

CHUCK FREEDMAN: BANKING ON CANADA'S FUTURE

By Karen Christensen

In recent years, Canada has enjoyed low, stable and predictable inflation, thanks in large part to the efforts of the Bank of Canada. But does low inflation really affect the average Canadian? Ask **Charles (Chuck) Freedman** (BCom '63), and he'll reply with a resounding "YES!"


As Deputy Governor at the Bank of Canada, Chuck is responsible for the design of monetary policy and is one of the seven members of the Governing Council, which decides on interest rate levels in Canada. He also oversees monetary and financial analysis, which includes assessment of the growth of money and credit, development of models of financial institutions, analysis of systemic risk, and assessment of a variety of regulatory policies on which his team advises the government. Chuck is also responsible for what he calls the 'plumbing' of the financial system. This includes clearing and settlement systems for cheques and other types of payments, securities, and foreign exchange.

One of the Bank's main contributions to Canada's economic performance is low, stable and predictable inflation, says Chuck. Currently, the Bank's targets are designed to bring about a two per cent rate of inflation, within a target range of one to three per cent. "Low inflation is a means to an end," he says, "and that end is a well-functioning economy, working at or near its potential, with high and rising standards of living." Low inflation contributes to these things in a number of ways, he says, and the easiest way to explain it is to look at the opposite scenario — the perils of high, unpredictable inflation.

"Twenty to 25 years ago, when inflation was much higher, businesses and households had a lot more trouble making good decisions, particularly long-term ones," he says. Asset prices tend to rise rapidly at times of general inflation, and when people make decisions based on the extrapolation of that increase, "they are often bad decisions, because the price increase isn't truly indicative of the asset's value."

One of the positive effects of low inflation is a reduction in the amplitude of the business cycle — the depth of our recessions and the strength of our booms. Chuck doesn't think we'll ever get away from the business cycle of ups and downs. "It's the nature of the capitalist economy, but by staying away from the excesses and imbalances associated with high inflation, we may be able to avoid those deep downturns of the early '80s and early '90s."

This isn't to say that low inflation is enough to make Canada prosper,



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says Chuck. "I think of it as a necessary condition for achieving good economic outcomes, but not sufficient. You also need good fiscal policy and good micro policies.

Once you get the monetary and fiscal policies right, you then have to deal with the hard issues: how to get productivity up, what to do about education, etc."

"One of the great things about working at the Bank of Canada is that it's allowed me to combine academic-type research with public policy objectives," says Chuck. He's been invited to lecture at most Canadian universities, along with a number of American ones, and has done "a fair amount" of publication.

In his spare time, Chuck enjoys reading mysteries and history, going for walks with his wife, travelling, and visiting his children and two-year-old grandson in New York City and Albany.

As to whether electronic money will replace paper money any time soon, Chuck doesn't think so. "Back in 1996, I chaired an international committee looking into the implications of electronic money. We concluded that innovations like 'stored-value cards' would develop gradually, but wouldn't have much impact on monetary policy. People have this apocalyptic view that monetary policy is going to disappear because of electronic money, but it won't happen in my lifetime, and probably not in the lifetime of my grandson, either." **RM**