governor Coyne's economic views and proposals were of major importance in the affair, most did so without supporting their views in any way. One example was the following favourable comment to Coyne's "specific" policy proposals, which simply stated, without further elaboration:

Another great service Mr. Coyne performed by his resistance was to draw to the attention of Canadians some of the serious economic problems facing Canada. Especially valuable in this respect was his publication of the economic recovery program which he presented to Mr. Fleming last February.⁵⁴

In conclusion, if Mr. Coyne's public speeches were intended, among others, to stimulate enlightened and well-informed public discussion, it seems that the newspaper reports and comments, while extensive, did not achieve the results expected. In the words of Professors English and Gordon, "Mr. Coyne's remarks have certainly increased the quantity of public discussion of economic matters but they seem to have done little for its quality."⁵⁵

⁵⁴Toronto Daily Star (July 14, 1961).

⁵⁵H. E. English and H. S. Gordon, Some Notes on the Discussion of the State of the Canadian Economy and the Balance of Payments (no date), p. 37.

CHAPTER V

THE AFTERMATH OF THE COYNE AFFAIR

Nearly a decade has passed since the Coyne Affair per se came to an end. During this period, the dubious question of the relationship between the Bank of Canada and the Government of Canada appears to have been resolved; the Canadian economy has witnessed its greatest period of continuous economic expansion since World War II; and the Coyne Governorship and the episode of May 30 - July 13, 1961, for all practical purposes, have passed into history.

With the benefit of hindsight, it is intended in this chapter to examine and assess the aftermath of Coyne's years in office, particularly as it relates to (1) the constitutional position of the Bank of Canada from mid-1961 to the present, (2) the economic effects of monetary policy under Coyne's governorship and of the affair per se, and (3) the implications of some of Governor Coyne's "specific" policy proposals aimed at solving Canada's economic problems.

1. The Constitutional Position of the Bank of Canada from Mid-1961 to the Present

When Mr. Rasminsky was appointed Governor of the Bank of Canada on July 24, 1961, replacing Mr. Coyne, he

no doubt realized that the concept of the constitutional position of the Bank of Canada needed immediate clarification in the public mind and in the legislation. On August 1, 1961, he outlined his understanding of the basic relationship that should exist between the Government and the central bank with regard to their respective responsibilities in relation to monetary policy, in the following fashion:

I do not suggest a precise formula but have in mind two main principles to be established:

(1) in the ordinary course of events, the Bank has the responsibility for monetary policy, and
(2) if the Government disapproves of the monetary policy being carried out by the Bank it has the right and the responsibility to direct the Bank as to the policy which the Bank is to carry out.

The first principle is designed to ensure that the Bank has the degree of independence and responsibility necessary if it is, in the language of the Bank of Canada Act, "to regulate credit and currency in the best interests of the economic life of the nation". To discharge this duty the Bank must be sufficiently independent and responsible in its operations to be able to withstand day-to-day pressures from any source. But in the longer run, if there should develop a serious and persistent conflict between the views of the Government and the views of the central bank with regard to monetary policy which, after prolonged and conscientious efforts on both sides, cannot be resolved, the Government should be able formally to instruct the Bank what monetary policy it wishes carried out and the Bank should have the duty to comply with these instructions. The exercise of this policy, as communicated to the Bank, was one which the Governor felt he could not in good conscience carry out, his duty would be to resign and to make way for someone who took a different view.¹

¹L. Rasminsky, Public Statement (Ottawa, August 1, 1961).

Such a relationship was apparently acceptable to the Government, for on August 1, 1961, the Honourable D. M. Fleming, Minister of Finance, issued the following statement:

The views expressed by the Governor of the Bank of Canada in his statement today regarding the relationships between the monetary and fiscal authorities are in harmony with those of the Government and were known to the Government prior to his appointment. I also share the Governor's views respecting the inter-relationship between monetary, fiscal and debt management policy and the need for a judicious and co-ordinated combination of measures in all three fields in the promotion of national economic policy.... It follows, therefore, that regular and close consultation between the Governor and the Minister of Finance is of the essence and Mr. Rasminsky's views in this regard are warmly welcomed. In fact, such consultation between myself and the Governor is already taking place.²

Thus, it appears that, although unacknowledged in the Bank of Canada Act, the concept of dual responsibility for monetary policy was clearly understood and accepted by both the Governor and the Minister of Finance.

In 1964, the Report of the (Porter) Royal Commission on Banking and Finance³ outlined its views concerning the

²D. M. Fleming, Public Statement (Ottawa, August, 1961); also quoted in Bank of Canada, Annual Report for the year 1961 (Ottawa, 1962), p. 5.

³Canada, Report of the Royal Commission on Banking and Finance (Ottawa: Queen's Printer, 1964), p. 543. (Hereafter referred to as Report).

responsibility for monetary policy in Canada and made certain recommendations in this connection. This Report seemed in complete agreement with Mr. Rasminsky's understanding of responsibility for monetary policy. Essentially, it concluded that central bank independence, within the context of government responsibility for monetary policy, could best be assured by a dual system of responsibility, under which the Bank formulated monetary policy and executed it from day to day, but the Government accepted full and continuing responsibility for the policy being followed, although not, in the normal course of events, for the details of its execution. The Report recommended that the Bank of Canada Act be amended so as to incorporate this concept and also to provide the Minister of Finance with the right to issue a directive to the Bank if the government disapproved of its policy. On this last matter, however, the Report cautioned that a government directive should be used only as a last resort and after extensive and conscientious attempts to reach agreement had failed. If such a situation arose, its seriousness would call for highly formal procedure designed to focus full and intelligent public discussion on the matter under dispute. The Report thus suggested (a) that any directive take the form of an order-in-council to ensure that it received cabinet consideration, (b) that it be as specific as possible in

its terms, pointing out in a closely reasoned way how the Bank's actions had conflicted with national economic policies and indicating what steps the government wished carried out, (c) that such a directive be published with the briefest of delays, that is within fifteen days of issue, (d) that it be accompanied by a statement from the Governor setting out his opinion on the matter, and (e) that it should automatically lapse after thirty days, so that it would not become in effect a continuing directive.

The same Report, on the question of the relationship between the Bank of Canada and the Government, made this succinct final comment:

No matter what legal arrangements, it is obvious that they will be workable only if the Governor and the Finance Minister keep each other fully and continuously informed on policy and the factors underlying it.⁴

In March 1967, steps were taken to formalize the concept of the relations between the Bank and the Government with regard to monetary policy. In order to do this, the content of Section 14 of the Bank of Canada Act was repealed and the following section, entitled "Government Directive," was substituted. It read:

(1) The Minister and the Governor shall consult regularly on monetary policy and on its relation to general economic policy. (2) If, notwithstanding the consultations provided for in sub-

⁴Ibid., p. 544.

section (1), there should emerge a difference of opinion between the Minister and the Bank concerning the monetary policy to be followed, the Minister may, after consultation with the Governor and with the approval of the Governor in Council, give to the Governor a written directive concerning monetary policy, in specific terms and applicable for a specific period, and the Bank shall comply with such directive. (3) A directive given under this section shall be published forthwith in the Canada Gazette and shall be laid before Parliament within fifteen days after the giving thereof, or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting.⁵

Consequently, this amendment, resembling closely the statement of Governor Rasminsky on August 1, 1961 and the recommendations of the Report of the Royal Commission on Banking and Finance, made it clear that the Government has the final responsibility for monetary policy, and the directive provision provided a mechanism for that purpose. Moreover, this amendment in no way relieved the Bank of Canada of its responsibility for monetary policy and for its execution.

The 1967 amendment also implied that if a Governor were directed to carry out a monetary policy which, in good conscience, he could not regard as being in the national interest, he would, after taking steps to ensure that the issues involved were placed clearly before the

⁵Canada, An Act to Amend the Bank of Canada Act, Chapter 88, Section 14 (1), (2), (3) (Ottawa: Queen's Printer, March 23, 1967), pp. 1054-1955.

public, resign. It should be pointed out that the legalization of the procedure of dual or joint responsibility for monetary policy in 1967 does not seem to have altered the manner in which the responsibility for monetary policy in Canada has operated in practice since Mr. Rasminsky became Governor in mid-1961. In fact, in July 1967, Governor Rasminsky stated in this regard:

The general effect of the amendment is to restate the traditional position - which I think, is the right one - under which neither the Government nor the Governor of the central bank can ultimately escape responsibility for the monetary policy which is followed.⁶

The System of Dual Responsibility Since Mid-1961

Governor Rasminsky, presenting evidence before the Royal Commission on Banking and Finance in 1963, commented on the actual functioning of dual responsibility as follows:

The way it has worked out in practice in my case - and I speak only of my own experience - is that I have been responsible for the monetary policy of the Bank. All the monetary steps taken by the Bank have been initiated by me and conducted under my primary responsibility for the operation of monetary policy. The government has been constantly informed of the developments in monetary policy, and the government has not dissociated itself from the policy; consequently, within the terms of dual relationship I would say that the system of joint responsibility for monetary

⁶L. Rasminsky, Interview reported in The Banker, Vol. 117, Number 497 (July 1967), p. 581.

policy has been the one that has been in practice during my governorship.⁷

The Governor noted further that when formal actions needed to be taken by the central bank, such as the fixing of or changes in the Bank rate, the Minister of Finance had been informed and consulted before these actions were taken. On the other hand, when developments in the monetary system had occurred in the course of the Bank's cash management operations, the consultation became a more gradual process. For example, concerning the changes that took place from day to day, or from week to week, in the cash position of the chartered banks - not ordinarily very large - the regular meetings between the Governor and the Minister of Finance, at which the whole range of monetary and financial development was reviewed, had presented an adequate opportunity for consultation. Governor Rasminsky also pointed out that there had constantly been a process of discussion going on between the Bank and the Minister of Finance. There are no indications, since this statement by the Governor, that the process of regular consultation between himself and the Minister of Finance has operated differently. Thus the Bank under Mr. Rasminsky's governorship has

⁷Bank of Canada, Evidence of the Governor Before the Royal Commission on Banking and Finance (Ottawa: Bank of Canada, May 1964), p. 101.

apparently fulfilled clause 14 (1) of the Bank of Canada Act, which states that the Governor shall consult regularly with the government on monetary policy and on its relation to general economic policy.

