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The Prices and Incomes Commission in Retrospect

Frank R. Anton

In this article, the author reviews the Canadian Prices and Incomes Commission's findings and comments on some of the conclusions drawn.

The Prices and Incomes Commission was appointed by Order-in-Council in June 1969 with terms of reference

> to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved.

The decision to appoint a Commission followed from the 1968 White Paper, « Policies for Price Stability », in which the Government had concluded that the conventional means available to it for influencing the operation of the Canadian economy were insufficient to resolve the conflict between maintaining high level employment and restoring the price stability necessary for sustained economic growth. After about 3 years in operation the Commission petered out to the relief, it is said, of the Canadian Labour Congress(CLC) and to a lesser extent business interests throughout the land.

The purpose of this article is (1) to review the Commission's findings on the basis of its Summary Report [1] and research studies prepared in the course of its investigations and (2) to comment on some of the conclusions drawn.

Given the breadth of the Commission's terms of reference « to

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[1] *Inflation, Unemployment and Incomes Policy*, Summary Report, Prices and Incomes Commission, Information Canada, Ottawa, 1972.

inquire into... the causes, processes and consequences of inflation... » it chose wisely to interpret its task more narrowly by seeking to explain

(1) why in recent years inflation has persisted under conditions ordinarily thought to indicate an absence of strong demand pressure on the economy and

(2) what form of prices and incomes policy — if any — might be helpful in attempting to deal with the problem.

The question raised in (1) above is not confined to Canada alone ; no satisfactory answer to it has yet been provided. Nevertheless the Commission attempted to give an *explanation,* within the Canadian context, by rigourously analysing the conventional causes of inflation. It concluded that the main factor which initiated the relatively rapid increase of prices and costs in Canada in the mid-1960's was a build-up of unusually strong demand pressure on the economy's productive capacity and manpower resources. This surge of demand was export led (resulting from the re-pegging of the Canadian dollar exchange rate in 1962 at a substantially reduced level) and when it was followed by an increase in business investment and residential construction, culminating in a sharp rise in government expenditures (as the authorities responded to public mood and social pressures via expansionary and monetary policies) the way was paved for an overshoot in demand. By 1968 inflation was deeply entrenched and it appeared that « no conceivable way of managing demand remained open to the authorities for which public understanding or approval could be expected » [2]. To protect employment levels would have meant accepting as the new minimum the escalated rate of inflation which had emerged whereas moderating demand growth, in order to restore some degree of price stability, would have meant risking a high level of unemployment. Given this quandary the government hopefully sought a way out of it by establishing the Commission.

THE CHOICES FOR POLICY

Given the special nature of the problem of inflation coupled with high unemployment [3] the Commission, in light of its analyses and findings,

[2] Ibid., p. 2. The Commission explains the persistence of inflation mainly in terms of lags in the response of costs and prices to short-run changes in demand and to « inflationary expectations ».

[3] There are several characteristics of our economic structure and labor markets which account for this. Among these are the unusually large percentage of young people in the labor market, the seasonality of employment, the high rate of job-turnover and the persistance of regional disparities in levels of employment.

discusses the policy choices which were open to Canada at that time. One obvious possibility was to accept, and learn to tolerate, a certain degree of inflation as the price for keeping the level of unemployment within reasonable bounds. But this choice was unlikely to be acceptable to the authorities because of the successive and progressively higher rates of inflation required. The authorities could therefore fall back on the alternative of following the conventional kind of « stop-go » policies in which any short-run employment and output gains associated with an inflationary outbreak had to be balanced not only against the redistribution and other adverse effects of unanticipated inflation, but also against the losses of output and employment and the associated distortions entailed in reversing the process [4]. In the Commission's view this latter kind of policy was not likely to yield a net gain to society, and even if we learned to live with the occasional bursts of inflation there was no assurance that the national average rate of unemployment would be any lower than that which had prevailed since the mid-1950's. The possibility remained of *reducing the critical range of unemployment* (at which cost and price increases tend to accelerate) by using manpower, regional economic expansion, selective demand, tariff and competitive policies to better effect. For instance, had the government sought actively to match labor supply more appropriately with demand, by fostering domestic competition through the lowering or abolition of tariffs and by removing restrictive trade and labor practices, the critical range of unemployment could have been lowered. But as the Commission notes, there was the possibility (as yet undocumented) that some of these policies might be rendered counterproductive by influences which could inadvertently *widen the range of unemployment.* Institutional and political forces might operate in this direction as could higher unemployment insurance and welfare benefits, increases in legal minimum wages and changing attitudes (especially among the 18-24 year age group) towards the work ethic. Caution was therefore urged in assuming that the critical range of national unemployment could be easily and speedily reduced [5]. Thus with more rapid inflation ruled out as unacceptable and the considerable limitations of supply and selective demand policies recognized, the authorities appeared to be left with two remaining policy instruments for dealing with the problem :

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[4] *Ibid.,* p. 6.

