

## PART I

## ECONOMIC WHITE PAPER FOR 1970

## THE HIGHLIGHTS OF THE YEAR 1969

In 1969, consumer prices rose more rapidly than in any year since the Korean war inflation of 1951. Inflation has been the chief concern of public opinion and national policy throughout the year and continues to have priority.

Both fiscal and monetary policy have been restrictive in the past year. The strategy has been to slow the growth in demand by government and by the private sector. The retarded growth in demand is expected to make it more difficult to pass increases in costs through to final buyers. This difficulty in turn is expected to diminish the willingness and ability of producers to accept increases in costs. The Prices and Incomes Commission has been developing its program to assist in restraining increases in costs and prices. If cost increases can be restrained until the growth of productivity establishes adequate support for the present high levels of income, and if price increases can be restrained while the remaining demand pressures die out, then orderly, balanced growth of supply and demand without price increases may proceed. This way of subduing inflation permits an adjustment that is more equitable, since all share in it, that is quicker and that affords a higher level of total real output than the alternative way of very severe restrictions of demand, which force some members of the labour force to accept a loss of earnings for a period of time, and which bear more heavily on the less prosperous regions of the country.

This strategy takes time to work. One may distinguish two phases in it: the phase of reduced growth of demand, the holding phase, and then the pay-off phase in which the increases of prices and costs moderate. The record for 1969 shows that considerable progress was made in the first phase. By the end of the year, however, it was clear we had not entered the second phase.

The growth in Gross National Expenditure in real terms, i.e., corrected to eliminate the effects of price increases, diminished over the course of the year. There was real growth; it amounted to 5 per cent. But while in the first half, as compared with the second half of the previous year, it was at an average annual rate of 5.9 per cent, it was only of the order of 2.8 per cent in the second half of 1969, according to the best estimate that could be made at the time of writing.

The index of industrial production, though affected by strikes, declined in the second quarter, and again in the third quarter. In November, the last month for which data are available, a moderate increase occurred.

The growth of the labour force has slowed. Although several factors have been at play here, the slowing is a typical characteristic of the cooling of an overheated economy. Certain marginal workers drawn into the labour force at the height of a boom withdraw when labour demand eases.