Creeping Inflation

The experience of the post-war period and recent social and economic trends have caused some observers to think that it is not possible to maintain high levels of employment and an adequate rate of economic growth without at least a mild degree of continuing or "creeping" inflation. These persons point to the increasing concentration of business, the growth of powerful trade unions, the provision of floor prices for agriculture, the rising trend of government expenditures and taxes, and the limited tolerance for any degree of unemployment however small or temporary. It is argued that under these circumstances prices in key sectors of the economy are inflexible against decline, are "administered" and will only move upwards; wage settlements will exceed increases in productivity and will therefore impose a continuing upward "cost push" upon industry; necessary adjustments in the economy will be frustrated by immediate and large increases in government expenditures. It is maintained that under these conditions the highly organized claimants and conflicting interests in the society can resolve their differences only by coming to agreements which involve constantly rising prices and costs, and constantly expanding government outlays. It is further contended that if these upward pressures are effectively resisted by monetary and fiscal policy, unemployment and stagnation would result. Therefore, a "creeping" inflation of prices of say 2 to 3% a year is argued to be the lesser of two evils and is a consequence that should and must be accepted.

These arguments seem to provide an easy and accommodating answer to what have always been fundamental problems in any society, old or modern. The difficulty always with such accommodating answers is that they rest on assumptions which are neither explicitly explained or proved. Basically they are founded on what has been described "a tantalizing fascination in the illusion or greater wealth created by rising prices." It is a fascination which has always caused men and governments to try to find solutions to difficulties in some new and novel method of inflation. It assumes, of course that irresponsibility and almost complete inflexibility in our economic affairs is inevitable in our modern society. It assumes also, that the degree of continuing inflation envisaged will in fact guarantee high levels of employment and that the inflation can in reality be contained within the moderate limits contemplated.

Nearly all of the witnesses who gave evidence to the Committee commented on this doctrine of "creeping" inflation and discussed the assumptions on which it is based. The great majority were opposed to this doctrine as a basis for policy. Nor was this doctrine regarded with resignation or impotence.

The spokesman for the Canadian Chamber of Commerce told the Committee "that the Chamber of Commerce feels it could not as a policy tolerate even a creeping inflation. All you can say about creeping inflation is that it is not as dangerous and it is easier to adjust to than a more rapid inflation; but if you are going to erode the dollar the long-run effect is the same. Even the creeping variety has the effect of creating a psychological impact on people which spreads, and people are going to do the very things you don't want them to. In other words, they are going to assume a trend and take actions that will tend to bring about that trend". The Interprovincial Farm Union Council in its brief explained that "The farmer, unlike his counterparts in most other industries, is not in a position to increase his prices to the consumer to compensate him for rising costs of production which are the result of inflationary trends. We cannot increase the price of our wheat and grains in export markets and will be fortunate if these do not continue to decline. Thus even 'creeping inflation', over a period of time, has serious repercussions on the financial stability of farming operations". The submission of the Saskatchewan Wheat Pool emphasized that "In the post-war