[5] *Ibid.,* p. 40.

(1) general demand management, and

(2) incomes policy.

General Demand Management

Given the thesis that inflation in Canada from the mid-1960's onwards was caused primarily by an overshoot of demand, the question arises : Is there an inherent conflict between the way demand would have to be managed (a) to keep unemployment to an acceptable minimum and (b) to achieve reasonable price stability ? Most economists accept the thesis that there is a « trade-off » between reducing the average level of unemployment, and accepting a higher average rate of price increase. Some, however, assert that society has no choice but to learn to live with a degree of continuous inflation, while others argue that appropriate demand management will resolve the problem. Recently convincing evidence has been accumulated that the trade-off options (based on past experience) have been worsening, in the sense that if the authorities aim at keeping unemployment down to an acceptable level then the rate of inflation is likely to increase at a more rapid rate than in the past [6]. This phenomenon, in the Commission's view may be partly accounted for by the theory that unanticipated inflation tends to become transformed into anticipated inflation whereby people anticipate future rates of inflation and adjust their transactions accordingly [7]. But to try to keep the level of unemployment down by allowing inflation to accelerate may be fraught with danger ; some readers may recall Hayek's warning that society may have a tiger by the tail if it keeps on attempting to lower unemployment in this way. Those who advocate keeping unemployment down at the cost of sacrificing reasonable price stability must, according to the Commission, remember that the short term gains in output and employment generated should be balanced against the random redistribution of income and wealth, the possibility of social unrest, the disruption of markets dealing in fixed value assets and the waste of people's time and effort in devising ways to protect themselves against this kind of inflation. Moreover, it

[6] See, S.F. KALISKI, *The Trade-Off Between Inflation and Unemployment : Some Explorations of the Recent Evidence for Canada*, Economic Council of Canada, Special Study No. 22, Ottawa, 1972.

[7] Prolonged inflation may have strengthened the trend towards pattern setting not only in wages but also in prices (and perhaps interest rates) to the extent that labor and management may build in an « inflation factor » into their wage and price decisions.

may be invalid to assume, for Canada at any rate, a one-way movement in price and cost increases without the need for corrective action to remedy, for instance, the probable crises which might arise in the balance of international payments. And while it may be correct that inflation in Canada is of little consequence so long as the rate of inflation in this country keeps in step with the rate prevailing among our major trading partners, it would, in the Commission's view, be folly to ignore the undeniably damaging effects inflation can cause, particularly if it is allowed to degenerate into the accelerating kind [8].

Those who argue that inflation is a lesser evil than unemployment see the latter (especially among the lower income group) as immoral and wasteful of resources. The Commission agrees that unemployment is wasteful and immoral but asserts that there is the risk that inflationary policies may succeed in maintaining output and employment only to the extent that people are unaware of (or are misled by) what is happening to the purchasing power of money. Some recent evidence from the collective bargaining table suggests that the era of the « money illusion » may well be over. A cost of living escalation clause is becoming a common prerequisite for an acceptable agreement and if such provisos become widespread they are likely to add impetus to inflation. The Commission concludes that the arguments in support of inflation sound superficially convincing when cast in the light of the immorality of unemployment but on reflection acceptance of accelerated rates of price-cost rises and the inherent danger of social unrest which may follow suggest the need for investigating and experimenting with such an alternative as an incomes policy which when coupled with appropriate demand management and manpower policies may enable the government to achieve its aims.

Manpower Policy

Apart from demand management as a means of reducing unemployment and maintaining a steady rate of economic growth reference is frequently made to the need for, and efficacy of, appropriate manpower policies as a complement to the above as an aid to stabilizing cost and prices. The Commission is correct in asserting that many of the specific labor market imbalances which exist in Canada could be removed by manpower policies such as more widespread training programs, an im-

[8] F. BLACKABY, *National Institute Economic Review,* Nov. 1971, p. 38. Inflation, says the author, is a method by which the able-bodied rob the aged.

proved flow of information, and better counselling and placement services ; all will aid the labor supply to adjust more effectively to emerging demand. But unless regional unemployment differentials are successfully and simultaneously reduced — either through greater labor mobility out of high unemployment areas or by devices to stimulate job creation within these areas — such policies are likely to be only partially successful. A concerted federal-provincial attack on this disturbing problem of regional disparities would lead to substantial improvement and bring large economic and social gains. For example, it is argued that through the use of budgetary policy much more could be done by way of regional economic expansion programs (i.e. bringing jobs to workers rather than workers to the jobs), selective demand policies (i.e. stimulating demand in under-utilized industries or regions while avoiding excess demand pressure in industries operating at capacity), and via the stabilizing of demand over time especially in highly volatile industries such as construction (i.e. by improving the flow of information on future construction plans). Similarly, a more realistic approach should be taken to the reduction or abolition of tariffs and the abandonment of price support programs and restrictive trade and labor practices. And while those who emphasize this latter approach lean towards a cost-push or « market power » explanation of inflation, (a view which receives little support from the Commission) [9] clearly several alternatives are available all of which may have beneficial effects and yield tangible results.