In connection with the right of the government to direct the Bank of Canada as to the policy which the Bank should carry out, if the government disapproved of the policy being carried out by the Bank, Governor Rasminsky, on that same occasion in 1963 noted that the need for the issuance of such a directive had not arisen since he had been named Governor. Since 1963, there has been no apparent fundamental differences of opinion on policy matters between the Governor of the Bank of Canada and the Minister of Finance and in fact no directive has been issued by the Government. It thus seems that the relationship between the Bank of Canada and the Government has worked well on the whole since mid-1961.

In conclusion on this subject, it should be remembered, however, that the legalization of the concept of the constitutional position of the Bank of Canada does not in itself ensure complete success in the conduct of monetary policy. The following excerpt, borrowed from Governor Rasminsky's statement at the Per Jacobsson Memorial Lecture in 1966, seems to give cognizance to this fact. On that occasion, he remarked:

I do not believe that the real position of the central bank in government is determined by the statutory arrangements under which it operates. In the final analysis the influence of the central bank on economic policy depends on the respect it can command for the objectivity and cogency of its views as judged in the light of experience and on the proven degree of competence it displays in performing its own specialized role. It depends too on the contribution that it is able to make to the public understanding of economic and financial issues in analysing in understandable terms, the complex forces operating at all times on the economy and in elucidating the basic rationale underlying the policies it has followed.⁸

2. Economic Effects of Monetary Policy Under Mr. Coyne's Governorship and of the Coyne Affair per se

As already considered in Chapter II of this thesis, a number of academic economists were agreed that monetary policy during most of Coyne's governorship had fallen seriously short of an obtainable standard, and consequently they strongly criticized the Bank of Canada. Essentially, the economists' main criticism was that the monetary authority, in the conduct of monetary policy during that period, had attached too much weight to the objective of preventing or restraining inflation and too little to that of maintaining employment. As a corollary to their criticism of

⁸L. Rasminsky, "The Role of the Central Banker Today," The Canadian Banker, Vol. 74, No. 1 (Spring 1967), p. 36.

monetary policy, some economists further reasoned that the tight money policy during Coyne's governorship and also the Coyne Affair per se, that is, the public feud which developed in May 1961 between Mr. Coyne and Mr. Fleming, partly as a result of a disagreement on matters of policy, were largely to blame for Canada's serious foreign exchange situation which emerged in the early summer of 1962. Before a consideration of some economists' reasoning on this matter, the nature of this 1962 exchange crisis will be examined briefly.

During the period 1955 and 1960, Canada experienced substantial inflows of foreign capital. In the supplementary budget of December 1960, the Government introduced a number of taxes with a view both to discouraging the inflow of particular forms of foreign capital, chiefly American, and to exerting psychological pressure on foreign investors in Canada and on Canadian borrowers in New York. The immediate effect was to reduce the premium on the Canadian dollar from two to approximately one-half of one per cent. In June 1961, during the heat of the Coyne Affair per se, the Minister of Finance announced that the Government intended to push the Canadian dollar to an unspecified but "significant" discount in terms of the U.S. dollar and also that it was now willing to employ the Exchange Fund to achieve that objective. Subsequently, the Canadian dollar fell to a discount of about

three per cent. An economist, in analyzing the Government's action to lower the value of the Canadian dollar, a few years after the exchange crisis, wrote:

In retrospect, the wisdom of such a public pronouncement at a time when inflows of foreign capital had already begun to diminish because of the lessening relative attractions of Canadian investment opportunities, seems doubtful.⁹

His analysis seemed correct for renewed pressure on the Canadian dollar near the end of 1961 required the help of the Exchange Fund to support the Canadian dollar in an effort to forestall its further depreciation. The Fund proved unable to continue the support very long and, on May 2, 1962, the Government was forced to peg the rate at $\$0.925$ in U.S. currency, as against the immediately preceding current rate of $\$0.95$. In view of the fact that speculators were concerned that the rate of $\$0.925$ U.S. could not be held, capital flight continued after the rate was pegged on May 2, 1962, and increased after the uncertain result of the Federal election of June 18. Finally, on June 24, 1962, the Government announced further emergency measures in order to defend the exchange value of the Canadian dollar. These measures included a temporary imposition of graduated tariff surcharges on certain categories of imports, a temporary reduction

⁹R. C. McIvor, "Canada," Commonwealth Banking Systems, ed. W. F. Crick (Oxford: Clarendon Press, 1965), p. 446.

in the exemption from customs duty accorded to Canadian tourists on goods brought back to Canada, reductions in government expenditures amounting to \$250 million in a full fiscal year, the earmarking of a portion of the Government's cash balances for the purpose of financing increases in the foreign exchange reserves and the mobilization of international financial support, in the form of cash and standby credits, amounting in total to \$1050 million U.S.

The Central Bank also played an important role in bringing the crisis to an end. After consultation with the Prime Minister and the Minister of Finance, the Bank of Canada announced a return to a fixed Bank rate policy and set the level at six per cent. Monetary policy tightened as central bank operations were directed toward promoting and maintaining a level of interest rates in Canadian financial markets which would help in establishing a net inflow of capital large enough to cover the current account deficit in the balance of international payments and rebuild the depleted foreign exchange reserves. Thus, central bank policy coupled with the government's emergency measures stemmed the crisis and, in September 1962, confidence in Canada's foreign exchange position had been sufficiently restored.

Some academic economists, while recognizing that the foreign exchange crisis of 1962 had resulted primarily from

short-term difficulties which were rooted in the deflationary movements in the North American economy, and also in a general loss of confidence by foreign investors in Canada, nevertheless advanced that Canada's muddled monetary and to some extent debt management policies during a large part of Coyne's governorship had largely prevented the Canadian economy from adjusting to fundamental structural disturbances which had occurred since 1957. The following quotation from H. H. Binhammer appears to summarize the views of a number of academic economists on the matter. This economist reasoned as follows:

The tight money policy worked adversely to Canada in several ways. Higher interest rates and lack of credit availability forced the Canadian corporations and governments to borrow in the United States. Moreover, the wide interest differential produced by Canadian monetary restraint made portfolio investment attractive to foreigners even after allowing for the cost of exchange hedging. The increased inflow of short term funds resulting from the sale of new issues of Canadian securities sold to non-residents kept the Canadian dollar at a premium when there was a levelling off in the development boom and the inflow of long-term capital. The tight money policy which induced much of the inflow of capital kept the Canadian dollar overvalued. This had repercussions on the balance of payments which in turn affected domestic growth output and development.¹⁰

¹⁰H. H. Binhammer, "Canada's Foreign Exchange Problems: A Review," Kyklos, International Review for Social Sciences, Vol. 17 (Switzerland, 1964), pp. 641-642. See also in this regard, C. L. Barber, "Canada's Unemployment Problem," Canadian Journal of Economics and Political Science, Vol. 28, No. 1 (February, 1962) pp. 88-102.

He concluded his analysis by noting that if the Canadian authorities had guided the exchange rate to lower levels after the mid-fifties and allowed some increase in prices through a less restrictive monetary policy, the structural difficulties which Canada might have had could have been overcome and the deficit in the balance of payments kept within manageable proportions and the floating exchange rate maintained without a crisis.

Another economist, E. P. Neufeld, wrote in this same vein that Canadian economic policy, including monetary policy in the late fifties and early sixties, had failed to bring an orderly decline in the overvalued Canadian dollar. He believed also that the necessary readjustment involved slowing down of the rate of capital inflow. This readjustment required, among other things, narrowing the gap between Canadian and U.S. interest rates, to reduce the incentive for Canadian provincial and municipal governments to borrow in New York. According to Professor Neufeld, Canadian economic policy failed to effect the proper readjustments. He attributed the failure in policy to the following factors:

The concern with demand inflation at a time when it no longer existed, the subservience of monetary policy to the needs of government financing, the absence of a weapon such as a fixed bank rate for signalling without ambiguity official feeling on the desirable level of interest rates, the massive lengthening of the debt in 1958, through

the conversion loan, and generally the failure to appreciate that the Canadian dollar was overvalued.¹¹

While these factors no doubt played their part in leading to the exchange crisis of 1962, others were also at work. Among these were factors which affected the confidence of the foreign investor in Canada. Professor Neufeld cited the following:

The mismanagement of exchange rate policy by the government in the early 1960's; the slow rate of economic growth; the campaign of nationalism; the public feud between Mr. Fleming and Mr. Coyne; the feeling that recurring budget deficits were not achieving their intended purpose of raising economic activity and had become a permanent fixture; the introduction of a fifteen per cent withholding tax on interest and dividend payments made to foreign investors; the takeover of the B.C. Electric Company; and the General Election of June 18 which produced a minority government...¹²

It is noteworthy that among Professor Neufeld's list of possible causes which apparently undermined the foreign investor's confidence were those pertaining to the public feud between Mr. Coyne and Mr. Fleming in 1961 and also the campaign of nationalism in Canada. It is possible to say that the events from May 30 to July 13, 1961, known as the

¹¹E. P. Neufeld, "Canada Tackles Its Deficit," The Banker, Vol. 112, No. 438 (August 1962), p. 465.

¹²Ibid., p. 496; also McIvor, "Canada," op. cit., p. 447, and H. H. Binhammer, "Canada's Money Muddle in Retrospect," The Dalhousie Review (Summer, 1964), p. 169.

