Economist views — Jenkins ...

*Gateway conducted inter-
views with two economists on
ampus in an attempt to unders-
tand the background to the
nitiation of the wage and price
ontrols and the economic
heory behind anti-inflation
rograms, generally.*

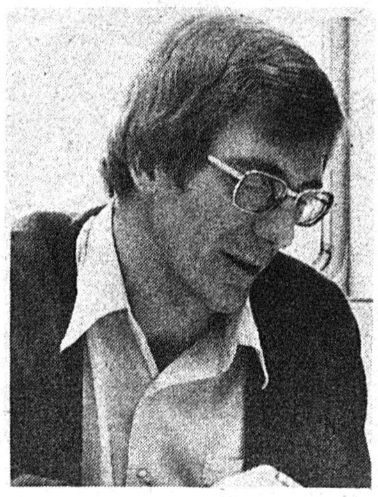
*The first interview was con-
ucted with Al Jenkins, an
ssociate professor in the depart-
ent of economics who teaches
raduate macro-economics, in-
ustrial relations and labor
conomics.*

GATEWAY: What happened in the pre-control economic nvironment in Canada that ecessitated implementation of n anti-inflation program?

JENKINS: First you have to nderstand that, to a certain xtent, every country in the estern industrialized world is xperiencing some inflation roblems — most are trying to ombat such problems with ifferent programs.

For the background to our ituation: the money supply in anada and other countries was rowing enormously in the eriod 1971 / 72 / 73. In Canada it as increasing 20 to 25 per cent er annum. Now, if real growth is nly four to five per cent per nnum, as it has been in Canada, nd the growth in money is 20 per ent per annum, there has to be flation.

GATEWAY: Why was anada increasing its money upply so rapidly?



JENKINS: As foreign countries began to decrease the value of their currencies, Canadian prices were showing corresponding increases on foreign markets. The situation represented a very dangerous trade position, potentially, for Canada and the government reasoned that, if they kept increasing the money supply, the Canadian dollar would not increase in value and our trading position would be more stable. So, in a sense, the Bank of Canada was forced by world-trade pressures to expand the Canadian money supply.

The result was severe inflation and the government then was forced into the position of 'trying' to stop that inflation. Their decision was to implement controls which would possibly change people's expectations and bring down salary projections and consequently wages. After trying a period of voluntary restraint, they went into mandaory controls.

GATEWAY: Is there any historical evidence to show controls work or don't work?

JENKINS: Wage and price controls have been implemented in Great Britain and the U.S. and what has generally happened is there has been tremendous problems with them. Once controls are repealed, inflation shoots up as much or more than if you'd never had the controls at all. There were theoretical reasons, however, to believe that there was an "inflationary psychology" among people and wage and price controls would control expectations. But in practise there's nothing to show expectations are dampened by the controls following the control period.

GATEWAY: What about people's expectations during the control period?

JENKINS: They are tempered somewhat but the inefficient allocation of resources in the economy during the control period more than outweighs that, I think. The government just lately realized they had forced this inefficient resource allocation over their first year of controls and relaxed the ban on corporate profits. They did that because there had been diminished investment incentive and basically that reduces efficiency and gives us all economic problems. And again, when wages go down, labor shortages in industries again may reduce efficiency.

I think it's simply impossible for the government to keep controls on a long-term basis because the inefficiency becomes crucial. The government is simply not able to assess every wage and every price within a market place — it's impossible.

GATEWAY: So you believe the controls, which Trudeau hedged about saying whether they would be temporary or permanent, are indeed going to be temporary?

JENKINS: I don't think there's any doubt about it. The original anti-inflation package includes not just wage and price controls — designed for short-term situations — but also a lot more in dealing with inflation. The other policies will, in the long-term, do a lot more to curb inflation than the controls themselves, I think.

GATEWAY: What are the long-term plans?

JENKINS: The first is that the Bank of Canada will not increase the money supply at "unreasonable rates." Last year the money supply increase dropped to about 10 per cent and that will be very significant in slowing inflation.

The second thing is that, supposedly, the federal government is trying to exercise restraint in its own spending. I don't think resources are used as productively in the public sector as they are in the private sector and there must be some inflation resulting from that factor, though how much I couldn't say.

The third provision in anti-inflation policy is a structural policy — to revise existing labor laws, which currently favor certain unions at the expense of other workers. These revisions might include stricter controls on picketing activities, more stringent enforcement of laws at wildcat strikes, etc. These are very necessary as Canada is losing an increasing number of labor man-days — and it's already enormous — through strikes each year. That causes hardship for everyone in the economy.

Of course, to go with these labor law revisions, there are plans to institute a new set of anti-combines laws. I hope that these ones will be enforced, unlike the old ones.

These provisions, if properly implemented, will mean a great deal more in stopping inflation in Canada than the wage and price controls would hope to, I think.

... and McMillan

*The second interview was
onducted with Mel McMillan,
lso an associate professor in the
conomics department teaching
ublic economics.*

GATEWAY: Have wage and rice controls been effective in ontrolling Canada's inflation?

MCMILLAN: Well, basically I hink they're much maligned but robably serve some useful purose in checking inflation. The ontrols were imposed after a eriod of very high wage ettlements which, in 1974, shot p dramatically while at the same ime, labor productivity in many ectors of industry declined.

Also, increases in the early eventies in the prices of many essential" commodities were oing up very rapidly — oil and as prices because of the OPEC artel, food prices from griculture's demand for quitable wages, etc.

The money supply was also ncreasing rapidly — between 15 nd 20 per cent per year — and eal output was increasing much lower. That alone causes inflaion and, coupled with the other conomic factors of that time, roduced rapid inflation.

GATEWAY: If money supply ad been cut back sharply, nstead of implementing wage nd price controls, would inflation rates have been reduced sharply?

MCMILLAN: Well, there was a lot of pressure by labor for cost-of-living increases in salaries. But if the government had allowed such increases and not increased the money supply and allowed for inflation, there would have been severe unemployment. In order to avoid more unemployment than we have been used to in the last few years, the government decided to allow inflation to go on while with these cost of living allowances — everybody thought they were getting more money but, in fact, they weren't. I'm not saying that consciously what happened is the Bank of Canada and the government wanted to let inflation go on keeping down unemployment but that's what happened, in any case.

GATEWAY: So that's how they decided to go with the controls — because they thought traditional economic answers, such as a curbed money supply, would cause more severe hardships?

MCMILLAN: I think so. The government in 1975 said, "OK, the only thing this increased money supply is going to lead to is the inflationary spiral. We're going to have to cut back some on the money supply increase as well as implement some system of controls to affect an easier transition from an inflationary to a stable economy." Out of the two alternatives — to reduce the rate of growth of the money supply (and very likely lead to a lot of unemployment) or to institute wage and price controls and try to hold down the expectations of the powerful groups — big business and big labor — I think the controls were probably better for the lower-income people.

GATEWAY: You mean you

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