EFFECTIVENESS OF DEMAND POLICIES ?

Effective demand management policy is in the Commission's view crucial to the smooth functioning of an economy. But in light of Canada's record it is questioned whether conventional policies alone can do the job adequately (providing the authorities adopt the appropriate rules of behaviour) or whether these should be supplemented by other measures such as an incomes policy ? Those who maintain that conventional demand policies can fulfil the task adequately generally assert that the « trade-off » between unemployment and inflation is essentially a *short-run* phenomenon arising from instability in the rate of expansion of money demand. They see changes in demand pressure on productive

[9] The Commission's empirical evidence lent no support to the view that unions and corporations were responsible for the inflation of that period although it acknowledged that there was scope for both parties to use their discretion in wage-price setting.

capacity having an immediate yet temporary effect on output and employment levels (because of the delayed response of costs and prices to such changes), but ultimately costs and prices adjust to the trend of money demand. Thus by keeping the growth of money demand stable reasonable levels of economic growth and employment will be achieved around rates determined by the level of capital formation, and by growth in the labor force and national productivity. Any differential arising between the growth rate of money demand and productivity, will be reflected as inflation but flexible exchange rates can offset differential changes in domestic prices vis-à-vis price levels in other countries. Moreover, any unemployment emerging under conventional policies is not the result of demand deficiency but rather reflects a lack of effective business competition, and institutional rigidities and characteristics of the labor and market products. Consequently, to reduce unemployment their solution is to make the economy more competitive.

It is clear that those who favour conventional demand management see the overriding aim of such policies as the most effective (perhaps sole) means of stabilizing demand growth at a near full employment level consistent with reasonable price stability. The potential for reducing any structural unemployment which may arise must therefore depend on the scope the authorities have for implementing policies to improve the efficacy with which labor and product markets perform.

The above solution has strong appeal on analytical and doctrinal grounds but the Commission poses the fundamental question : how can such policies be made to function effectively in practice ? Not only can demand instability arise from sudden or substantial changes in fiscal, monetary or exchange rate policies but it can also occur because of other influences among which are major changes in demand abroad, severe fluctuations in the exchange rate, industrial strife or social disturbances. The construction of sophisticated long-term econometric models of the economy may help to throw light on how better to regulate activity but to judge from the record, demand management must continue to rely mainly on short-term economic forecasts. No doubt in time economic fluctuations will be reduced as the controversies surrounding « the relative importance of monetary and fiscal measures, the timing and magnitude of their effects, the consequences of alternative exchange rate policies and a host of lesser questions... [10] » are resolved but it would be unrealistic

[10] Summary Report, *op. cit.*, p. 45.

to underrate the purely technical difficulties which must still be overcome. And as the Commission rightly observes, given the continuing public pressure to use today's policies to deal with present difficulties, reliance on conventional demand management policies alone is unlikely to yield acceptable results.

It is easy in retrospect for the Commission to argue that if expansion in aggregate demand had not been allowed to become too strong (particularly after price and wage levels began to rise appreciably after 1964) and the growth of money demand had been kept within the range of seven or eight per cent a year (to keep pace with the trend rate of growth in the labor force and average productivity) the demand overshoot of the mid-1960's could have been avoided. But economic policy-makers (even when they are right) are subject to the vagaries of political persuasion thus any contraction in demand would probably have been opposed by the public then, as now, in view of the widespread belief that the economy could be manipulated to operate at unemployment levels of, say, less than five per cent without generating unreasonable price and cost increases.

It is generally accepted in Canada that price, wage and unemployment trends are progressively linked to those prevailing in the U.S. [11]. In the Commission's opinion had an attempt been made to deviate from this norm in the mid-1960's then fixed parity of exchange rates would have had to give way to a floating exchange rate, to insulate the economy from the strong inflationary pressures which developed in the U.S. (particularly after the Kennedy wage-price guidelines were abandoned in 1965). But for a number of reasons the authorities chose not to allow the dollar to float and in any event it is unlikely that there would have been public support for the higher unemployment levels which floating might have brought.

By late 1968 with inflation entrenched in public expectations and behaviour there was no conventional way of managing demand which the public would have understood or approved. [12] Stabilizing money demand

[11] On the basis of the evidence, the Commission concluded that over the *longer run* there was some support for the assertion that inflation in Canada was imported ; this was particularly evident when the rate of exchange of the Canadian dollar was maintained at a fixed level. But in the *short run,* rising U.S. costs and prices were only one of a number of factors influencing cost-price trends here. *Ibid.,* p. 16.