Coyne Affair per se may have had some adverse effects on foreign investors' confidence. Also, Governor Coyne's nationalistic comments in public speeches may have been disturbing to prospective foreign investors. However, it must be recognized that these factors were only a few among many others which undermined the foreign investors' confidence, and thus contributed to the 1962 exchange crisis.

Also, while the monetary policy of the Bank of Canada under Coyne's governorship may have been a factor leading to the 1962 crisis, it must be borne in mind that the Government of the day was largely to blame for not having recognized the ill-effects of the monetary policy which was being carried out at the time, and thus for not having taken appropriate action to correct the situation earlier than it did.

Apart from their possible contribution to bringing about the exchange crisis of 1962, it does not appear that the monetary policy under Coyne's governorship, nor for that matter the events pertaining to the Coyne Affair per se had other significant adverse effects on the Canadian economy. From the first quarter of 1961 to the last quarter of 1969, Canada witnessed the largest uninterrupted economic expansion in the country's business cycle history. During that period, Gross National Product¹³ at market price rose by

¹³Using revised G.N.P. figures. The Department of Finance estimated G.N.P. for 1969 at \$78,100 million.

\$39,020 million, thus at an average annual rate of increase of 8.3 per cent. (See Table 3, page 78). In real terms, Canada's output of goods and services advanced by some \$21,820 million,¹⁴ an average annual rate of increase of 5.4 per cent - considerably less than at current prices. In spite of the rapid increase in output in the period from the end of 1961 to the end of 1965, the consumer price index rose at an average annual rate of only 1.7 per cent. Since 1965 to the end of 1969, however, the consumer price index (using 1961 as a base) rose from 107.4 to 125.5, an average annual rate of 4.2 per cent. The Canadian rate of unemployment as a percentage of labour force averaged 5.4 per cent between 1961 and 1965; from 1965 to 1969, on the other hand, it averaged 4.2 per cent.

During the period 1961 to 1968 inclusive, Canada's merchandise exports increased from \$5,889 million to \$13,538 million, an increase of 130 per cent; merchandise imports increased from \$5,716 million to \$12,162 million in 1968, an increase of some 110 per cent. The merchandise trade balance showed a surplus for each year since 1961, reaching \$1,376 million in 1968. However, large and growing deficits on the service or invisible items continued to

¹⁴In constant 1961 dollars. The Department of Finance estimated the output of goods and services for 1969 at \$60,900 million.

outweigh the surplus on merchandise transactions. (See Table 8, page 90). Nevertheless, the net capital inflow (exclusive of changes in official reserves) was more than sufficient to cover the current account deficit, except during brief periods (such as in the early months of 1968).

Apart from the brief speculative attack on the Canadian dollar early in 1968, caused by uncertainties arising from weaknesses in the international monetary system, Canada's exchange rate has remained strong since the devaluation in 1962. Also, the official holdings of gold and U.S. dollars have not been under any persistent or serious strain.

Consequently, judging from the overall performance of the Canadian economy from 1961 to 1969, monetary policy under Coyne's governorship and the events of mid-1961 do not appear to have had lasting detrimental effects on the Canadian economy.

3. Implications of Mr. Coyne's "Specific" Policy Proposals

It was generally agreed among the academic economists that during his years in office, Governor Coyne had often been wrong in his diagnosis of Canadian economic conditions, and in his assessment of problems plaguing the Canadian economy. Furthermore, many academic economists maintained that the Governor's "general" policy proposals aimed at

solving Canada's economic problems, which he had put forward in a number of public speeches, were erratic. However, these economists had little opportunity to comment on Coyne's "specific" policy proposals outlined in a confidential memorandum to Finance Minister Fleming dated February 15, 1961.¹⁵ This memorandum, released publicly by the Governor when the disagreement between himself and Finance Minister Fleming erupted into a public controversy in June 1961, was intended to be an "action programme" to promote full employment, a satisfactory rate of economic growth without inflation, and the restoration of equilibrium in the balance of payments.

While the appropriateness of a number of Governor Coyne's "specific" policy proposals put forward in this memorandum can be questioned (especially those with a protectionist bias), it can be argued that some of Coyne's proposals to solve Canada's economic problems may not have been totally wrong. In fact, to some extent, many appear to have been far-sighted. For example, a number of measures adopted in the emergency austerity programme drawn up to solve the Exchange Crisis of 1962 resembled closely some of Coyne's "specific" policy proposals. In this regard, it

¹⁵J. E. Coyne, The Requirements of Economic Policy Today (Ottawa: February 15, 1961), 24 p. For an outline of these "specific" proposals, see Chapter III, Section 2.

should be pointed out that whereas the government's emergency programme to stem the Exchange Crisis of 1962 consisted essentially of short-term measures, the solutions advanced by Coyne in February, 1961, were generally of a medium and long-term nature.

The following points show some similarities between a number of Coyne's "specific" proposals of February, 1961, and the government's emergency measures introduced in June, 1962:

- (a) The Government, at that time, imposed a graduated tariff surcharge ranging from five to fifteen per cent, with roughly half of Canada's imported goods exempt altogether and the others divided into three categories of economic importance. Coyne, on the other hand, in February 1961, had proposed as part of his programme to reduce imports, a self-liquidating six-year temporary tariff surcharge of ten per cent on the value of imported goods, applicable on all goods except on a limited number not produced in Canada. This proposed tariff surcharge would have been self-liquidating in the sense that provision would be made that after two years, the amount of the surcharge would be reduced by two tenths of one per cent every month, so that it would completely expire at the end of six years and two months.

- (b) The Government also applied a reduction in the duty-free allowance to returning Canadian tourists; Coyne, on the other hand, had advocated a two-year removal of the exemption from customs duties on all goods imported by returning Canadian travellers, at least in the case of goods imported from the United States.
- (c) The Minister of Finance had announced on June 20, 1961, that the resources of the Exchange Fund would be employed to bring the Canadian dollar to "substantial" discount in terms of the U.S. dollar; on May 3, 1962, Canadian dollar was pegged at 92 1/2 cents U.S. Governor Coyne, as part of his proposed programme, had recommended the use of the resources of the Exchange Fund to stabilize the value of the Canadian dollar. However, the Governor hoped that this action would bring the Canadian dollar at parity with that of the United States.
- (d) The Government proposed reductions in Government spending amounting to \$250 million in a fiscal year; the Governor, for his part, had advocated a minimization of deficit financing as, in his words, "a deficit does not merely by its existence make an important contribution to employment and economic growth."¹⁶

¹⁶Ibid., p. 13.

Apart from their similarity with the emergency programme of 1962, it may be said that some of Governor Coyne's "specific" proposals had further reaching implications. At the outset of his economic "action programme" of February 15, 1961, Coyne pointed out that the whole range of economic policy should be focused on the goals of promoting full employment and a satisfactory rate of growth without inflation and restoration of equilibrium in the balance of payments. He suggested that a different approach be made in the use of economic stabilization policies, including those which operated on the "demand side" of the market, - that is, monetary and fiscal policies. While recognizing that economic policies still had a role to play in short-term economic stabilization, Coyne advocated their use in longer term economic stabilization. He thus wrote, in this connection: "Economic policy must go far beyond merely cyclical (temporary) anti-recession measures. Temporary and anti-recession measures are indeed necessary.... Longer-run requirements are more basic..."¹⁷

In this respect, Governor Coyne's recommendation for a change of emphasis in the use of economic policies appeared to have been forward looking. It is interesting to note that the Economic Council of Canada, in its Fourth and Sixth

¹⁷Ibid., p. 1.

Annual Reviews, called for a different approach than the one employed traditionally in the use of the instruments of "demand management" for economic stabilization. The Sixth Annual Report noted in this connection:

Throughout most of the postwar period, such policies (monetary and fiscal) have been focused largely on anticipating and moderating short-term fluctuations in private demand - in other words, on the short business cycle. But the many lags involved in identifying, responding to, and counteracting changes in private demand have made it difficult to operate policies successfully on this basis...

These demand policies should be directed not so much to averting the short-term fluctuations in the economy that have already been associated with inventory cycles, but more to "steering the economy" along a smoother underlying path of growth in final demand, and avoiding substantial and persistent shortfalls or pressures...¹⁸

And still on the subject of the use of economic policies in economic stabilization, particularly on the use of monetary policy, Coyne wrote, "Monetary policy undoubtedly

¹⁸Economic Council of Canada, Sixth Annual Review, "Perspective 1975" (Ottawa: Queen's Printer, September, 1969), p. 159. See also, Economic Council of Canada, Fourth Annual Review, "The Canadian Economy from the 1960's to the 1970's" (Ottawa: Queen's Printer, September, 1967), pp. 255-257. In a section on demand policy, it noted: "First, monetary and fiscal policies - the major demand policies - should seek to steer the economy along the course of potential economic growth over the medium-term future, rather than simply reacting to emergency (or past) short-term developments." The Review continued: "In taking such a position, we do not mean to imply that there should be any short-run deviations from the basic strategy. International developments ... may impose constraints on the consistent operation of such a strategy of monetary and fiscal policy in Canada."

has a part to play in any anti-recession economic programme and also in fostering long-term economic growth."¹⁹

When he referred to the use of monetary policy as a long-term economic stabilization tool, Coyne's thinking resembled to some extent that of Professor H. G. Johnson who advanced the opinion that "Monetary policy ought to be directed toward the creation and maintenance of a stable long-run monetary environment for the economy."²⁰

With regard to fiscal policy, as already considered in Chapter III, Section 2, Governor Coyne outlined numerous "specific" proposals for its use in order to achieve full employment and a satisfactory rate of economic growth. Among these, he proposed that several years' exemption from income tax be granted to new business enterprises and also that special depreciation schemes be permitted for companies setting up or expanding operations in depressed or underdeveloped regions of Canada.

