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### "Wage and Price Guidelines and Incomes Policies"

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# Wage and Price Guidelines and Incomes Policies

**Russell Bell**  
**John L. Fryer**

*The two following papers discuss the views of the Economic Council of Canada and were presented at the Ottawa CIRRI Conference June 1967. Russell Bell is from the Economic Council of Canada and John L. Fryer is from the Canadian Labour Congress.*

## **Russell Bell**

In the last couple of years, as actual output in the economy moved closer to potential, with some increase in price and cost pressures, a number of people came to the conclusion that some kind of incomes policy was required. Interest in an incomes policy was perhaps stimulated as the result of a specific reference to the Economic Council by the Government of Canada in 1965. This reference asked the Economic Council:

1. To study factors affecting prices determination and the inter-relation between movements in prices and costs and levels of productivity and incomes.
2. To report on their relationship to sustained economic growth and to the achievement of high levels of employment and trade and rising standards of living.
3. To review the policies and experiences of other countries in this field and their relevance for Canada.

## **Council's General Approach to the Economy**

It is important to note, as the above terms of reference indicate, that price and cost stability was not set out as a priority goal over other goals. In other words, the Council was not asked to treat « reasonable price stability » in isolation or at the expense of achieving other

basic economic goals. This is in line with the approach taken by the Council since it came into being. The Council has from the beginning consistently focused its attention, not on any one goal, but on a number of basic economic and social goals which are set out in the Act of Parliament which established the Council in 1963. These goals are: full employment, a high rate of economic growth, reasonable stability of prices, a viable balance of payments and an equitable distribution of rising incomes. The Council, in examining the question of price and cost instability and possible policies for dealing with this matter, had thus to bear in mind the possible effects which such policies might have on other goals. It is, of course, not difficult to achieve any one goal if you can ignore the others. On this point the Council's *First Annual Review* stated: «... The real problem lies not in how to pursue some particular objective, but in how to achieve *all* our agreed social and economic goals simultaneously and consistently. The various goals are not always compatible with each other. Policies designed to accomplish a particular aim such as full employment or a rapid rate of growth may be in conflict with the policies needed to avoid inflation or to maintain a viable balance of payments. There is always the overriding requirement to reconcile conflicting tendencies and to achieve consistency. Otherwise, the objectives are not likely to be attained either collectively or separately over the longer run.»

### **The Meaning of an Incomes Policy**

Having tried to put in perspective the Council's general approach to the economy, I shall now return to the subject before this panel. First of all, what do we mean by an incomes policy? The following definition by the Organization for Economic Co-operation and Development has been generally accepted: «What is meant by an incomes policy... is that the authorities should have a view about the kind of evolution of incomes which is consistent with their economic objectives, and in particular with price stability; that they should seek to promote public agreement on the principles which should guide the growth of incomes; and that they should try to induce people voluntarily to follow this guidance.» This definition of an incomes policy goes much further than the statements sometimes made by public authorities on what the general behaviour of wages and prices should be under certain economic conditions. At the same time it falls short of compulsory wage and price controls imposed under wartime conditions. The latter kind of

policy would not at all qualify under the OECD definition of an incomes policy, which places emphasis on *voluntary*, rather than compulsory, compliance with a set of guidelines.

Countries which have adopted some form of incomes policy have done so for a number of reasons. But it would appear that the most important *economic* reason has been the desire to achieve a better trade-off between high employment and reasonable price stability. What interest there has been in Canada in the idea of an incomes policy seems to have been stimulated in the main by this objective. Pressure for an incomes policy seems to have been greater where price and cost increases have threatened a nation's balance-of-payments position.

### Formidable Obstacles

While there have been a number of attractive arguments advanced on behalf of incomes policies, the problems involved in incomes policies, where they have been tried, appear to have been formidable. The Council, in its *Third Annual Review* describes these problems which I shall attempt to summarize briefly. There is, for example, a basic difficulty, in a highly complex industrial economy, of translating policy from the general to the particular.