[12] *Ibid.,* p. 2.

at a high enough rate to minimize any temporary rise in unemployment would have implied acceptance of the inflation which had been in evidence since 1966. The alternative therefore was to try to stabilize demand growth at a rate low enough to restore cost and price stability while temporarily accepting a rise in unemployment. The government chose this latter and unpopular alternative. The rate of inflation was slowed down markedly but inadvertently unemployment rose to near record levels. In light of this relatively recent experience of demand management the Commission realistically concludes that it would seem unwise to pin great hopes on what might be achieved towards resolving the inflation-unemployment dilemma in the years ahead. And while it sees demand management offering the best available hope of resolving the dilemma over the longer run (particularly when coupled with considerable improvements in techniques) it is concluded that reliance on this policy alone is unlikely to enable the authorities to achieve their stated objectives. It is for this reason that the occasional and temporary assistance of an incomes policy becomes worthy of consideration.

AN INCOMES POLICY FOR CANADA ?

Despite the foregoing analyses, and the examples set by the U.S.,U.K. and several West European countries it appears to this reviewer that the Commission had some noticable reservations about the efficacy of an incomes policy as a complement to demand management in stabilizing costs and prices at an acceptable level of employment. That opposition to such a policy on the part of the unions and many academic economists was vociferous and persistent is well recognized. This fact coupled with Dr. John Young's courageous attempts (often in an inhospitable atmosphere) to win support throughout the country for the *voluntary* six per cent wage guideline may account for the implicit lack of conviction with which the Commission summarized its case in support of such a policy. It is acknowledged that the chances of success were limited, since it held the view that the place of « voluntarism » in a price and income restraint program should be largely restricted to agreement in criteria to be followed but that when it came to applying criteria *a means of enforcement was required.* [13]

Moreover, the Report states, for example, that a degree of realism is clearly required « . . . in assessing the potential usefulness of some form

[13] *Ibid.*, p. 55.

of incomes policy, particularly since many supporters of direct intervention in wage and price decisions under-estimate the difficulties in applying such a policy and over-estimate the results which might be achieved. » [14]

As it turned out attempts by the authorities to extricate the economy from the inflation generated by an overshoot of demand (and persistent inflationary expectations and response lags) resulted in unacceptably high levels of extented unemployment, whereas resort to *temporary* controls similar to those subsequently imposed in the U.S. might have offered a means of bringing cost and price increases more promptly and reliably into line with the change in demand conditions, without incurring the loss of jobs and output normally associated with the adjustment process in bringing inflation under control by conventional means.

It is generally agreed that the essential conditions for a successful (temporary) incomes policy are public acceptance of it and government resolve to maintain relative price stability and reasonably full employment — even after controls are lifted.

The model incomes policy which the Commission had in mind for Canada was similar to that under discussion at the time in the U.S. and which was subsequently introduced there in 1971. [15] The rational given by the U.S. authorities for their policy was that :

> The basic premise of the price-wage control system is that the inflation of 1970 and 1971 was the result of expectations, contracts, and patterns of behaviour built up during the earlier period, beginning in 1965, when there was an inflationary excess of demand. Since there is no

[14] *Ibid.*, p. 47.

[15] The salient features of this policy were : *Phase 1* : August 15, 1971-November 14, 1971 — Three-month freeze of prices, rents, wages and salaries, administered by a new Cost of Living Council under the Secretary of the Treasury. *Phase 2* : November 14, 1971-January 11, 1973 — Guidelines for pay of, initially 5½% a year; for prices across the economy of 2½% a year. Voluntary limitations on dividend increases. Overall aim : to reduce inflation to 2%-3% by end-1972. Machinery : Cost of Living Council to be in charge generally, Price Commission and Pay Board to make detailed decisions, Internal Revenue to monitor and enforce policy. *Phase 3* : January 11, 1973 — ? — Statutory controls abolished, except on food, health care and building. Guidelines : to limit overall inflation to 2½%, wages to 5½%, prices to 1½%. After a signal failure to get anywhere near these targets, re-introduction from May 1st of pre-notification of price increase for large companies. The 600-odd firms with sales of more than $250m a year again have to advise the Cost of Living Council of any planned price increase exceeding 1½% over their range of products.