In addition to his proposals for a long-term approach in the use of economic policies operating on the "demand side" of the market, Governor Coyne gave some consideration

¹⁹J. E. Coyne, The Requirements of Economic Policy Today (Ottawa: February 15, 1961), p. 2.

²⁰H. G. Johnson, The Canadian Quandary (Toronto: McGraw-Hill, 1963), p. 88.

to policies which operated on the "supply side" of the market. The term "supply side" policies is taken to mean those aimed at raising the quality of productive resources, especially human resources, and also the creation of conditions conducive to increased efficiency and productivity. In this connection, Coyne suggested the setting-up of special department of Government, charged with studying and promoting increased development of those regions which showed a tendency to lag behind the rest of the country, with a view to stimulating various kinds of economic activities to provide increased employment, higher average incomes, and also to diversify employment opportunities. It should be noted that these tasks are now largely the responsibility of the Federal Departments of Regional Economic Expansion and of Manpower and Immigration.

Governor Coyne's "specific" proposals also sought to promote the active use of "other" economic policies. Following were some of the Governor's most important proposals put forward in this regard. Coyne recommended ways and means to mobilize capital for investment. In this connection, he proposed the establishment of a National Development Corporation with power to raise funds by the sale of its securities to the Government or to the public, with or without Government guarantee. Coyne envisaged that this Corporation would provide funds for large scale enterprises

and would help retain Canadian ownership and control of Canadian enterprises. It is of interest to note that Coyne's suggestion, later advocated by Walter Gordon,²¹ is soon to take root in the form of the Canada Development Corporation (CDC). This corporation will use Canadian investment to boost resource development in this country. It is expected that initially the Development Corporation will start with a base of Crown Corporations, and in time will become a major conglomerate. It is also proposed that Canadians will be able to purchase shares in the CDC. It may very well be that the CDC will be the vehicle to stem future foreign ownership of many Canadian industries.

Governor Coyne also stressed the need to expand the lending power of the Industrial Development Bank. It should be noted that a number of amendments to the IDB Act and, especially the 1961 amendments, empowered this institution to lend to virtually any business.

In considering yet another sphere of action, Governor Coyne noted the importance of encouraging increased savings by Canadians, particularly personal savings. He thus recommended that encouragement be given to new kinds of small savings institutions and also to credit unions, trust companies with a savings deposit business, etc. It is

²¹W. L. Gordon, A Choice for Canada (Toronto: McLelland and Stewart, 1966), pp. 119-120.

interesting to note that the Sixth Annual Review of the Economic Council pointed out that

Achievement of Canada's potential to 1975 will require a high rate of public and private investment. Accordingly careful attention will be required to preserve the maintenance of a high rate of national saving ...²²

With a view to offsetting cyclical changes in employment in the private sector of the economy, Governor Coyne advocated the formation of a Federal Resource Development and Conservation Agency capable at any time of expanding or reducing the number of temporary employees. Coyne also proposed to increase the incomes of the unemployed by paying (as a charge on the budget) "a special supplement equal to, say, 25 per cent of regular unemployment insurance benefits and unemployment assistance... and continuing such supplements until the seasonally adjusted rate of unemployment in Canada remains below 4 per cent of the labour force for three successive months."²³ This payment would be financed by a special tax, or addition to the personal income tax, on those who were employed. Since 1961, benefits to the unemployed have been increased substantially and

²²Economic Council of Canada, Sixth Annual Review (Ottawa: Queen's Printer, September 1969), p. 164.

²³J. E. Coyne, The Requirements of Economic Policy Today (Ottawa: February 15, 1961), p. 12.

legislation is now being prepared to increase again the amount of weekly benefits granted to the unemployed. Additional funds required would be raised by enlarging the base of contributors to include practically all Canadians in the working force.

In the realm of consumer credit, Governor Coyne, as part of his programme, suggested that the Governor-in-Council be given, by a permanent statute, power to set limits on and vary from time to time the length, terms, minimum down payment and finance charges, in the whole field of consumer credit and personal loans. It is of interest to mention that, in the present fight against inflation, similar controls on consumer credit were seriously being considered.

Thus, in an opinion based on the above considerations, Governor Coyne's recommended "action programme" of February 15, 1961, appears original in that it suggested a new approach in the use of economic policies. In addition, the "specific" policy proposals contained therein covered a wide range of possible policy action. In all fairness to Coyne, some of these proposals appear to have been far-sighted and although it may be argued that not all of his proposals may have been appropriate at the time which they were made, the fact remains that a number of proposals similar to those which he advanced, have been adopted in the years following his departure from office.

CHAPTER VI

SUMMARY AND CONCLUSIONS

In retrospect, it is possible to say that the Coyne Affair could have been avoided if the concept of the constitutional position of the Bank of Canada, that is, if the concept pertaining to the relationship between the Bank of Canada and the Government had been clearly outlined in the Bank of Canada Act rather than left to whimsical interpretation by the Government and the Bank of Canada. Had the concept been incorporated in the Bank of Canada Act and accepted by the parties involved, the major disagreement, which came to a head on May 30, 1961, between the Governor of the Bank and the Government (more specifically, the Minister of Finance) on the relative priority to be given to Canada's economic objectives and on the appropriate monetary policy to be undertaken, would have resulted in the Government's taking final responsibility for monetary policy and the Governor of the Bank's resigning from his position, if unable to agree with Government policy. As matters stood then, however, the Government was not ready to accept final responsibility for monetary policy and the Governor of the Bank was not prepared to resign when in complete disagreement with Government policy.

Looking back at the events of mid-1961, it can be said that the Government mishandled the case, largely because it misjudged the intentions of Governor Coyne. Although the Government appeared justified in requesting Coyne's resignation in view of the major disagreement on economic objectives and policy which had developed, the manner in which it approached the affair is open to question. While, on the whole, the reasons given by Finance Minister Fleming for Governor Coyne's resignation appeared quite pertinent, the one pertaining to the Governor's pension seemed clearly an issue of secondary importance. Also, it appeared that the Government's timing in requesting Coyne's resignation was badly planned. The Government could have tackled the problem much differently, using the following alternatives: (a) put up with Governor Coyne until the expiration of his term of office, seven months hence, that is on December 31, 1961, and turn down any proposal for his reappointment, or (b) present the budget of June 20, 1961 and then let Coyne decide whether or not he could agree with Government policy, rather than request Coyne's resignation on May 30, 1961 before a clear economic programme had been brought forward, or (c) when it clearly recognized the adverse effects of the monetary policy which was being carried out - perhaps as early as the first quarter of 1960 - the Government could have requested Coyne's resignation by bringing the matter before Parliament, thus

forcing the rupture much earlier than it did occur. However, the point has been made by financial critics as well as by Governor Coyne that the Government did not have a clear programme of economic policy of its own; consequently, it is difficult to imagine how the Government could have requested Coyne's resignation strictly on policy matters.

For his part, Governor Coyne is to be blamed for not having resigned as soon as it became evident that he could not accept the Government's policies. It is particularly difficult to justify Coyne's refusal to resign once Finance Minister Fleming had outlined the economic policy intentions of the Government in the budget speech presented on June 20, 1961. Coyne, however, decided to remain in office, regardless of the fact that his usefulness as Governor of the Bank of Canada had been dealt a serious blow, as a result of the extensive publicity given to the affair. Only after he had experienced his "day in court" and following the "not guilty" verdict of the Senate Standing Committee on Banking and Commerce, did Coyne, no doubt feeling vindicated, submit his resignation.

With regard to Governor Coyne's economic views, which he put forward in his public speeches, and also in the Annual Reports, it was generally agreed by many academic economists and by Finance Minister Fleming that the Governor had accorded the wrong priority to Canada's economic objectives and that

his understanding of Canada's economic problems and his solutions to these were erroneous. He was, it appears, rightly criticized for having attached, from mid-1957 on, too much importance to restraining inflation and too little to improving employment. Some of Coyne's "general" proposals to remedy Canada's problems, especially those relating to protectionism of Canadian industries, and to the use of controls for limiting the entry of foreign capital into Canada, were strongly challenged, especially by Finance Minister Fleming and by a number of academic economists. On the other hand, some of Governor Coyne's "specific" proposals outlined in a confidential memorandum on February 15, 1961, were in many respects "avant-garde": for example, Coyne favoured the use of monetary and fiscal policies in long-term economic stabilization in addition to their traditional short-term cyclical use; he also advanced proposals pertaining to the more active use of economic policies which operated on the "supply side" of the market as well as proposals for more active use of other economic policies, for example policies to mobilize capital for investment, to increase industrial development, etc.

The role which the academic economists played in the Coyne Affair, on the whole, seemed to have served a useful purpose. There is no doubt that at all times, their analysis of Canada's economic problems and their possible solutions

to these problems, coupled with the analysis of government economists, can only be beneficial to the more widespread examination and assessment of Canadian economic conditions and solutions to the economic problems. It was, however, unfortunate in the case of the Coyne Affair, that there was a press leak of the letter addressed to the Minister of Finance, and circulated by a few economists to the academic community in late 1960, in order to support a petition for Coyne's resignation. This press leak no doubt played a large part in Mr. Fleming's request for Coyne's resignation on May 30, 1961.

Concerning some academic economists' criticisms directed at the Bank of Canada's autonomy and at its management's authority, it is generally agreed that some measure of independence, within the context of Government responsibility for monetary policy, is necessary for the Bank to function properly and to fulfill its role adequately. In this regard, the economists' criticisms appear to be unjustified.

However, the economists' criticisms of the Bank of Canada's monetary policy in the late fifties and early sixties, as well as their disagreement with many of Governor Coyne's views on Canada's economic conditions and problems and also with some of his "general" policy proposals, while difficult to assess, seemed justified and in the light of

hindsight their assessment of the causes of Canada's economic problems seemed generally correct.

