Rough Justice: The Economic War Measures Act

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OTTAWA (CUP) -- On Thanksgiving Day last month, five years less two days since the imposition of the War Measures Act, the federal Liberal government announced its "attack on inflation" - an economic control program described as "selective wage and price controls".

Prime Minister Trudeau explained in his televised address to the nation that: "Under this program, a selected number of powerful groups in Canada will be required by law to obey strict guidelines in price they charge, and incomes they earn."

He continued by "making a direct appeal for the cooperation of all Canadians in the practice of individual restraint... This battle must be fought by all of us."

Tory opposition leader Robert Stanfield said the program provided "rough justice" in the fight against inflation. As the policy was explained, however, it became apparent that it was "rougher" than it was "just" for most Canadians.

It was, in fact, nothing less than an Economic War Measures Act, with those dependent on wages and salaries playing the starring role of economic cannon-fodder

EFFECT OF WAGES

Within a few days Canadians generally understood what "individual restraint" meant in terms of their paycheques. Unless they get a better paying job, or do more work at their present job, their wage or salary can only increase by 10 per cent this year, 8 per cent next year, and 6 per cent the year after.

The thrust of the policy was clear.

There was little doubt expressed over the enforcibility of this part of the program. Employers in the public sector and the 1500 largest firms in the country, who together employ just under half the work force, were "ordered" to comply with the wage "guidelines". And as representatives of business and employer associations put aside their "free enterprise" speeches and stampeded to announce their support for the patriotic wage restraint campaign, it became clear the "order" would be followed. Duty and interest happily coincided for employers in the specified sectors, and for those whose compliance was officially "voluntary".

NON-WAGE GUIDELINES

Owing to the efforts of the commercial press to present the program as "wage and price controls" confusion mounted over the way the program would effect prices, profits, dividends, interest rates, mortgages and almost every other source of non-wage or salary income.

The single authoritative document published was a 25-page policy statement tabled in the House of Commons by Finance Minister Donald MacDonald titled *Attack on Inflation*. It contained the "initial guidelines", including the series of selective loopholes which could exempt just about anything from control except the price of labour.

The guidelines said, for instance, that prices were not to increase "to amounts more than required to cover net increase in costs", but as long as some plausible cost could be found to offset a price increase, the sky's the limit.

As well, prices could be increased in advance, simply on the basis of "forecasts of cost increases" which could be foreseen "with a reasonable degree of assurance".

As far as profits are concerned, these were to be frozen at approximately the same level prevailing over the average of the past five years, which was a record-breaking high profit period. And profits could go above this level if the increase could be shown to be due to "unusual productivity gains resulting from the efforts of the employer," such as through investment in labour-saving devices or by paying less, or due to "favourable cost developments which could not reasonably have been anticipated" but which resulted in overpricing.

Dividend rates for shareholders, meanwhile, were "frozen" at current levels, unless it is necessary to increase these rates "to raise new equity capital" - the only justifiable economic reason even without controls. And since the guidelines provide no control over interest rates or the financial markets, dividend rates must bear some relation to the rate of return provided by alternate forms of investment, just like before the "restraint" program was announced. The only effective "control" mechanism is, as before, the marketplace.

When all the loopholes on dividends, profits and prices were added together, there was no apparent reason to believe that prices could not be increased to raise the level of profit, so as to pay larger dividends, so as to attract new capital, just like in an uncontrolled economy. The alleged "freeze" at present levels seemed to be no more than a "minimum" level below which these sources of income would not fall.

Concern over this aspect of the program was wide-spread, soon spilling into the commercial press. The government agreed enforcement presented "difficulties", but Manpower Minister Robert Andras told the Canadian Pulp and Paper Association, just because prices are harder to control than wages "does not mean we should throw up our hands and not even try and control both," adding, "We never said the program is perfect."

GOVERNMENT INTENT

It would have been reassuring to those concerned with the effectiveness of the price restraint aspect of the program if someone other than Jean Luc Pepin, former Liberal minister of Industry, Trade and Commerce, was made head of the Anti-Inflation Board, which will judge whether the rules or the loopholes will be applied.

As a Montreal economic analyst recently told a meeting of investors, they have no reason to fear profit guidelines will be "strictly enforced" since he would "be surprised to see Jean Luc Pepin come down hard on business."

Another measure of the government's intent in enforcing the complex guidelines it devised was the decision to add 200 new staff to do the work of the Anti-Inflation Board, 40 of whom are to be P.R. officers. Many of the large corporations whose products must be cost accounted if price increases are to be monitored and investigated have more accounting staff than the Board, and will thus remain in effective control of their financial data and reports.

By contrast to the manpower allocated to administering this economic program, Canada needed a staff of over 10,000 during the war to administer much less unpopular controls over a much less complicated economy. And the U.S. had a staff of more than 5,000 to administer its control program in the early 70's and later a top administrator of that program said five times that number would be needed if they were ever serious about applying price controls.

But the Canadian government intends to add a staff of 200 to administer its program.

Perhaps a clearer expression of the government's intent in enforcing the program was the statement in the economic policy paper indicating that the only other priority areas for increased staff and spending are police and prisons.

A POLICY REVERSAL

One of the major items of press speculation since the announcement of the economic program has been why the federal Liberals, who campaigned and won an election on an "anti-controls" platform, would suddenly "reverse" their position.

The puzzle can be solved, however, if we forget about the political rhetoric, consider the program as an effective means of controlling wages and nothing else, and look at recent economic trends. The reason for the government's apparent about-face then comes into focus.

The results of the first business quarter of 1975 showed that an economic turn-around was beginning. For 15 straight business quarters, while many workers were tied to 2 and 3 year collective agreements, profits increased in relation to wages. In 1971 wages accounted for 72.4 per cent of the national income, while profits were 12 per cent. By 1974, labour's percentage of the national income had dropped to 67.9 per cent while corporate profits rose to 16.1 per cent. In terms of dollars, between 1971 and 1974 corporation profits increased from $8.6 billion to $18.3 billion annually, an increase of 111 per cent. During the same period wages increased only 25 per cent.

This trend came to an end in the first quarter of 1975, and continued as the year progressed.

By the second business quarter of 1975 wages accounted for 70.8 per cent of the national income and profits declined relatively to 14.0 per cent. A year earlier, second quarter figures were 67 and 16.8 per cent respectively. This represents about a 5.7 per cent increase in wages share of the economic pie, and a 20 per cent decline in profit's share - although profits did not decline absolutely.

In dollar terms, this means that about $8.3 billion was transferred this year from profits to wages compared with 1974, a transfer amounting to 6.8 per cent of the total national income.

But, after two and one half business quarters in which wages and salaries suddenly started to catch up to profits, and as many long-term collective agreements were up for renegotiation, the government just as suddenly reversed its long standing objection to economic controls and announced its new program.

But rather than being an inexplicable move, nothing could be more natural for a government which has