> longer an excess of demand, the rate of inflation will subside permanently when this residue of the previous excess is removed. The purpose of the control system is to give the country a period of enforced stability in which expectations, contracts, and behaviour will become adapted to the fact that rapid inflation is no longer the prospective condition of American life. When that happens controls can be eliminated. [16]

A salient feature of the U.S. controls was that the 5½ per cent pay guidelines were generally applicable to all wage and salary increases — barring the specified « exceptions », which are standard components of most policies. On the question of « exceptions » to the guidelines the Commission disregarded the U.K's experiment with guidelines *and* productivity bargaining and questioned the need for permitting flexible guidelines to allow for *differential rates of productivity growth among industries* on the grounds that such flexibility would (1) conflict with the basic economic mechanism through which « productivity gains tend to be diffused throughout the entire economy rather than being reflected in lasting divergencies in relative wage levels between industries with high rates of productivity increase and industries with low ones » and (2) would encounter strong resistance from those workers who (justifiably) felt that they had been unfairly treated. [17]

Most incomes policies quite rightly allowed for exceptions : for instance, U.S. and British policies provided for increases above the norm where firms needed to attract workers or where wages were particularly low, i.e. near the bottom of the economy's wage scale. Paralleling the 1971 U.S. wage controls during Phase I were price (and rent) restraints which prohibited firms from increasing prices to raise profit margins. [18]

To obtain public acceptance of controls and compliance from unions and workers generally, most incomes policies include provisions for con-

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[16] As quoted in the Summary Report, *op. cit.*, p. 49.

[17] *Ibid.*, p. 49.

[18] *Ibid.*, p. 49. Phase II eliminated certain sellers from the controller's jurisdiction and revised certain pay standards. Increases in prices were permitted only if the margin of profit was lowered below the level prevailing when the controls were imposed *and* below the highest average margin realized in any two of the firm's last three fiscal years. Thus firms were allowed to raise prices only to the extent necessary to maintain the lower of their profit margin before controls were introduced or their margin in the base (last three fiscal years period). Firms which did not increase their prices had their profit margins subject to control only in special cases.

trolling rents, dividends and other non-labor income (including professional fees) and stricter regulations regarding business expense deductions for tax purposes. In essence these were the kinds of comprehensive controls the Commission was contemplating in 1969. But, we are told « discussions were broken off well before any agreement had been reached even in principle. « [19] Unfortunately, no unequivocal reasons have been given for the breakdown and whether it was labor or management or the government(s) (or all three ?) which refused to co-operate ? One can only surmise where the opposition came from, but the lesson to be learnt from this experience may well contain the key for success of any similar agency in the future. Was it the view of some that justice and equity would only appear to be done ? And what changes to the proposed controls were required in order to induce say organized labour and provincial authorities to comply ? We are, however, told that those taking part in the exploratory discussions on a restraint program felt that the country was not yet ready for a *mandatory* incomes policy, and were under no illusions that an effective policy could be devised without federal and provincial support (by way of regulations, fiscal devices or more informal methods of persuation).

Subsequent to the breakdown of discussions the National Conference on Price Stability adopted a compromise measure of self-imposed *price restraint criteria* which required firms to ensure that the revenue gains derived from price increases were limited to amounts clearly less than the increases in costs that the firms were experiencing. [20] This program of price restraint was introduced in 1970. From the outset it was obvious that if the program was to stand any chance of success corresponding restraint was necessary in the rate at which wages and salaries increased. The Commission therefore *unilaterally* announced an upper six per cent limit on annual earnings. This proposal was honored more often in the breach than in the observance, not only in the private sector but in the public sector as well. Nevertheless, this short-lived attempt at cost-price restraint succeeded (by the second half of 1970) in reducing the rate of price increase in Canada to one of the lowest recorded by an industrial country that year ; and while some governments were non-committal about observing the income guideline, some modest reductions in the rate of

[19] *Ibid.*, p. 50.

[20] This requirement, particularly if upheld over a lengthy period, would have had the effect of reducing returns on capital or the rate of profit.

wage and salary increases were also discernable. Unfortunately, this temporary diminuation in the rate of inflation was coupled with an inordinate incerase in the level of unemployment which led some critics of incomes policies to conclude that if a voluntary system failed so abjectly there was less of a case for introducing *mandatory* controls under the circumstances which prevailed at that time.

If an effective and equitable incomes policy could have been developed in 1969/70 (particularly one acceptable to labour) and wholehearted provincial support obtained then the experiment might have been well worth the effort given the high stakes and relatively low risk. But events at that time make it abundantly clear that what was needed from government was *a clear statement of the relationship between income policy guidelines and broad national objectives*. National economic planning (and budgeting) would have aided the implementation and success of such a policy and helped to establish the connection between public interest and private action. But in Canada, given the lack of effective co-operation between the various levels of governments, efforts to achieve co-ordinated decisions and comprehensive economic planning are inhibited. Nevertheless, every effort must be made to overcome this obstacle.

Responsibility for managing the economy lies principally with the federal government which alone possesses the constitutional authority to impose a mandatory incomes policy if such deemed necessary. Why then did the central government not act? European and U.S. experience suggests that such a policy stands a better chance of success in the face of quite serious domestic inflation or balance of payments crises. The latter was not an issue in Canada at the time but the former was nearing a critical point. But given the fact that most industrial countries quite generally regard an incomes policy as an adjunct to demand management and as one of the standard devices for controlling inflation and promoting high employment and economic growth, it is difficult to understand why the federal government opted for the alternative policy (frequently but unsuccessfully tried in the past) of dampening economic activity by deliberate policy actions which, as it once again turned out, led to wasteful and excessively high levels of unemployment.