On the other hand, the press reports and comments on Governor Coyne's public speeches, while extensive, appeared in general to lack sophisticated economic analysis and therefore did not contribute greatly to an enlightened and well-informed public discussion on Canadian economic conditions and problems.

No doubt a beneficial outcome of the Coyne Affair was that the concept of the constitutional position of the Bank of Canada, having been outlined clearly by Mr. Rasminsky on August 1, 1961, shortly after replacing Mr. Coyne as Governor, was incorporated into the Bank of Canada Act in 1967. Although no law can specify the precise ingredients which make for a workable understanding in every conceivable circumstance between the Governor of the Bank and the Ministers of Finance, with different personalities and approaches to their jobs, the dual system of responsibility, now clearly understood and accepted by the Government and the Governor, under which the Bank formulates monetary policy and executes it from day to day, but under which the government accepts full and continuing responsibility for the policy being followed, although not in the normal course for the details of its execution, should prevent the creation of awkwardness and uncertainty about the future direction of monetary

policy. Since mid-1961, the relationship between the Bank of Canada and the Government - nurtured by regular consultations between the Governor of the Bank and the Minister of Finance - appears to have worked out well. Any degree of prestige which the Bank of Canada or the position of Governor of the Bank may have lost as a result of the Coyne Affair does not appear to have impeded the Bank of Canada in fulfilling its role adequately since mid-1961.

In the sphere of short-term economic repercussions on the Canadian economy, one possible effect of the Coyne Affair - which was noted by some academic economists - was that the tight monetary policy of the Bank of Canada during a large part of Coyne's Governorship had contributed, to some degree, to the exchange crisis of 1962; however, it appeared to be only one of many factors leading to this exchange crisis.

In the long run, it is difficult to imagine that the Coyne Affair or the monetary policy of the Bank of Canada during Coyne's Governorship had any significant adverse effects on the Canadian economy since, from the first quarter of 1961 to the last quarter of 1969, Canada witnessed its largest uninterrupted economic expansion in the country's business cycle history and also the largest in terms of the absolute rise in the volume of total output and employment.

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APPENDIX I

BANK OF CANADA *Missis*

June 9th, 1961.

The Hon. Donald M. Fleming, Q.C.,
Minister of Finance
Ottawa, Ontario.

COPY

LETTER "A"

Dear Mr. Fleming,

On Tuesday, May 30th, the Deputy Minister of Finance informed me that you desired to meet with me in your office at 3.00 p.m. for a personal discussion. At that meeting, which by your request was also attended by the Deputy Minister of Finance, you informed me that the Cabinet would not approve a recommendation from the Board of Directors for my reappointment to a second term as Governor of the Bank of Canada when my present term expires at the end of this year. The proper procedure would have been to discuss the matter with the Board of Directors since, under the Statute, it is they not the Government who have the duty of forming a conclusion in the first instance as to whom they wish to appoint as Governor, and ascertaining whether the Government approved. It is hard to see how the Government itself could properly give consideration to the question whether to approve an appointment made by the Board of Directors except after hearing from the Board of Directors and discussing the matter with them or with their Committee which has long been established for that purpose.

One reason you gave why the Government would not approve my reappointment was that statements in public speeches I have made had turned out to be embarrassing to the Government and were being used by their opponents in Parliament and elsewhere for political purposes. You first spoke to me about this matter on March 18th last, and I have not made any public speeches since. I told you I had no further speeches scheduled, and did not intend to accept any speaking engagements in the near future, but that of course I saw nothing improper in the making of speeches or in anything that I had said. In response to a formal request of the Senate Committee on Manpower and Employment I appeared before that body on April 26th.

The Hon. Donald M. Fleming, Q.C. - 2 - June 9th, 1961.

In the course of that hearing (as in my speeches) I refrained from discussing any concrete or specific proposals, including those which I have made to you from time to time in the past, and more particularly on February 15th last, and which I still hoped you would find time to discuss with me.

At the meeting on March 18th you said people were asking whether my object was to undermine the present Government, although you were good enough to say that you yourself did not share that view. I declared, of course, that I had no such purpose whatever. Again on May 30th in relation to this subject, I said I had not taken up a position of hostility to the present Government, and that my only purpose had been to serve the public interest in a matter which I considered to be of great importance and seriousness for my country. You were good enough to say, "No one in this room has any doubt about your sincerity".

In addition to informing me of the Government's view regarding renewal of my term of office, you said you had been instructed to ask me to submit my resignation without waiting for the expiry of my present term, and to do so in time for the Board of Directors to be able to appoint my successor at the next regular meeting of the Board scheduled for June 12th. The reasons given for this extraordinary request were, first, that it would be undesirable to have me holding office as Governor for the next seven months knowing I was not to be reappointed, and that early arrangements should be made for my successor to take over. On this point, I see no difficulty in the Board of Directors, if they see fit, making an appointment of my successor with the approval of the Governor in Council to take office in due course and with some period of overlap, at least in our presence together at the Bank in Ottawa prior to my departure. This was the precedent followed, for example, on the occasion of Mr. Graham Towers' resignation, when his successor (myself) was someone from within the existing staff of the Bank, and it was also the procedure followed this year in connection with the resignation of Lord Cobbold, Governor of the Bank of England, when his successor (Lord Cromer) was someone who had come from outside the Bank of England. I can assure you that I would under any circumstances in the event of the

The Hon. Donald M. Fleming, Q.C. - 3 -

June 9th, 1961.

appointment of a successor to myself do everything in my power to assist him to become familiar with the work of the Bank of Canada and of the Industrial Development Bank and to take over the office in the most efficient and co-operative way.

The second reason advanced for the desire for an immediate resignation as stated to me on May 30th, and as stated by you on June 2nd to two members of the Committee of the Board of Directors appointed to consider this matter who had come to Ottawa at my request, was that the Government had under contemplation certain programmes which it was thought I would be bound to disagree with. I may say that in reporting this to me the two Directors said that, like myself, they did not know what this meant. So far as I am aware there is no question affecting Bank policy or operations at issue between us, and the Bank has in fact always co-operated fully with respect to Government policies and measures.

As you have no doubt been informed by the two members of the Committee of the Board who saw you on June 2nd and 3rd, I feel that this whole situation must be brought before the full Board of Directors for their information and discussion, and I cannot give you any further answer prior to discussing the matter with them at the meeting on June 12th. You yourself have often emphasized that the Bank has a responsibility to Parliament. Certainly the Board of Directors have a responsibility placed upon them under the Statute and it would be wrong for me by precipitate action (unless for a very good cause) to deprive them of an opportunity of hearing about, considering, and discussing the question in a properly constituted meeting.

The Board at its last meeting on May 8th, at my suggestion, asked the Special Committee which exists to consider matters affecting the appointment, salary and other matters affecting the Governor, Deputy Governor and the Directors themselves, to take under advisement the matter of who should be appointed Governor of the Bank in due course on the expiry of my present term of office. The Chairman of the Committee then got in touch with you prior to the trip which he made abroad, and it was agreed with you that on his

The Hon Donald M. Fleming, Q.C.

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June 9th, 1961.

return he and other members of the Committee would come to Ottawa before June 12th to have a preliminary exploration of this subject. The intention had been to arrange to see you on June 9th, and this was still the plan when the Directors concerned were told by me of your approach to me on May 30th. The Committee Chairman told me on June 3rd before leaving Ottawa that up to that time they had had no alternative name in mind, nor had one been suggested to them, although of course there had been no decision as yet one way or the other.

In the course of the discussion on May 30th you also raised some questions regarding amendments made by the Directors over the past six years in the Pension Fund rules of the Bank, and particularly those provisions which affect the pension of the Governor and Deputy Governor. I have written you separately about the legal situation and the careful deliberation of the Directors on this matter, although in the light of the long letter you have from the Chairman of the Committee of the Board, and the opinion of the Deputy Minister of Justice, I do not see how you or your colleagues can be in any doubt in the matter. You also said, however, that the opinion was held in some quarters in the Cabinet that there had been some impropriety on my part, some failure to live up to the duties of my position. It was said, apparently, that having regard to the responsibilities of the Governor and his powers under the Act---you made express reference to the Governor's right to veto any specific decision of the Directors---that I ought to have prevented the Directors from taking action in a matter of this sort, which is unquestionably within their powers and responsibility, and that the Government was considering what action to take in this connection. As I told you, I reject emphatically any such suggestion. I will spare your feelings by not recording in this letter the outraged comment made by the Chairman of the Committee having to do with this matter when I repeated it to him a few days ago.

Yours very truly,



BANK OF CANADA *Ottawa*

June 9th, 1961.

The Hon. Donald M. Fleming, Q.C.,
Minister of Finance,
Ottawa, Ontario

COPY

LETTER "B"

Dear Mr. Fleming,

You raised with me on May 30th the question of whether action taken by the Board of Directors on a number of occasions over the past 6 years to amend the Pension Fund By-law was within their competence or had become effective.

The point of substance was whether amendments to the Pension Fund By-law were valid if not approved by the Governor in Council. An opinion to the effect that no such approval was required was given by the Deputy Minister of Justice, as you know. The Board certainly acted in good faith in the belief that they had the power and the sole responsibility in this matter, having been informed not only of the legal opinion of the Department of Justice but of the fact that a legal officer in the office of the Privy Council had objected in 1954 to the idea of having amendments to this By-law submitted for approval by Order in Council and publication in the Canada Gazette.

