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Canada Can Improve on 2 Percent Inflation Targeting; Better Protect the Value of Money: *C.D. Howe Institute*

Toronto, March 19 – Canada can improve upon its existing monetary order based on a 2 percent inflation target, says a study released today by the C.D. Howe Institute. In *To the Next Level: From Gold Standard to Inflation Targets – to Price Stability?* William B.P. Robson recommends improvements to the current regime when it expires in 2011, including a lower inflation or price-level target, and stronger accountability for the Bank of Canada's performance in hitting the target.

Canada's current 2 percent inflation-targeting regime has a record of success that sets the bar high for improvements, Robson notes. Yet the current target has key defects: by the end of 2011, 2 percent annual inflation will reduce the currency's value by more than one-quarter since 2 percent targeting began in 1995, and the annual inflation target makes the future price level less predictable as the forecast horizon lengthens. On the positive side, the 2 percent regime's success suggests that better protecting money's purchasing power would be easier and more rewarding than once thought.

Before assessing whether and how to improve the current regime, the *Commentary* examines the key elements of a durable monetary order. They are: a unique, logical goal for monetary policy; technical power to influence monetary conditions decisively; tactical skill to use that power effectively; private expectations and behaviour that conform to the goal; democratic support and accountability; and resilience in the face of foreseeable shocks.

Canada has had several monetary regimes since the Bank of Canada's establishment in the 1930s, Robson notes, most of which lacked such features and proved brittle. By contrast, the 2 percent inflation target since the end of 1995 exhibits them to an unusual degree. The regime that replaces the 2 percent target in 2011 must build on this success, says Robson. The modifications he outlines could lead to a more durable monetary order that better preserves the value of Canadians' money.

The study *To the Next Level: From Gold Standard to Inflation Targets – to Price Stability?* is available at www.cdhowe.org.

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To the Next Level: From Gold Standard to Inflation Targets – to Price Stability? C.D. Howe Institute Commentary No. 285, by William B.P. Robson (March 2009). 29 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the Institute for details). ISBN 0-88806-751-8.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at www.cdhowe.org.