There are indications from elsewhere that the main opposition to incomes policies comes from organized labour — whose views presumably are reflected mainly through their union leaders. Empirical studies to test

this assertion are needed.[21] In countries such as Sweden (and to a lesser extent Holland) enlightened union leaders (aided by government) are more likely to advocate such a policy in times of economic crises in the knowledge that their members will ultimately be the beneficiaries not only in terms of maintaining *real* wages through improved price stability but equally important in terms of enabling the authorities to maintain full employment, steady economic growth and viable balances of international payments. There is bound to be opposition to an incomes policy if the guidelines (and exceptions) established are not considered reasonable by all concerned and if divergencies between wage increases and actual earnings are not kept under close surveillance. Equally serious is the possibility that undeserved income redistribution may occur under an ill-conceived policy which fails to restrain more competitively determined wages and prices. Thus acceptance (and compliance) implies general agreement among employers and unions not only of government objectives but public recognition of the fact that the guidelines will be fairly applied and not lead to special advantages to any particular labour group (in the form of wage gains) or industrial group (in the form of increased profits) especially if these would be at the expense of the low paid, unorganized workers or those employed in the public sector. Clearly public enlightenment is essential to success, but as all West European countries which have experimented with such policies found out this requires a massive program in economic education.

More difficult to overcome are those objections to an incomes policy on the grounds of principle ; and it is in this context that authorities in Canada may have to face tougher opposition than their counterparts do in Europe. Lacking the high degree of centralization, unionization and solidarity present in the labour movement, say within several of the E.E.C. countries, the belief is said to prevail in Canada that an incomes policy would infringe on individual, social and political freedoms, and weaken (perhaps destroy) the freedom of unions to bargain collectively on behalf of their members. Except in times of war, organized labour in Canada has always tended to resist any form of government intervention in matters of wage determination. Thus, before authorities can consider imposing a policy of control it will be necessary to make unions aware of the fact that there may be occasions when the alternatives to an incomes policy may be far more harmful than temporarily sacrificing the right to negotiate wage

[21] A Gallup poll taken in the U.S. in June 1970 reported that 48% of the public favored freezing prices and wages at their present levels as long as the Vietnam War lasted.

rates and fringe benefits for their members. Unless workers are convinced that such temporary controls will work to their and the nation's advantage the chances of successfully implementing them are slight.

Dedication to the principle among union leaders that collective bargaining over wage rates, unhampered by government, is beneficial and essential to the survival of the institution of unionism is understandable in light of employers' belief in the virtues of private enterprise. Such dedication and belief gain strong support from those academic economists who still appear to be committed to the kind of thorough-going laissez-faire system as postulated by (the First) Adam Smith. It is improbable that this latter group would see any merit in an incomes policy whatever the circumstances. [22] But they might do well to ponder on Keynes' dictum :

> No one can be certain of anything in this age of flux and change. Decaying standards of life at a time when our command over the production of material satisfactions is the greatest ever, and a diminishing scope for individual decision and choice at a time when more than before we should be able to afford these satisfactions, are sufficient to indicate an underlying contradiction in every department of our economy. No plan will work for certain in such an epoch. But if they palpably fail, then, of course, we and everyone else will try something different. [23]

Moreover, it should be remembered that the economic cost of *temporarily* blunting incentives may be far less than the alternative costs of higher levels of unemployment and inflation which the 'stop-go' policies of imprecise demand management have brought in the past and are likely to bring in the future given the controversy over what constitutes an appropriate policy.

One way of resolving the problem of unemployment is to opt for inflation. In the relatively recent past this option was made easier when inflation could be kept within reasonable bounds of 2 – 3 per cent per annum. But the evidence today suggests that were inflation kept within this band then the level of unemployment would probably have to be allowed to rise to about 5 or 6 per cent — a shockingly wasteful level. The fundamental question, therefore, is : is society prepared to accept

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22 But they would be well advised to re-read Keynes' *General Theory of Employment, Interest and Money,* particularly Chap. 19, « Changes in Money-Wages, » Macmillan, London, 1951, pp. 257-271.