At the general level — the level of the economy as a whole — the relationship between prices, incomes, and productivity, on which most incomes policies are based, is relatively easy to understand. At this level, it may be comparatively simple to talk in terms of what kind of price and wage behaviour would be consistent with the national interest. But the crux of the problem is the immense difficulty in bringing the national interest to bear on the making of *individual wage and price decisions*. It is at the level of individual decisions where the economy consists of many special cases, some affected by rigidities and market power, and also by a variety of desirable economic adjustment processes in different stages of completion. It becomes very difficult to state what the national interest requires in each of these cases. In its *Review* the Council stated:

« A conflict is posed between the need for simplicity on the one hand and the need to take account of complex economic relationships on the other. Because an incomes policy relies heavily on persuasion, it must be simple enough to be readily understood and accepted by the general public ; but if it is too simple it will not make economic

sense in many actual cases. In such instances, it will either be ignored or will become an economic straitjacket which imposes new inequities and rigidities. For a policy like incomes policy which is founded on public attitudes and persuasion, problems of practical administration are more than ordinarily important, for they have to be met in the full light of publicity, and the manner in which they are met reflects on the nature and practicability of the policy as a whole and has a significant influence on how the public regards it. »

An incomes policy may have the unfortunate effect of preventing changes in relative prices, costs and incomes needed to bring about the reallocation of resources required to meet changes in demand. To the extent that such policies impede the appropriate reallocation of resources, the nation's economic growth could be adversely affected. Also, in implementing an incomes policy, there must be an implicit assumption that existing income distribution is suitable. Yet labour organizations, whose co-operation obviously would be important to the successful implementation of an incomes policy, are likely to disagree with such an assumption. When people speak of an incomes policy, they very often have in mind maintaining a fixed relationship between rates of increase in labour productivity and rates of increase in wages. The Canadian Labour Congress, however, has rejected the « productivity approach » to guidelines. It has stated its position as follows:

« Should labour try to keep wage increases down to the rate of productivity increases — We don't think so. If labour accepted that wage rates should never advance faster than productivity this would mean that labour's share of a rising national income should never increase. The total labour income would go up, but as a percentage of national income it would remain the same ; labour would not be allowed to increase its share relative to other groups such as salaried executives, rentiers, professionals or stockholders. In other words, this arrangement would protect the status quo of relative income shares. » (*Labour Costs in Canada — An Examination of Wages, Prices, Profits and Productivity* — Canadian Labour Congress, February 1966.)

There are, of course, other difficulties in the productivity approach to guidelines. Guidelines can be upset by uncontrollable movements in foreign prices, particularly in the case of a country with an open economy. There is also the technical difficulty in measuring the rate of productivity changes. Controversy often arises over the choice of an output figure and that of a labour input figure when productivity measurements are attempted at the industry level. This can have

the effect of worsening the collective bargaining climate in a unionized industry.

After this brief summary of some of the difficult problems of an incomes policy, let us now turn to the Canadian setting to see what possibilities exist for carrying out an incomes policy in this country.

### Some Possibilities

In its examination of this question, the Council, on the basis of studying foreign experiences with incomes policy, concluded that the Canadian environment was far from being favourable for incomes policy. The Review states:

« In what sort of country would an incomes policy have the best chance of success? To begin with, the country would be a unitary state with strong central powers and a tradition of considerable governmental intervention in the detailed functioning of the economy. There would be few constitutional or other impediments preventing the government from resorting, if necessary, to direct controls — this possibility would always be in the background. The economy would be comparatively selfsufficient. Private economic power would be relatively concentrated within the country and both union and management organizations would be strong and centralized, furnishing readily available corps intermédiaires for implementation of the policy. There would be broad support for greater control over income distribution and a more central direction of the wage structure. There would be mutual confidence among economic groups that go one sector or region would try to benefit more than others from general wage and price restraint. The general sense of cohesiveness and willingness to co-operate would probably be heightened if the country were suffering from severe economic difficulties. »

If one accepts the above criteria as being essential to the success of an incomes policy then one must logically accept the fact that an incomes policy would have little hope of succeeding in Canada. Not only is our economy characterized by strong regional differences, but there are also divisions of jurisdiction between the federal government and the provinces in key legislative areas relating to incomes policy, particularly in the field of industrial relations. Since the federal role in industrial relations is relatively small compared to that of the provinces, the federal government is automatically deprived of exercising any direct influence over important sectors of the economy, such as, for example, manufacturing. Nor is the federal government in any position

in peacetime to resort to direct price and wage controls, if this should be necessary to back up an incomes policy. The Council's Review notes:

« Barring a rather unlikely degree of concerted action by the federal government and the provinces, it is therefore probable that an incomes policy in Canada would have to be more voluntary in character than in most other countries, including the United States. What of the prospects of enlisting the effective co-operation of corps intermédiaires? Such bodies certainly exist in Canada, but they too have strong tendencies towards decentralization, and lack the coverage and cohesiveness of their counterparts in Western Europe. The Canadian labour movement is a case in point. Its total membership as a percentage of the labour force is less than in most European countries, and its pattern of organization is marked by a high degree of autonomy for individual unions. The two major central bodies, the Canadian Labour Congress and the Confederation of National Trade Unions, are in the nature of federations of trade unions joined together to promote common interest.

