price levels in Canada. From all the evidence I see, and from the way the statistics look, it seems to me that devaluation did have a significant effect on Canadian prices, and particularly in the first instance on wholesale prices.

After the devaluation, and possibly in part because of it, another factor seems to enter the scene to help explain why Canadian prices (this time consumer prices) rose faster than U.S. prices: this factor is the more rapid move toward full employment and economic scarcity in Canada than in the United States. Would you turn to table 4, column 3, which shows the ratio of Canadian unemployment to U.S. unemployment. It shows that from 1958 to 1962 the Canadian and U.S. unemployment situations remained very similar. However, beginning in 1963 and continuing on until about October 1965 Canadian unemployment declined substantially faster than U.S. unemployment. Since considerable evidence has been accumulated that suggests there is a close relationship between the relative level of unemployment and the rate of increase in prices, it also seems plausible that Canadian prices rose faster than U.S. prices because of the more rapid move to low unemployment levels in Canada than in the United States.

Since October 1965 the aforementioned trend was reversed, as you can see again from table 4, column 6, with Canadian unemployment tending to rise on balance and U.S. unemployment down slightly, although stable since about January 1966. It will be recalled that since January 1966 Canadian consumer prices have not risen faster than U.S. consumer prices.

Why is it that there is an apparent relationship between the relative level of unemployment and the rate of increase of prices? No one knows for sure, but it seems sensible to think that it probably arises from increased bargaining power of labour as labour gets scarce; the appearance of supply bottlenecks which cause certain prices to rise while sticky prices generally prevent an offsetting fall in other prices; and the increased ease with which business can raise prices when supplies are short, and particularly in industries in which there is inadequate competition. Unfortunately I have not had the time to estimate the relative importance of these various influences, for it is a very complex task. However, I understand that the Economic Council of Canada is working in this area. I have no doubt that, when representatives of the Economic Council speak to this committee, they will enlighten the committee on this very important subject matter. For what it is worth it may be noted that from 1958 to April 1966 average hourly earnings in manufacturing in Canada rose 4.1 percentage points more than in the United States, while consumer prices rose 2.5 percentage points more. Even if productivity increases in Canadian manufacturing were as high as those in the U.S., this might suggest—and I put it no more strongly than that—that wage increases here have tended not merely to match productivity increases and consumer price increases, but to exceed them. It is to be noted that average hourly earnings in manufacturing in Canada really began to move ahead of those in the U.S. in 1965 and early 1966. Whatever effect recent very substantial wage increases will have on this trend cannot yet be seen in the figures that are available.

To summarize, it seems to me that the greater increase in prices in Canada than in the United States stems largely from the devaluation of the Canadian dollar, and the rapid acceleration of business in Canada, in comparison with the United States; and that in recent months the increase in wages in Canada in relation to those in the United States may have produced an inflationary effect through cost-push processes.

I suppose it is pertinent to ask now whether Canada should have devalued the dollar and suffered the price increases. Since those price increases in relation to U.S. price increases have not been all that large in the consumer field, not a strong case against devaluation can be made on that score, perhaps.