Amendments to the Pension Fund By-law of the kind that would be affected by the question which you raised were made on February 4th, 1955, September 13th, 1956, February 20th, 1959 and February 15th, 1960. The amendment to which you had special reference was the last of those listed and effected certain changes in the maximum amount of salary which might be taken into account for purposes of calculating the pension, changes in pension to be paid in the event of total disability, and several other matters, as well as making provision that the pension which the rules had always provided should be available to the Governor or Deputy Governor in the event his services were terminated for any reason prior to reaching normal retirement age should be not less than a basic amount of 50% of salary --- retirement on half-pay, so to speak. (As you know, both the salary and the pension provided for the Governor of the Bank of Canada are approximately one-third (or less) of the salary and pension

(or retiring allowance) provided for the Presidents of the major chartered banks, and in their case I understand they make contributions in respect of only a minor part of their salary.)

This matter was given careful consideration over a period of months and in particular at a meeting at which all Directors were present (two-thirds of whom had been appointed by the present Government) after report and recommendation by a special committee of the Board which had had the matter under study for a long time, as you know. A lengthy account of the history of the discussions and the action taken by the Board was sent to you by the Chairman of the Special Committee of the Board under date of April 7th, 1961, following your inquiry to him. I do not think anyone reading that letter could have any thought that there was the slightest impropriety in the action of the Board, which was taken after careful deliberation for reasons which they thought important in order to assure a certain basic amount of pension to the Governor and Deputy Governor in the face of the precariousness of their tenure of office under certain circumstances and the handicap they would be under in finding suitable alternative employment in the event of non-reappointment or other termination of service prior to normal retirement age.

There was also the question of whether the above listed amendments to the Pension Fund By-law from 1955 through 1960 should have been published in the Canada Gazette, within 30 days, you said, but there is nothing in the Bank of Canada Act to that effect and a by-law of a corporation such as the Bank of Canada, not requiring to be approved by Order in Council, does not require to be published within 30 days, if at all. This is at most a technicality and does not go to the substance of the validity of the action of the Board. A reference to publication in the Canada Gazette occurs in Subsection 2 of Section 33 of the Bank of Canada Act, a section which deals with certain kinds of by-laws which require the approval of the Governor in Council. The authority of the Board to establish and make rules for the Pension Fund is contained in an entirely separate section, namely Subsection 3 of Section 15 of the Bank of Canada Act, which contains no reference to approval by the Governor in Council and which the Department of Justice has ruled does not require such approval.

Many actions have already been taken on the strength of the amendments in question --- amendments affecting the kind of investments which may be made by the trustees of the pension fund, the period for calculation of average salary as the basis for pensions,

The Hon. Donald M. Fleming, Q.C. - 3 -

June 9th, 1961

disability and widows' benefits, elections to retire at age 65 instead of 60, and so on.

The Bank's contribution as employer has been very substantially reduced as a result of the changed position of the Fund both actual and prospective under the revised rules --- having regard in particular to the kind of investment provisions now authorized (much the same as those authorized for life insurance companies) and to the substitution in a majority of cases of age 65 instead of age 60 as the normal retirement age for male employees. It was estimated in 1960 that the reduction in the employers' contribution represented a saving of \$190,000 a year for the Bank of Canada and \$80,000 a year for the Industrial Development Bank, and in future years the saving will be even greater.

A number of pensions have become payable on the basis of the amended rules, and many employees of the Bank of Canada and the Industrial Development Bank have altered their expectations and placed their reliance on the amended rules --- including all the Deputy Governors of the Bank of Canada and the General Manager of the Industrial Development Bank (who are affected by the increase in the maximum salary to be taken into account in calculating pension benefits as well as by the other provisions) and contributions have been made by employees accordingly.

In view of the foregoing, I think it best that the matter of the technicality should be settled from every point of view, and I have accordingly sent the appropriate notice to the Queen's Printer for publication in the next issue of the Canada Gazette.

Yours very truly,



BANK OF CANADA *Ottawa*

June 9th, 1961.

The Hon. Donald M. Fleming, Q. C. ,
Minister of Finance,
Ottawa, Ontario.

COPY

LETTER "C"

Dear Mr. Fleming,

You are aware that I and other officers of the Bank of Canada have for some months, indeed for more than a year, had informal discussions with the Deputy Minister of Finance and other Government officials on the subject of a possible Royal Commission to study and report on the banking and financial system in Canada. One of the matters that would clearly come under study by such a Royal Commission is the structure of the Bank of Canada, whose Act has not been changed in this respect in any significant way since 1934, and also the question of the relation of the Bank to the Minister of Finance and to the Government.

On this last point I have expressed the view frequently, and I have no doubt this has been reported to you, that the relationship of the Bank to the Government should be clarified and the overriding responsibility for monetary policy declared to rest on the Government (as it always has done in fact) by appropriate provision in the statute. Lord Cobbold, the Governor of the Bank of England, on his last visit here told me, and perhaps you also, that the provisions to that effect in the Bank of England Act carried his complete support and did not in his view derogate from the operating independence of the Bank of England or from its status as an entity separate from the Government and with a responsibility of its own, although in certain circumstances the Governor of the Bank might find himself in such fundamental disagreement with Government policy as communicated to him that (unlike a civil servant) he would find it necessary to resign, no doubt giving reasons for his resignation and allowing those reasons to become the subject of public information and discussion.

Since you became Minister of Finance you have on a number of occasions denied any responsibility of yourself or of the

The Hon. Donald M. Fleming, Q. C. - 2

June 9th, 1961.

Government for monetary policy in Canada on the ground that under the present Act the sole responsibility rested with the Bank of Canada. You must have had in mind a very narrow definition of the term "monetary policy" because most people would say that the term monetary policy included many fields of Government action other than the particular field in which the Bank of Canada operates. In any event monetary policy must be affected in its operations and the central bank must be affected in its views on monetary policy by many actions of the Government, including the size of the Budget deficit or surplus and the borrowing requirements of the Government, including also many other activities of the Government such as the extent and volume of lending by the Government or by Government agencies in various fields of credit and the extent of regulation by Parliament or by the Government over activities of various categories of lenders, borrowers, banks, investment institutions, etc.

The doctrine of apartheid is abhorrent to men of good will, and in relation to monetary policy does violence to common sense. I have been told by many persons in all occupations and walks of life that they find the doctrine that the Government bears no responsibility for monetary policy to be bewildering and confusing.

The matters involved are far too important to be dominated by merely technical considerations. I have never myself held or expressed the view that the Bank of Canada is a free-wheeling agency so independent that it can carry on monetary policy contrary to the wishes of the Government or in any way fail to collaborate with the Government and support Government policy, insofar as action by the Bank of Canada may be relevant. I feel however that your statements may have contributed to such an impression in the public mind and thereby put the Bank in a false position and impaired its influence.

The Board of Directors and the Governor of the Bank of Canada have a responsibility which they must discharge, and they cannot excuse themselves for anything they do merely by saying it was not their idea but they did it because somebody told them to. Nevertheless, the Bank of Canada, and particularly the Governor, must take into consideration any views on monetary policy expressed by the Government, and in the event of a sufficiently serious difference of opinion on a matter of an important point of policy it would, in my view, be the duty of the Governor to resign. A similar viewpoint has been expressed by my predecessor, Mr. Graham Towers, when he was Governor of the Bank of Canada, and by Ministers of Finance, other

The Hon. Donald M. Fleming, Q. C. - 3 - June 9th, 1961.

Members of Parliament and a wide variety of students and commentators. Of course, the question will always remain open at what stage the Governor should resign, which would be affected by the amount of exchange of views and discussion that had taken place with the Government, and on the desirability of having public discussion of the matter at issue.

In order to reconcile the technical statements which may have caused misunderstanding, and to bring the Bank of Canada Act into conformity with underlying reality and with the principles which virtually all authorities in this and other countries believe should govern, I have long felt that the Bank of Canada Act should contain provisions similar to those in the Bank of England Act, Section 4(1) and (2) of which read as follows:

- 4(1) The Treasury may from time to time give such directions to the Bank as, after consultation with the Governor of the Bank, they think necessary in the public interest.
- (2) Subject to any such directions, the affairs of the Bank shall be managed by the Court of Directors in accordance with such provisions (if any) in that behalf as may be contained in any charter of the Bank for the time being in force and any bylaws made thereunder.

I therefore urge that steps be taken to have the Bank of Canada Act amended so as to make statutory the clear responsibility of the Government, and the duty of the Bank, which have never been denied by the Bank.

As you know, I communicated these views once more to the Deputy Minister of Finance last Friday, and I understand he passed them on to you Saturday morning, but I thought it would be helpful to record in writing my views on this matter.

Yours very truly,



APPENDIX II

THE ACADEMIC ECONOMISTS' LETTER

COPY

The Honourable D. M. Fleming, P.C., Q.C.,
The Minister of Finance,
Ottawa.

Dear Mr. Fleming:

The signatories of this letter are all economists on Canadian university faculties or are engaged independently in economic research. Economists have very rarely made joint representations to the Government and we do not possess a professional association that is authorized to speak for Canadian economists on matters of governmental policy and administration. This, we feel, is as it should be. By and large academic and research economists should express their views on these matters as individuals—with all the variations of emphasis and interpretation that ought to characterize independently-minded students and observers of public affairs. Consequently we send this joint letter to you with considerable regret that we have felt it necessary to abandon the individuality which our profession cherishes, protects, and promotes.

There may come occasions in the affairs of a nation when economists must accept, albeit with regret, the responsibility of speaking with the increased power of a united voice on matters of grave public concern. The signatories of this letter feel that such a time has come for Canada and we wish therefore to address you in this way on the matter of the management and policies of the Bank of Canada. We address you, Mr. Minister, as the sole shareholder of that institution, who holds its shares on behalf of the Government of Canada.

We are facing serious economic difficulties in Canada, both in our domestic economy and in our trade and financial relations with other nations. The undersigned economists wish to express to you that we have lost confidence in the ability of the Bank of Canada under its present management

to play its proper role in ameliorating and resolving these difficulties.