« In sum, the structure of the Canadian labour movement is far from being such that the Canadian central bodies could enter into meaningful undertakings that would bind member unions to the observance of a set of guidelines. The most they could do would be to urge conformance on a voluntary basis.

« Employer organizations in Canada are even more decentralized than the labour unions and are in no position whatever to commit individual employers to compliance with income or price guidelines. »

### Other Obstacles

The Council's Review also placed heavy emphasis on the problem which certain characteristics of the Canadian economy would pose for an incomes policy, in particular, the strongly regional nature of some markets and the openness of the economy as a whole to external influences. The Review states:

« Guidelines appropriate in Ontario would not necessarily be appropriate in Quebec, the Atlantic Provinces, the Prairies or British Columbia. Moreover, guidelines appropriate in the established southern parts of the country would be most unlikely to be appropriate in northern frontier regions, in which significant premiums are often necessary to attract required manpower, and investment. It might be easy enough to hold a lid on one part of the country, but impossible to do so on another part: the resulting situation, so apparently discriminatory, would be anything but conducive to general harmony.

Meanwhile, price-increasing developments in international markets might be raising profits and incomes in a number of primary exporting industries, and little could be done about it other than to try to explain to the public why exceptions must be tolerated in these instances. Any argument that a Canadian incomes policy need only aim at influencing decisions in a few key sectors must be confronted with the fact that, in contrast to the situation in the United States, many of the truly key sectors of the Canadian economy are strongly influenced by external trade, where prices are primarily determined in world markets and not in Canada. »

## Conclusion

In conclusion, the Council recommended « against a formal incomes policy as a means of bringing about an improved reconciliation of high employment and reasonable price stability in Canada under normal peacetime conditions. » At the same time, however, the Council stopped short of outright rejection of an incomes policy under all circumstances. It indicated that an incomes policy might be temporarily effective under emergency or crisis conditions, especially as a means of providing time to apply more basic corrective measures which are needed.

**John L. Fryer**

## The Economic Council's Position

It is a rather difficult task nowadays to say anything original or controversial on the subject of incomes policies. However, Professor Weber reminded me last night that the British have made a significant contribution to the terminology surrounding incomes policy by their development of the « nil norm ». Furthermore it is rather difficult for me to comment intelligently on Mr. Bell's paper presented to us this morning, as the first time that I saw it was last night. I did not have much of an opportunity to read it critically before hand. I don't think that this is much of a handicap though, for Mr. Bell, as usual, has given a very thorough and descriptive commentary on the Economic Council's position on incomes policy and it is well to remember that the labour members of the Economic Council were signatories to the *Third Annual Review* in which the original analysis appeared.



One cannot fault the analysis or the conclusions of the Council in their treatment of incomes policy. They borrow on O.E.C.D. definition of incomes policy as follows:

« What is meant by an incomes policy... is that the authorities should have a view about the kind of evolution of incomes which is consistent with their economic objective, and in particular with price stability; that they should seek to promote public agreement on the principles which should guide the growth of incomes; and that they should try to induce people voluntarily to follow this guidance. »<sup>1</sup>

The Council then goes on at some length to explain why such a policy would be impossible and inappropriate to implement here in Canada. It is a logical treatment starting as it does from the premise that «... the basic economic policy issue raised by the Government's 1965 reference to us is one of reconciling the goals of high employment and reasonable price stability. »<sup>2</sup>

In considering policies for price stability the Council rejects a formal incomes policy except possibly under rare emergency conditions and then only on a temporary basis. They interestingly emphasize that this finding applies only to the kind of incomes policy that is concerned with achieving price stability at high levels of employment. It does not apply to a wide variety of taxation, welfare and other policies that have a bearing on the distribution of income. Thus defined, the Council makes a compelling argument that the obstacles in the way of incomes policy in Canada — our federal structure, the relatively unorganized state of both labour and management, the difficulty of enforcing decisions — will remain insurmountable in the foreseeable future and may also serve to detract attention from more immediate policy considerations.

The distinction between different types of incomes policies made by the Council in its Review is extremely important especially when the attitudes of various sectors in the economy towards such policies are being assessed. In our view there is an urgent need for a more egalitarian distribution of our nation's wealth. It is unfortunate, therefore, that all too often incomes policy appears to have become a euphemism

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(1) Organization for Economic Co-operation and Development, *Policies for Price Stability*, Paris, 1962. p. 23. (As quoted in the Economic Council of Canada's *Third Annual Review*, page 148.)

