

in the previous year and prices of final goods and services accelerated through most of the year. Although world commodity prices decreased in the second half, the impact of these decreases on final-goods prices in Canada only began to appear at year-end. World oil prices increased tremendously in 1974 and the increases were large in Canada, even though our policies cushioned the impact of the world changes. Increases in most farm-gate and imported food prices continued in 1974 at very high levels, reflecting particularly the disappointing 1974 harvests in North America and elsewhere. The dominant factor in the change in Canada's price experience in 1974, however, was the rapid increase in domestic costs, reflecting sharp increases in the prices of labour and other "inputs", as well as the poor productivity performance associated with the flattening, and later decline, in output.

Up to the end of the third quarter, both wages and profits per unit of real output continued up strongly. But in the fourth quarter the situation changed. Profits per unit of output tumbled by 6.7 per cent. Wages and salaries per unit of output, on the other hand, continued to advance. To my mind, this continued surge of wages and salaries and the sagging of profits epitomize the problems of the Canadian economy in the period ahead.

Let me be a little more specific on this question. If one considers the data on wage settlements, one is struck by the fact that, whereas in the early 1970s the increases in our settlements were, on the average, below those of the United States, for the last three years the increases in our settlements have been higher. The margin is now very wide. Indeed, the increases in settlements for the first year of new contracts, at about 20 per cent, are roughly twice the size of those in the United States. The increases in average hourly earnings are also now running about twice those of the United States. Our increases in labour costs per unit of output for the economy as a whole are not only high (17.3 per cent in the fourth quarter last year) but in the latter part of last year began to run very much ahead of those in the United States. In the manufacturing industries, our absolute levels of average hourly earnings pulled above those in the United States in the course of last year, and are rising much more rapidly than in the United States. In the non-manufacturing industries, increases in wage settlements tend to run even higher than in the manufacturing industries. Settlements for government employees, for teachers and for other service employees exert an upward pull on settlements in the goods-producing industries. These stark facts should warn us of the danger we face of a very serious loss of competitive position that threatens our export industries and our domestic import-competing industries.