23 J.M. KEYNES, « The Balance of Payments in the United States, » *Economic Journal,* XVI, No. 222, June 1946, p. 186.

higher (indeed accelerating) rates of inflation in return for relatively acceptable levels of unemployment ? There is no way of judging the temper of the country correctly on this question but a number of authoritative studies of the inflation-unemployment « trade-off » problem seem to opt (hopefully and perhaps unrealistically) for an unemployment rate of 4 – 4½ per cent as an interim measure (with longer term levels reduced to 3 per cent), on the assumption that ensuing price rises would be kept within reasonable and manageable bounds. If such goals can be achieved then the need for an incomes policy does not arise. But given the uncertain contributions of demand mangement and supply policies, the wide diversity of opinions on how to make these instruments more effective, and the narrow range of options available to policy-makers in attempting to achieve then stated objectives, the chances of success are questionable. However, were the public made more widely aware of the difficulties and complexities involved in attaining the goal, should the need arise public opinion might readily swing round to a temporary policy of restraint where the probability of success was high. The experience of other countries in this regard suggests that responsibility rests with government to educate the public to the need for controls ; and wider acceptability was obtained by adoption of imaginative and equitable forms of policies. For instance, several noteworthy proposals have been advanced whereby increases in wages, salaries and non-wage incomes beyond stipulated percentages would be subject to a graduated withholding tax (refundable at some future date) with the larger the increase in money income beyond this percentage the larger the amount of this income withheld. [24] A workable and effective tax along these lines would keep earnings within acceptable bounds and reduce the need for state intervention in the collective bargaining process or in other aspects of income determination.

While there is no certainty that the formal introduction of a mandatory incomes policy in Canada at some future date will solve the problem

[24] S. WEINTRAUB and H.C. WALLICH, « A Tax Based Incomes Policy, » *Journal of Economic Issues*, June 1971. The authors propose that a surtax be levied on the profits of corporations granting wage and salary increases above guidelines specified by the government. With labor costs stabilized, prices should remain relatively constant with the government acting as a watchdog over wage-salary transactions only. It is argued that an Incomes Policy of this kind need not conflict with Professor Friedman's view that a restrained monetary policy proceeding within rates of increase in the money supply of about 5 - 8 per cent per annum is necessary for economic stability.

of persistently high unemployment and inflation, in the light of alternative solutions it appears to offer greater prospects of success than conventional policies alone and for this reason should be given a thorough trial. A possible approach might be to follow the recommendations of the former chairman of the British National Board for Prices and Incomes, Mr. Aubrey Jones. He suggests that the Government should establish a board — along the lines of the National Economic Development Council — consisting of labour, management and government representatives, whose function would be to draw up wage-price regulations for both the private and public sectors ; these regulations would be backed by sanctions. Companies pledged to price restraint could, at the request of the association to which they may belong, be made subject to sanctions, if their wage increases exceeded those laid down : the board would be empowered to deny them price increases or to enforce a price reduction. In lieu of linking wages and salaries to a cost of living index, he suggests that workers should be paid an amount of extra money (which would just preserve the living standards of the lowest paid workers), but later with inflation under control the Government could take the more positive step of increasing everybody's *real* income. He also proposes that companies lodge part of their retained earnings in the name of their employees in a capital fund managed by the unions (in his example the Trades Union Congress), with the help of investment experts. Such a scheme, he claims, would remove the anomaly that subjects wage-earners under any incomes policy to some limitation on the increase of money income, while the capital owner is subject to no limit on the appreciation of his capital. [25]

Setting up a board along the lines suggested by Aubrey Jones would aid the implementation of an incomes policy, and bring improvements in the machinery of wage negotiations. [26] The current diversity of institutions

[25] See A. JONES, « A Policy for Prices and Incomes Now, » *Lloyds Bank Review*, No. 103, January 1972. See also J. SKINNER, *Collective Bargaining and Inequality*, Fabian Research Series No. 298, London 1971. The author here argues for the introduction of a statutorily based « capital formation fund », whereby unions could gain ownership of capital assets and bring about the redistribution of wealth which Governments, through the capital gains tax, restructuring of corporation tax, changes in social security benefits, etc., have so far failed to achieve.

[26] Jones argues that UK's 1960 incomes policy failed because of the muddle the Labour government made of its exchange rate policy which obliged it sumultaneously to try to keep the rise in *real* after-tax incomes down to the prevailing growth rate of an appallingly low ½ to 1⅓ per cent a year, and because of the government's refusal to take a few critical strikes, choosing instead to pass on crucial decision-making on pace-setting claims to less skilled adjudicators than the Jones Board. See, A. JONES, *The New Inflation*, Deutch, London, 1972.

for, and accepted practices of, collective bargaining in Canada seems more suited to conditions in past decades than to present circumstances. The industrial relations system should be adapted to the quite different economic climate now prevailing, where, (until the unemployment-inflation « trade-off » problem is resolved), the basic problems are the avoidance of unemployment and provision for a steady and equitable rise in real incomes without inflation.

An affirmative answer to the question whether Canada should try to implement an incomes policy should it become necessary at some future date does not depend on the assumption that an attempt to introduce a mandatory policy would be free from defects. It rests on the evidence that the alternative conventional methods of dealing with the problems of unacceptably high levels of unemployment and inflation are (in their present state of evolution) less acceptable simply because the outcome is too indeterminate. And after all the economic cost of implementing a temporary incomes policy is unlikely to exceed the cost, in terms of unused resources, which alternative approaches seem to offer.