Recent public statements by the Governor of the Bank of Canada have seriously shaken our faith in the wisdom and competence of the Bank's management. As professional economists we are both puzzled and distressed by the economic reasoning contained in these public statements. This reasoning does not appear to us to approach that level of competence which is a necessary foundation for successful central bank policy. Moreover, we feel that the policies actually pursued by the Bank of Canada have not displayed sufficient concern for the difficulties and uncertainties of the financial markets or sufficient awareness of the true state of the economy in general. As economists, surely we are justified in expecting that the Bank of Canada should act as a stabilizing force in the economy and not as one whose actions tend to exacerbate our economic and financial difficulties.

We address you then, Mr. Minister, to ask that steps should be taken to alter the management of the Bank of Canada. Parliament intended the Bank to be the servant of the people, to aid and support them in difficult times and to give wise counsel and leadership. This, we are convinced, the Bank cannot do under its present management. We plead that you should appreciate the gravity of this situation and that you should act without delay.

APPENDIX III

TABLE 1

Currency Outside Banks and Chartered Bank Deposits^a In Canada - 1955 to 1961

(millions of do

		Currency Outside Banks			Chartered Bank Deposits				Total Currency and Chartered Bank Depos	
		Notes	Coin	Total	Personal Savings Deposits	Government of Canada Deposits	Other Deposits (less float) ^b	Total (less float) ^b	Total	Held by Cana Public or Excl. G. of C. Deposits
Average of Wednesdays										
1955	Jan.	1267	96	1363	5247	124	3556	8926	10289	10165
	Feb.	1266	94	1360	5316	187	3481	8984	10344	10157
	Mar.	1283	94	1378	5391	174	3523	9089	10467	10292
	Apr.	1295	95	1390	5453	69	3681	9203	10592	10523
	May	1302	96	1398	5500	122	3748	9370	10768	10646
	June	1325	96	1421	5529	158	3813	9500	10921	10763
	July	1342	98	1440	5599	200	3941	9740	11179	10980
	Aug.	1357	98	1455	5670	182	3942	9794	11249	11067
	Sept.	1357	97	1455	5727	165	3915	9807	11262	11097
	Oct.	1363	99	1462	5775	125	3946	9846	11308	11184
	Nov.	1379	99	1478	5655	443	3864	9962	11440	10997
	Dec.	1397	100	1497	5603	541	3746	9890	11387	10846
1956	Jan.	1344	101	1445	5651	510	3666	9827	11272	10762
	Feb.	1353	98	1451	5693	495	3591	9779	11231	10736
	Mar.	1367	99	1459	5754	530	3548	9833	11292	10761
	Apr.	1367	102	1469	5823	367	3643	9832	11301	10935
	May	1384	102	1486	5859	437	3644	9941	11427	10990
	June	1386	102	1488	5867	488	3653	10008	11496	11008
	July	1418	104	1522	5898	296	3707	9902	11424	11128
	Aug.	1435	103	1538	5918	307	3725	9950	11488	11181
	Sept.	1431	106	1536	5982	312	3672	9966	11502	11190
	Oct.	1448	106	1553	6047	184	3715	9946	11499	11315
	Nov.	1444	106	1550	5992	370	3599	9961	11511	11141
	Dec.	1482	108	1589	5960	341	3614	9915	11505	11164

TABLE 1 (continued)

Currency Outside Banks and Chartered Bank Deposits^a In Canada - 1955 to 1961

(millions of dollars)

		Currency Outside Banks			Chartered Bank Deposits				Total Currency and Chartered Bank Deposits	
		Notes	Coin	Total	Personal Savings Deposits	Government of Canada Deposits	Other Deposits (less float) ^b	Total (less float) ^b	Total	Held by Canadian Public of Excl. G. of C. Deposits
Average of Wednesdays										
1957	Jan.	1422	108	1530	5992	242	3553	9787	11316	11075
	Feb.	1399	104	1504	6063	335	3399	9797	11300	10965
	Mar.	1407	105	1512	6102	436	3355	9872	11384	10948
	Apr.	1432	107	1539	6151	311	3418	9880	11419	11108
	May	1431	107	1538	6167	328	3411	9905	11444	11116
	June	1440	109	1549	6164	266	3508	9937	11486	11221
	July	1484	110	1594	6209	180	3479	9868	11462	11282
	Aug.	1481	109	1590	6245	157	3453	9855	11445	11288
	Sept.	1486	111	1597	6285	147	3484 ^c	9917	11513	11366
	Oct.	1500	110	1610	6174 ^c	137	3674 ^c	9985	11596	11458
	Nov.	1494	111	1605	6099	314	3663	10076	11681	11367
	Dec.	1536	113	1649	6043	445	3684	10172	11821	11376
1958	Jan.	1479	112	1591	6100	465	3677	10242	11833	11368
	Feb.	1459	110	1570	6199	561	3565	10325	11895	11334
	Mar.	1480	112	1592	6291	368	3621	10280	11872	11504
	Apr.	1520	113	1633	6386	158	3761	10305	12314	11779
	May	1506	114	1619	6455	456	3784	10695	12314	11858
	June	1520	116	1636	6516	291	3872	10679	12315	12023
	July	1565	117	1681	6601	372	3997	10970	12652	12279
	Aug.	1562	116	1678	6768	419	4134	11321	13000	12581
	Sept.	1571	118	1689	6361	251	4271	11383	13072	12821
	Oct.	1583	117	1701	6929	178	4405	11512	13213	13034
	Nov.	1581	119	1701	6848	366	4318	11532	13233	12867
	Dec.	1535	121	1756	6798	398	4280	11476	13232	12834

TABLE 1 (continued)

Currency Outside Banks and Chartered Bank Deposits^a In Canada - 1955 to 1961

(millions of dollars)

		Currency Outside Banks			Chartered Bank Deposits				Total Currency and Chartered Bank Deposits	
		Notes	Coin	Total	Personal Savings Deposits	Government of Canada Deposits	Other Deposits (less float) ^b	Total (less float) ^b	Total	Held by Canadian Public or Excl. G. of C. Deposits
Average of Wednesday										
1959	Jan.	1547	121	1668	6836	507	4223	11566	13234	12727
	Feb.	1545	119	1665	6946	495	4024	14465	13130	12635
	Mar.	1568	121	1688	7032	511	3997	11540	13228	12717
	Apr.	1591	122	1713	7113	359	3999	11472	13185	12825
	May	1586	121	1707	7133	391	3986	11511	13218	12827
	June	1597	124	1721	7131	416	3993	11540	13261	12845
	July	1638	125	1762	7154	382	4044	11579	13342	12960
	Aug.	1633	125	1758	7214	354	4030	11598	13357	13002
	Sept.	1642	124	1766	7227	157	5034	11418	13184	13028
	Oct.	1617	125	1742	7174	103	4060	11337	13079	12976
	Nov.	1620	127	1746	6986	353	4053	11393	13139	12786
	Dec.	1662	127	1789	6849	510	4001	11360	13148	12639
1960	Jan.	1571	128	1699	6870	543	4002	11414	13113	12571
	Feb.	1564	125	1690	6955	528	3827	11310	13000	12472
	Mar.	1589	126	1715	7011	460	3826	11297	13012	12552
	Apr.	1606	127	1732	7066	385	3927	11378	13110	12725
	May	1607	131	1738	7086	406	3910	11402	13140	12734
	June	1634	133	1767	7085	429	3974	11488	13255	12826
	July	1651	137	1788	7115	397	3969	11481	13269	12872
	Aug.	1661	138	1798	7203	193	4001	11397	13195	13002
	Sept.	1646	137	1784	7241	87	4168	11496	13280	13193
	Oct.	1651	140	1791	7303	229	4270	11802	13594	13364
	Nov.	1667	142	1809	7218	454	4236	11908	13717	13263
	Dec.	1674	142	1816	7145	612	4257	12013	13830	13218

TABLE 1 (continued)

Currency Outside Banks and Chartered Bank Deposits^a In Canada - 1955 to 1961

(millions of dollars)

		Currency Outside Banks			Chartered Bank Deposits				Total Currency and Chartered Bank Deposits	
		Notes	Coin	Total	Personal Savings Deposits	Government of Canada Deposits	Other Deposits (less float) ^b	Total (less float) ^b	Total	Held by Canadian Public or Excl.
Average of Wednesday										
1961	Jan.	1612	144	1756	7207	491	4268	11966	13722	13231
	Feb.	1610	142	1751	7330	457	4184	11971	13722	13265
	Mar.	1632	141	1774	7411	381	4261	12053	13827	13446
	Apr.	1630	145	1775	7475	231	4316	12022	13797	13566
	May	1649	145	1794	7520	181	4339	12039	13833	13653
	June	1644	146	1790	7497	231	4420	12149	13938	13708
	July	1690	148	1838	7522	210	4534	12266	14104	13894
	Aug.	1699	149	1849	7607	238	4710	12555	14404	14165
	Sept.	1690	150	1840	7647	173	4771	12592	14432	14259
	Oct.	1697	153	1850	7718	115	4805	12638	14488	14373
	Nov.	1712	154	1866	7620	297	4919	12836	14702	14405
	Dec.	1737	155	1892	7543	670	4930	13143	15035	14365

^a The most commonly used definition of money supply in Canada to-day is that of currency outside banks plus total Canadian dollar deposits held by general public.

^b Less total float, i.e., cheques and other items in transit.

^c The deposit balance of religious, educational and welfare institutions and personal accounts used mainly for business purposes were reclassified from "personal savings deposits" to "other notice deposits" as at September 30, 1957 in the returns of the banks to the Department of Finance. The figures prior to September 30, 1957 are thus not comparable with those since that date. The amount of deposit reclassified was approximately \$140 million.

SOURCE: Bank of Canada Statistical Summary, Supplement, various issues 1955-1961.