(2) Economic Council of Canada, *Third Annual Review*, page 147.

for wage policy and this, in turn, has been used as synonymous with wage restraint. If labour has not been noticeably enthusiastic about incomes policy the reason lies here. On the other hand, labour would certainly give consideration to, and be prepared to discuss with other groups, an incomes policy that formed part of a total plan to distribute our nation's economic wealth more equitably.

I do not think, however, that the analysis and conclusions of the Council in its *Third Annual Review* should be considered as the final word on this subject. I think rather that we might consider that phase one of the incomes policy debate is over. As a method of ensuring price stability in Canada such policies are inappropriate and we should rely on the more intelligent and imaginative use of fiscal and monetary policies to achieve these very worthwhile ends. In my mind, we should now proceed to the second phase in the incomes policy debate and indeed if my understanding of the Council's terms of reference is correct, it is under a mandate to do so.

### **An Equitable Distribution of Income**

The fifth of the Council's goals is to seek in Canada « An equitable distribution of rising incomes ». Such a pattern of income distribution, desirable as it may be, remains as yet undefined. Unkind critics could probably argue that this goal, alone among those which the Council has been asked to tackle, has been pretty scrupulously avoided to date. There are, of course, good reasons for the inactivity and they range from numerical priority to lack of staff, etc. It is a tough issue but it will have to be confronted. When the time comes to do so, and I think the time is long overdue, we may need to take another look at incomes policies in Canada or at least at policies for the redistribution of income.

There are, of course, several approaches that might be taken and I will mention only three.

Firstly, we might decide that in future our economy should be planned to such an extent that value judgments will be made about income shares and then appropriate compulsory measures will be enacted to ensure the distribution of the nation's economic pie in the agreed upon fashion. Such an approach is unlikely, but nevertheless should be seriously considered.

On the other hand we might agree that the government should, through its fiscal policy and transfer payments programmes, agree upon a commonly acceptable income floor below which no one should be allowed to fall and then let the market mechanism operate as in the past, to apportion supplements.

Alternatively, we might continue to rely upon exhortation by public authorities for us all to be less selfish. The avuncular homilies of Mr. Sharp would then have a special relevance.

### The C.L.C.'s Position

Or we might decide on none of these, but regardless, we must begin now to tackle the problem and start thinking seriously about it. The Canadian Labour Congress has made efforts in this regard and some of our comments on phase two of the debate may be found in our 1967 *Memorandum to the Government*. In that document we stated that:

« It is our view that one of the essential « War on Poverty » involves a more egalitarian distribution of our nation's wealth. This can be achieved in a variety of ways. One mechanism that we feel deserves mention is commonly referred to as incomes policy. The definition of incomes policy varies widely but *one aspect of such a policy that is too often ignored is the creation and subsequent administration of a more socially equitable policy for distributing income in the economy.* It is unfortunate, therefore, that in much of the discussions of incomes policy a much narrower definition seems to have been applied. Incomes policy too often appears to have become a euphemism for wage policy and this, in turn, has been used as synonymous with wage restraint. If labour has not been noticeably enthusiastic about incomes policy the reason lies here. On the other hand, labour would certainly give consideration to, and be prepared to discuss with other groups, as incomes policy that formed part of a total plan to distribute our nation's economic wealth more equitably.

« There are, of course, many institutional and structural obstacles to developing a national incomes policy in Canada...

« Formidable as these obstacles are, there is no reason why they should prevent labour, management and other groups from giving the matter of an incomes policy careful study. Organized labour has been puzzled and offended when some observers have prejudged it on this issue and found it guilty, without a fair trial, of being philosophically and structurally incapable of ever accepting income planning under any circumstances. It is true that labour has not

« committed » itself to an incomes policy and will never do so without being given a clear understanding of what kind of commitment it is being asked to undertake. But it is highly premature to suppose that labour would refuse seriously to explore and discuss the question with management, government and others under appropriate circumstances. These « appropriate circumstances » would include a more sympathetic attitude to labour's case from governments than has been evident so far. They would also include much more thorough and continuous research on the matter by the government's statistical agencies, particularly the Dominion Bureau of Statistics. »<sup>3</sup>

The time is ripe for others, perhaps better informed and less committed than us to do their thinking caps.

