

when and where he will work, what he will buy and sell, and when and how he will spend whatever money he can command. There is a broad distinction between three types of society; the society based on birth, caste or "status" (such as existed in the classical, mediaeval and oriental worlds); the totalitarian society organized on the basis of centralized State controls, where the State decides how you shall be employed and what things are good for you; and, thirdly, the society organized on the principle of freedom of choice and freedom of contract. No economic system, of course, is completely stratified, completely controlled, or completely free; but it is not hard to decide which principle dominates any given society at any given time.

A "free economy" is predominantly based upon and organized by a system of free prices—free, that is, within the general framework of the law. In a free economy, prices constitute the main guide to production, and are at the same time the balance-wheel of supply and demand. Rising prices for one commodity indicate relative shortage and invite both increased production and economy in consumption; falling prices, in turn, indicate relative surplus and produce a tendency to ease up on production and to increase consumption. In other words, it is this constant flexibility of prices that helps to keep production and consumption in reasonable balance and harmony.

If a community embarks upon a system of fixed or administered prices, it must invent some substitute for the flexible price system as a means of finding out what people really want, and what they want more of, and what they want less of. Failing such a substitute, the principle of freedom tends to disappear, and the government has to decide what will be produced and in what quantities. The free price system has many imperfections, but there has not yet been developed any other system that will preserve in essence what I call a "free economy."

Administered or government-determined prices inevitably entail considerable government control over the details of production and distribution. And the wider the range, and the longer the duration of administered prices the more detailed must these controls become.

I think I should emphasize, out of a considerable background of experience, that the fixing of a price is only the beginning of price control. During the war years we found that the making of actual price decisions was not too difficult, and formed only a minor part of our work. It was the efforts to assure supply, to estimate what was needed, to see that things were fairly distributed, to protect the consumer against upgrading or degradation of quality, it was the interminable investigating, checking and blocking of loop-holes for evasion that made up by far the larger part of each month's work.

None of this is an argument against price controls in emergencies, when prolonged physical shortages of goods are inescapable. But I do suggest that these considerations should be carefully weighed whenever any broad extension of continuing government price fixing is proposed.

Another aspect of the price system that may be of interest to the committee is what may be called the price structure, as distinct from the price level. Recently prices have been rising rather rapidly. But not all prices rise at equal rates. Indeed some prices in Canada today are lower than they were two years ago or twenty years ago. There are even a few prices that are lower than they were in August 1939. Household electricity and gas rates are 15 per cent and 3 per cent respectively below what they were in the immediate pre-war period.

In December 1947 the general level of wholesale prices was 43 per cent above 1926. But some things like lumber and vegetable oils were  $2\frac{1}{2}$  times what they were 20 years ago; and other things such as rubber products, furs, rayon products, and quite a variety of chemicals were 10 to 40 per cent below what they were in 1926.