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A review of the Government's anti-inflation program

Finance Minister Donald Macdonald reported on the operation of the anti-inflation program on September 7 and announced changes in the proposed price and profit guidelines. Following are passages from Mr. Macdonald's statement:

Since the introduction of the anti-inflation program last fall, progress has been made in reducing the rate of inflation. In December of last year, the percentage increase in the consumer price index (CPI) from the previous year dropped below double digits for the first time in 21 months. Since then, the rate of price increase has shown a progressively moderating trend so that, by July, consumer prices were only 6.8 percent higher than one year earlier. This compares favourably with the year-over-year rate of 11.1 per cent in August 1975.

A major factor in this welcome deceleration in inflation has been the behaviour of food prices, which actually dropped on average in every month from December to April. The anti-inflation program has ensured that reduced costs to the processing and distribution sectors have been passed on to the consumer.

The prices of many foodstuffs, whether produced by Canadian farmers or imported, do of course fluctuate. It has to be expected that some of the food prices which have actually fallen this year will go back up again. For this reason, the slowdown in the cost of living which has occurred may overstate the underlying trend of improvement.

It is reassuring, however, that there has been a clear slowing down in the prices of non-food items. These items, which account for more than 70 per cent of the cost of living, showed a year-over-year increase of 9.2 per cent in July, compared with 10.2 per cent when constraints were introduced. The annual rate of change over the three months ending in July was 6.1 per cent.

* * * *

It will be recalled that the arithmetic guidelines for compensation in this first year of the program include a basic protection factor of 8 per cent, a

national productivity gain of 2 per cent and an experience adjustment factor ranging from -2 to +2 per cent depending on the earning experience of each group before the introduction of the program. By early August, the compensation plans for more than two million workers covered by the mandatory guidelines that had come up for renewal had been filed with the Anti-Inflation Board. For a little under half of the workers covered by these compensation plans, the initial proposals were below the guidelines applicable to their groups, while the remainder were above the guidelines. For these two million people together, the average proposals in these plans called for compensation increases of 12.2 per cent, about 2.3 percent above the average guideline.

As of the middle of August, compensation plans covering more than 550,000 workers that proposed increases in excess of the guidelines had been considered by the Anti-Inflation Board. These proposals for relatively large increases — they averaged 14.5 per cent — reflected circumstances in which the parties believed that well-established historical relationships or other particular considerations justified increases in excess of the arithmetic guidelines. In many cases, the Board did not agree. But in a considerable number of cases the Board agreed that an increase in compensation somewhat above the arithmetic guidelines was justified. However, the Board held the increases in these compensation plans to an average of 12.11 per cent, about 2.3 percent above the average arithmetic guidelines for these groups....

The AIB data cover both unionized and non-unionized employees. Data relating only to unionized workers are provided by the Department of Labour in the quarterly reports on new contract settlements in collective agreements covering more than 500 workers.

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