

PRICE-RESTRAINT REVIEW

The results of the 1970 price-restraint program were reviewed recently in a series of regional meetings with businessmen called by the Prices and Incomes Commission in Halifax, Montreal, Toronto, Edmonton, Vancouver and Ottawa.

After the National Conference on Price Stability last February, Canadian firms were called on to reduce the number and size of the price increases they would normally make in 1970 and to ensure that price increases were clearly less than the amount needed to cover cost increases. It was emphasized at the time that, if inflation was to be brought under control with a minimum of unemployment and lost output, a comparable measure of restraint would be required on the part of wage- and salary-earners, governments at all levels and industry everywhere.

The Commission acknowledged that the co-operation of the business community in restraining price increases during 1970 had been most helpful. It was clear from the Commission's price surveillance and review activities that many firms with opportunities of raising prices during 1970 had deferred, limited or reduced the size of these increases in order to conform with the price-restraint criteria.

In many other cases, the Commission's investigations show that firms have experienced a sharp rise in costs and a contraction of profit margins in 1970, and that such price increases as they have felt able to put into effect under existing market conditions were by no means large enough to cover more than a part of the increase in their costs since 1969. In other cases, firms in various sectors of the economy, including agriculture, have been precluded by domestic and international market conditions from raising their prices at all, or have been forced to lower them.

The Commission drew attention to the fact that this was perhaps the first time that businesses representing practically every sector of the Canadian economy had been called upon and agreed to co-operate in a national program of this scope.

In the Commission's review, the price-restraint program has not only had a direct moderating effect on the rate of price increase during 1970 but has been useful in giving the public a clearer understanding of the role of cost increases in perpetuating the inflationary process. On the other hand, the Commission conceded that as yet there was little evidence of a moderation of wage and salary increases, although it had not been expected that this would be quickly achieved.

DANGER NOT PASSED

The Commission pointed out that the economic prospects facing Canadians in 1971 made the need

for responsible attitudes in price and income decisions no less important in the immediate future than in 1970. While some comfort can be taken from the recent moderation in the rate of price increase, the Commission must again warn Canadians that this is likely to be only a temporary phenomenon unless there is an early decline in the rate at which costs are rising. Without an early and substantial moderation of the size of wage and salary increases, and pricing policies which adequately reflect any moderation of cost increases, it is the Commission's view that the choices available to Canadians will be limited to renewed inflation, an unacceptable level of unemployment or compulsory measures of some kind to provide more effective control over costs and prices.

INDUSTRY VIEWPOINT

The business representatives present at the meetings drew attention to the marked changes that had occurred since February in the market conditions faced by firms, in the degree of slack in the economy, and in the general orientation of government policy toward stimulating higher levels of economic activity and employment. Under these conditions, substantial price increases were effectively ruled out for most firms. The business view was that in these changed circumstances, and without wholehearted support and parallel action on the part of labour and government, the continuation of formal price-restraint criteria beyond the end of 1970 would no longer be warranted.

Business representatives made it clear, however, that they recognized the continuing need for responsible attitudes on the part of all elements in the community, including governments as well as private groups, with respect to price and income decisions. There was general agreement that the role of the Prices and Incomes Commission was a vital and useful one, that it should be encouraged to complete its work in the areas of research and public education, and that if possible it should develop policy suggestions aimed at avoiding a repetition of recent national experience with inflation.

Despite its earlier preference for a six-month extension of the existing criteria, the Commission has concluded that in 1971 it will not indicate whether or not price increases are justified on the basis of specific criteria. Similarly, the Commission will no longer assess pay increases against a specific guide-line in the new year.

The Commission will, however, maintain its surveillance of increases in prices, wages and salaries, professional fees and other forms of income, and will continue to conduct investigations and issue reports in particular cases.