APPENDIX III

TABLE 2

Cash Reserves and Liquid Assets of Canadian Chartered Banks - 1955 to 1961

Daily Averages For Period	Cash Reserves			Canadian Dollar Deposits	Average Cash Reserve Ratio	Day-to- day Loans	Treasury Bills	Canadian Liquid Assets	Average Liquid Asset Ratio	
	Bank of Canada Deposits	Bank of Canada Notes	Total							
	Millions of Dollars									%
1955	Jan.	569	279	848	9484	8.9	a	a	a	a
	Feb.	492	318	809	9343	8.7				
	Mar.	521	284	805	9398	8.6				
	Apr.	544	268	812	9586	8.5				
	May	531	277	808	9632	8.4				
	June	529	288	817	9821	8.3				
	July	557	282	840	10049	8.4				
	Aug.	552	293	845	10222	8.3				
	Sept.	542	303	845	10264	8.2				
	Oct.	556	301	857	10314	8.3				
	Nov.	549	313	861	10383	8.3				
	Dec.	552	312	863	10487	8.2				
1956	Jan.	568	310	878	10515	8.4				
	Feb.	504	354	858	10448	8.2				
	Mar.	542	299	841	10285	8.2				
	Apr.	561	294	855	10357	8.3				
	May	545	310	856	10409	8.2				
	June	560	318	878	10597	8.3	84	757	1719	16.2
	July	544	332	876	10608	8.3	92	735	1703	16.1
	Aug.	563	338	900	10649	8.5	61	786	1747	16.4
	Sept.	549	328	877	10563	8.3	83	794	1755	16.6
	Oct.	544	340	885	10607	8.3	83	773	1740	16.4
	Nov.	539	341	881	10591	8.3	83	774	1737	16.4
	Dec.	553	338	890	10704	8.3	71	746	1707	15.9

TABLE 2 (continued)

Cash Reserves and Liquid Assets of Canadian Chartered Banks - 1955 to 1961

Daily Averages For Period	Cash Reserves			Canadian Dollar Deposits	Average Cash Reserve Ratio	Day-to day Loans	Treasury Bills	Canadian Liquid Assets	Average Liquid Asset Ratio	
	Bank of Canada Deposits	Bank of Canada Notes	Total							
	Millions of Dollars				%	Millions of Dollars			%	
1957	Jan.	523	355	878	10660	8.2	85	763	1726	16.2
	Feb.	475	390	865	10525	8.2	119	812	1797	17.1
	Mar.	514	335	848	10371	8.2	117	813	1779	17.1
	Apr.	542	314	856	10489	8.2	97	787	1740	16.6
	May	553	310	863	10528	8.2	110	773	1746	16.6
	June	556	321	877	10694	8.2	109	795	1781	16.7
	July	535	329	864	10647	8.1	96	780	1741	16.4
	Aug.	546	335	880	10668	8.3	94	781	1756	16.5
	Sept.	544	330	875	10543	8.3	96	870	1840	17.5
	Oct.	537	340	877	10590	8.3	123	836	1836	17.3
	Nov.	549	330	878	10763	8.2	142	821	1842	17.1
	Dec.	542	337	879	10736	8.2	172	797	1848	17.2
1958	Jan.	552	338	889	10853	8.2	176	818	1884	17.4
	Feb.	534	363	897	11006	8.2	150	818	1865	17.0
	Mar.	561	326	887	10903	8.1	119	794	1801	16.5
	Apr.	583	320	902	10892	8.3	107	818	1827	16.8
	May	566	322	888	10927	8.1	198	890	1877	18.1
	June	608	325	933	11333	8.2	151	885	1969	17.4
	July	615	339	954	11370	8.4	94	881	1929	17.0
	Aug.	638	333	971	11676	8.3	96	951	2019	17.3
	Sept.	654	342	996	11939	8.3	49	1072	2117	17.7
	Oct.	641	343	984	12069	8.2	95	1055	2134	17.7
	Nov.	671	334	1005	12257	8.2	56	990	2051	16.7
	Dec.	664	349	1011	12194	8.3	102	925	2040	16.7

TABLE 2 (continued)

Cash Reserves and Liquid Assets of Canadian Chartered Banks - 1955 to 1961

Daily Averages For Period	Cash Reserves			Canadian Dollar Deposits	Average Cash Reserve Ratio	Day-to- day Loans	Treasury Bills	Canadian Liquid Assets	Average Liquid Asset Ratio	
	Bank of Canada Deposits	Bank of Canada Notes	Total							
	Millions of Dollars									%
1959	Jan.	665	344	1008	12254	8.2	98	997	2104	17.2
	Feb.	627	372	998	12320	8.1	83	1006	2087	16.9
	Mar.	638	345	983	12102	8.1	74	920	1976	16.3
	Apr.	656	335	991	12162	8.1	40	862	1893	15.6
	May	670	332	1002	12238	8.2	55	890	1947	15.9
	June	656	348	1003	12265	8.2	45	989	2037	16.6
	July	634	357	991	12250	8.1	66	999	2057	16.8
	Aug.	672	345	1017	12389	8.2	30	911	1958	15.8
	Sept.	645	365	1009	12197	8.3	33	911	1954	16.0
	Oct.	645	356	1001	12053	8.3	94	888	1983	16.4
	Nov.	644	350	995	12023	8.3	78	948	2020	16.8
	Dec.	628	362	990	11924	8.2	72	945	2007	16.7
1960	Jan.	654	347	1001	12073	8.3	64	1037	2102	17.4
	Feb.	595	386	981	11985	8.2	99	1004	2084	17.4
	Mar.	614	354	967	11867	8.2	82	963	2013	17.0
	Apr.	629	333	962	11847	8.1	97	934	1993	16.8
	May	634	341	975	11910	8.2	104	972	2051	17.2
	June	604	368	971	11957	8.1	136	998	2105	17.6
	July	624	354	978	12094	8.1	112	950	2040	16.9
	Aug.	641	359	1000	12117	8.3	96	945	2042	16.8
	Sept.	609	372	981	11983	8.2	124	1016	2121	17.7
	Oct.	619	365	984	12033	8.2	165	1047	2197	18.3
	Nov.	628	371	999	12303	8.1	123	1004	2126	17.3
	Dec.	651	368	1019	12452	8.2	125	951	2095	16.8

TABLE 2 (continued)

Cash Reserves and Liquid Assets of Canadian Chartered Banks - 1955 to 1961

Daily Averages For Period	Cash Reserves			Canadian Dollar Deposits	Average Cash Reserve Ratio	Day-to day Loans	Treasury Bills	Canadian Liquid Assets	Average Liquid Asset Ratio	
	Bank of Canada Deposits	Bank of Canada Notes	Total							
	Millions of Dollars									%
1961	Jan.	665	364	1029	12612	8.2	128	1034	2191	17.4
	Feb.	615	404	1019	12556	8.1	139	1129	2287	18.2
	Mar.	653	355	1009	12445	8.1	126	1128	2263	18.2
	Apr.	678	339	1017	12548	8.1	87	1066	2169	17.3
	May	667	352	1018	12560	8.1	134	1074	2226	17.7
	June	656	370	1026	12623	8.1	140	1144	2311	18.3
	July	665	364	1029	12679	8.1	136	1158	2323	18.3
	Aug.	668	372	1040	12790	8.1	162	1215	2417	18.9
	Sept.	691	373	1064	13122	8.1	184	1218	2466	18.8
	Oct.	696	376	1072	13128	8.2	167	1234	2473	18.8
	Nov.	698	378	1076	13226	8.1	173	1261	2510	19.0
	Dec.	724	358	1082	13356	8.1	229	1193	2504	18.7

^a Not available on daily average basis prior to June 1956.

SOURCE: Bank of Canada, Statistical Summary, Supplement, various issues, 1955 to 1961.

APPENDIX IV

REFERENCES TO MR. J. E. COYNE'S SPEECHES, IN CHRONOLOGICAL ORDER

1. Credit and Capital. Remarks prepared for delivery at a meeting of the Investment Dealers Association of Canada (Ontario District), Toronto, December 14, 1959, 21 pages.
2. Living Within Our Means. Remarks prepared for delivery at a meeting of the Canadian Club of Winnipeg, January 18, 1960, 27 pages.
3. Inflation and Unemployment. Remarks prepared for delivery at the 48th Annual Meeting of the Ontario Chamber of Commerce, Hamilton, May 12, 1960, 19 pages.
4. Two Banks - One Aim. Remarks prepared for delivery at a joint meeting of the Canadian Club and Board of Trade, Vancouver, June 29, 1960, 17 pages.
5. Living Within Our Means by Expanding Our Means to Live Better. Remarks prepared for delivery at the Annual Meeting of the Canadian Chamber of Commerce, Calgary, October 4, 1960, 31 pages.
6. Foreign Debt and Unemployment. Remarks prepared for delivery at a Meeting of the Canadian Club of Toronto, November 14, 1960, 24 pages.
7. Notes for Remarks at the Annual Conference of the Business Paper Editors Association, Ottawa, January 17, 1961, 17 pages.
8. Strong Roots for New Growth. Remarks prepared for delivery at the Annual Meeting of the Newfoundland Board of Trade, St. John's, January 31, 1961, 24 pages.
9. Balance of Payment Problems in North America. Remarks prepared for delivery at a meeting of the Economic Club of New York, March 7, 1961, 19 pages.
10. Canada's Economic Growth in the Sixties. Remarks prepared for delivery at a Conference on Canadian Studies at Bishop's University, Lennoxville, March 17, 1961, 26 pages.

11. Remarks prepared for delivery to the Retail Merchant's Association, Saskatoon, March 22, 1960.
12. Financing Economic Growth and Business Expansion.
Remarks prepared for delivery at a luncheon of the Quebec Chamber of Commerce, Quebec City, June 12, 1961, 10 pages.