

Examining the movement of the wholesale price index we find that from 1958 to August 1966 these prices rose by 14.3 per cent in Canada and by 6.1 per cent in the United States—a more substantial difference. However, column (3) suggests that the peak of the Canadian price deterioration was reached in February 1966. It was in February 1966, as you can see from column (3) that the ratio of Canadian wholesale prices to U.S. wholesale prices was 108.6, and after that it has come down from that high ratio. After the early part of 1966 U.S. prices rose faster than Canadian prices, so that the August 1966 Canada-U.S. wholesale price relationship was about the same as it had been since 1963.

If you look at the ratio in column (3), it shows that from about 1963, 1964, 1965 the ratio was about 107.5 and 107.6, whereas in 1966, right at the bottom of the column, it was 107.7—not very different; so there has not been much change since 1963.

Before I comment specifically on why Canadian prices have risen more than U.S. prices, it may be worth showing how some of the components of the consumer and wholesale price indexes have moved in the recent past.

Actually, we are going to hear a lot more about this, and I will not bother to pursue it now, but reference here should be made to Table III.

The most significant generalization that can be made is that with the exception of consumer durable and non-durable goods, the major consumer and wholesale prices all rose more in Canada than in the United States. The greater increase in Canadian farm product prices as compared with those of the U.S. is to be noted, as is the greater price in the price of consumer services and industrial goods in general. Building material prices in Canada rose more than wholesale prices in general.

The figure for farm prices, you should not take seriously, because U.S. prices were very high in 1958. However, I put it in for the sake of completeness, but ask you not to take that relationship seriously.

It seems therefore that whatever was the cause of higher prices in Canada, it was one that spread its effect fairly widely among the wholesale and retail goods and services, excluding only consumer durables and consumer non-durables, except food, which together account for 43 per cent of the consumer price index. It was not just food that rose in price, but also a number of industrial and consumer goods and services.

Forces behind the price increases: Earlier I noted that it was from 1960 to 1963 that Canadian wholesale prices rose substantially more than U.S. wholesale prices, as is shown in Table II.

Now, I would point out that column (7) of that table shows that over the same period import prices took their big jump, and columns (8) and (9) show that back of that increase in import prices was the devaluation of the Canadian dollar; from 1960 to 1963 wholesale prices rose by 6 per cent, import prices by 12 per cent and the U.S. dollar in terms of the Canadian dollar by 11 per cent.

Furthermore, over that period unemployment remained high, as is shown in table 4, where I show the unemployment level in Canada and the United States, suggesting no real scarcity pressures in the economy; and from 1958 to 1962 there was no more improvement in the level of unemployment in Canada than in the United States which would seem to imply that the relatively greater price movements in Canada were not explained by any swifter movement in Canada toward a situation of scarcity than in the United States. For all these reasons it seems plausible that the initial Canadian price deterioration vis-a-vis U.S. prices, that is, the rise in wholesale prices from 1960 to 1963, arose essentially from the devaluation of the Canadian dollar. It seems also that after the devaluation had been completed there was no further deterioration in Canadian wholesale prices on balance in relation to U.S. wholesale prices.

I have to admit frankly that in the last year or two there has been some controversy on the effect of import prices, including the dollar devaluation, on