La Commission des prix et des revenus : rétrospective

En 1968, l'inflation était fermement enracinée dans l'économie canadienne. À l'époque, le livre blanc du gouvernement, qui s'intitulait « Politiques pour la stabilisation des prix », était arrivé à la conclusion que les moyens traditionnels n'étaient plus adéquats pour résoudre le conflit entre le maintien d'un haut niveau d'emploi, la réduction de l'inflation et le développement soutenu de la croissance économique. L'année suivante, on créa la Commission des prix et des revenus pour essayer de résoudre ce problème.

Le mandat de la Commission, tout en étant très vaste, visait essentiellement à enquêter sur les causes, l'évolution et les conséquences de l'inflation et à trouver les moyens de stabiliser les prix. C'est avec raison qu'elle choisit de confiner ses recherches à l'examen des raisons d'une forte inflation et d'un chômage élevé persistants et simultanés au Canada et à la découverte d'une politique des revenus susceptible d'atténuer le problème. Elle arriva à la conclusion que la raison principale de l'augmentation plutôt rapide des prix et des coûts à partir du milieu de la décennie 1960 jusqu'à date résidait dans la pression d'une demande prononcée sur la capacité de production et sur la main-d'œuvre qui avait suivi la dévaluation du dollar canadien en 1962 et l'augmentation subséquente des investissements et des dépenses gouvernementales. La question fondamentale qui se posait aux pouvoirs publics, cependant, c'était comment freiner l'inflation sans augmenter le chômage, alors qu'on se rendait compte qu'il n'existait aucune façon de maîtriser la demande que la population accepterait ou approuverait.

Les choix qui s'offraient au gouvernement étaient de maintenir et de poursuivre sa politique expansionniste et de compter sur le taux de change flottant pour corriger l'inflation qui s'ensuivrait ou s'en tenir à la traditionnelle méthode de l'alternance d'une politique d'expansion succédant à la politique de contraction, dite politique de « l'arrêt-marche », qu'on avait utilisée dans le passé avec un succès plutôt mitigé. La Commission s'aperçut que l'un et l'autre choix étaient inacceptables pour le public et que ni l'un ni l'autre ne signifierait un apport net pour la société. Restait la possibilité d'essayer de réduire le niveau critique du chômage (auquel coût et auquel prix les augmentations ont tendance à s'accélérer) en poursuivant des programmes de main-d'œuvre appropriés qui aideraient à équilibrer l'offre et la demande de travail, même si quelques aspects de ces programmes, tels que la hausse des prestations de l'assurance-chômage et du bien-être social ainsi que du salaire minimum, pouvaient avoir un effet contraire. Finalement, le gouvernement opta pour une politique impopulaire en essayant de stabiliser la croissance de la demande à un taux assez bas pour restaurer la stabilité des coûts et des prix. Le taux d'inflation diminua, mais le chômage s'éleva à un niveau inacceptable.

La Commission ne blâme pas ou ne blâme que bien peu, en tout cas, les syndicats et les entreprises pour la façon dont ils ont usé de leur pouvoir de marchandage, bien qu'elle attribue un certain mérite aux politiques qui favorisent la concurrence par la suppression des pratiques restrictives en matière de commerce et de travail. Elle reconnaît que le moyen d'avoir une économie saine dépend de la maîtrise de la demande effective, mais considérant les controverses autour de l'importance relative des mesures fiscales et monétaires, le réglage et l'amplitude de leurs effets, les conséquences du taux de change, elle conclut qu'il ne serait pas réaliste de s'en remettre uniquement aux politiques de la demande générale si l'on veut atteindre les objectifs déclarés d'un plein emploi normal, de la stabilité des prix et d'une croissance économique constante. Pour cette raison donc, une politique des revenus temporaire mais obligatoire devrait être envisagée si les circonstances la justifient et si les provinces, les syndicats et le patronat sont prêts à coopérer. La Commission reconnaît que ses efforts en vue d'inciter les travailleurs à se soumettre à son indicateur unilatéralement fixé d'une augmentation annuelle de six pour cent par année des taux de salaire (en même temps que l'industrie imposerait son propre contrôle des prix) étaient voués à un échec parce qu'il s'agissait de volontariat. Des tentatives antérieures en vue d'obtenir la permission d'imposer des contrôles des prix et des salaires rigoureux n'ont pas eu de succès, mais il n'est pas donné de raisons explicites de cet échec. Le genre de contrôles que la Commission envisageait étaient ceux qui, subséquemment, furent appliqués (en trois phases) aux États-Unis à partir d'août 1971. Ainsi, il se peut que si l'inflation (et la crise de la balance des paiements) requiert une attention sérieuse dans l'avenir, le Canada peut possiblement considérer l'application d'un programme de restriction selon la formule américaine tel qu'il était préconisé par la maintenant défunte Commission.