

However, crude figures suggest—and I am sure that the Economic Council will provide better figures—that since 1963 unit labour costs in Canadian manufacturing have risen by perhaps 3 per cent or 4 per cent more than in U.S. manufacturing which, if true, would mean that Canada is gradually losing whatever advantage it gained from devaluation. In this way we are “revaluing” our dollar through permitting our costs and prices in Canada to rise relative to those in the United States.

If the Government permits that process to continue it is implicitly admitting that it was a mistake to fix the dollar permanently at U.S. \$.925; or if it argues that it was not a mistake, it has to accept the possibility that the value of the dollar has now been weakened; or finally, and alternatively, it has to admit that it was prepared to fix the dollar at an arbitrarily low value, accept the temporary (and beggar-thy-neighbour) advantages of such a move, and permit those advantages to disappear and the rate to be readjusted by domestic inflation of prices and costs. When these alternative explanations are contemplated it no longer seems so certain that it was good for Canada to devalue the dollar and permanently fix its rate of exchange, and endure the increase in the Canadian price level that it involved. I have not said nearly all that could be said on that score, but I think it is an issue that the nation should face directly.

What are the Implications for Economic Policy? We have noted that in recent months Canadian prices have not been rising faster than U.S. prices. We have also noted that in recent months the Canadian economy has not been speeding ahead of the U.S. economy as it did earlier. A whole host of indicators, which I will not outline here, suggest that there has been a slowdown of consumer and capital spending. A combination of monetary restraint (including very high interest rates) and the restraint of a persistent increase over the last several years in the Government sector surplus (on a national accounts basis) seem to have brought excess spending under control. There does not at present seem to be any need to press restraint further, but at the same time it would in my view be premature at this stage to assume that an economic down-turn is imminent and that monetary and fiscal policy should be made easy. Such a move, if the forecast proved wrong, would form the basis for a renewed round of inflation. As far as “demand-pull” inflationary forces are concerned, policy at present, in my view, should be one of wait and see—and this does not mean for a long period of time, because conditions can change quickly.

This, however, should not be the policy with respect to “cost-push” inflation. I have suggested that over the last year or so wage increases may well have tended to exceed productivity increases and past consumer price increases combined—while acknowledging frankly both the inadequacies of the statistics and the complexity of the wage-cost-price relationship. I do not think definitive answers as to the nature and relevance of that relationship will soon be forthcoming, although I think we might know more about it fairly soon. For this reason I think Canada should assume that “cost-push” inflation is a problem and should begin developing a system of techniques to deal with it. It is quite conceivable that its record vis-a-vis the U.S. with respect to price increases would have been better in the past and would be better in the future if a system of wage-price guidelines had existed.

The main advantage I see of a system of wage-price guidelines is that it would encourage intelligent discussion of the relevant economic issues between management and labour. It would not be a system that would replace fundamentally the present approach to wage and price changes. One part of such a program should be a detailed and regular report, with appropriate charts, and widely distributed, of the price changes that industry has effected. A way should be found—and I am not convinced this is perhaps the best way—to bring public opinion closer to the price-setting practices of all industries.