## NORMES DE SALAIRES ET DE PRIX ET POLITIQUES DE REVENUS

Russel Bell

Dans les dernières années, de nombreuses personnes en sont venues à la conclusion qu'une certaine forme de politique de revenus était requise pour permettre au Canada, à la fois un haut niveau d'emploi et une stabilité raisonnable des prix.

### APPROCHE GÉNÉRALE DU CONSEIL ENVERS L'ÉCONOMIE

Il est important de noter, à cet égard, que les buts ou objectifs du Conseil sont multiples. Ces objectifs économiques et sociaux, établis lors de la fondation du Conseil en 1963 sont les suivants : Plein emploi, haut niveau de croissance économique, une raisonnable stabilité des prix, une balance des paiements viable et une juste distribution des revenus croissants. En poursuivant des politiques particulières, le Conseil doit garder à l'esprit les effets possibles de telles politiques sur l'ensemble de ses objectifs. Ceux-ci ne sont pas toujours compatibles les uns avec les autres. Par exemple, des politiques en vue d'atteindre le plein emploi ou un taux rapide de croissance peuvent venir en conflit avec d'autres politiques nécessaires pour éviter l'inflation et maintenir une balance des paiements viable.

### LE SENS D'UNE POLITIQUE DE REVENUS

La définition qu'en donne l'O.C.D.E. semble généralement acceptée. Cette définition va beaucoup plus loin que les simples communiqués gouvernementaux sur ce que le comportement général des salaires et des prix devrait être sous cer-

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(3) CLC Memorandum to the Government of Canada, February 8, 1967.

taines conditions économiques. En même temps, elle va moins loin que les contrôles obligatoires des salaires et des prix imposés en temps de guerre.

Même s'il est possible d'avancer de nombreux arguments en faveur d'une politique de revenus, les problèmes soulevés quand des essais ont été faits, apparaissent comme formidables.

La difficulté fondamentale semble être le passage du général au particulier, c'est-à-dire, comment amener les décisions individuelles de salaires et de prix à tenir compte de l'intérêt national. Comment amener l'adhésion à de telles politiques, de corps intermédiaires comme les organisations de salariés ou la direction des entreprises. Par exemple, même la relation fixe entre les taux d'augmentation dans la productivité du travail et les taux d'augmentations des salaires, est rejetée par le Congrès du Travail du Canada qui désire augmenter la part relative du travail par rapport aux autres groupes de l'économie.

#### AUTRES DIFFICULTÉS

Sur la base d'études d'expériences étrangères, le Conseil a conclu que la situation canadienne est loin d'être favorable à une politique de revenus. Non seulement notre économie est-elle caractérisée par de fortes différences régionales, mais il y a aussi des divisions de juridiction entre le gouvernement fédéral et les provinces dans des domaines fondamentaux relatifs à une politique de revenus, particulièrement dans le domaine des relations industrielles.

#### CONCLUSION

Le Conseil a donc choisi de s'opposer à toute politique formelle de revenus en tant que moyen d'amener une meilleure relation entre un haut niveau d'emploi et une stabilité raisonnable des prix, sauf dans de rares cas d'urgence et alors, seulement sur une base temporaire.

John L. Fryer

Les difficultés d'une politique de revenus au Canada (structure fédérale — état relatif de non-organisation du travail et de la direction (Management) — difficulté de faire appliquer des décisions de cet ordre) demeurent, selon le Conseil Economique du Canada, des difficultés insurmontables dans l'avenir prévisible. En considérant les politiques à suivre pour maintenir la stabilité des prix, le Conseil rejette donc toute politique formelle de revenus, sauf dans de rares cas d'urgence et alors, seulement sur une base temporaire.

La distinction entre les diverses formes de politiques de revenus faite par le Conseil est extrêmement importante surtout lorsque les attitudes des divers secteurs de l'économie envers de telles politiques sont considérées comme des hypothèses.

Si le travail ne s'est pas montré particulièrement enthousiaste pour de telles politiques par le passé, c'est que, trop souvent, la conception d'une politique de revenus s'est avérée un euphémisme à une politique de salaires qui, elle même, devenait synonyme de restriction des salaires.

Il est grand temps, au Canada, d'étudier sérieusement des politiques de revenus ou au moins des politiques de redistribution du revenu. Le Congrès du Travail du Canada a fait des efforts en ce sens et quelques-uns de nos commentaires se retrouvent dans notre *Mémoire au Gouvernement*. Nous y insistons sur un aspect trop souvent ignoré d'une telle politique, soit une façon plus socialement juste de redistribuer le revenu dans l'économie.

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