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## A CANADIAN APPROACH TO THE PROBLEM OF PRICES

An address by Mr. K.W. Taylor, Assistant Deputy Minister of Finance, Ottawa, to the United States Conference of Mayors, New York City, February 16, 1948.

It is a distinction as well as a pleasure to be invited to participate in this Annual Conference of the United States Conference of Mayors.

Mayors are very important people, and municipal institutions are a very important branch of government. I appreciate the privilege of being here, not only because it gives me an opportunity to offer a few Canadian reflections upon our common problems, but even more because it allows me to hear from others on the programme and from the general discussion something of the way in which you are approaching the complex difficulties of the present times and seasons.

Free and democratic government, as we know it today, emerged and grew out of municipal government. It was in the city-states of Ancient Greece that self-government was born, and it was in simple folk gatherings of Swiss villagers high up in Alpine Valleys, it was among sturdy merchants of the free boroughs of Old England, it was in the serious, almost solemn town-meetings of New England, that these free institutions were nurtured and developed. Democracy has grown out of the village, the town and the city, and municipal government is still the root from which all free political institutions draw life and nourishment.

But I have been asked to speak today, not on the origins or the ancient glories of cities and their governments, but on one of the very pressing problems of today. You have asked me to present some Canadian reflections upon the rising cost of living.

Canadian prices of most of the basic things that go into the cost of living, have for some years been considerably below the prices in this country and below the prices in most other comparable countries. Perhaps for that very reason the public concern and protests which have accompanied our recent rise in prices has been all the greater and all the more articulate.

The most conspicuous economic fact of the past two years has been the upward sweep of prices all over the world. For the past twenty months the trend of prices everywhere has been steadily and rapidly upward. This is not a local problem, it is not confined to any one country or to any group or class of countries. It is a world-wide phenomenon; and Canada has not escaped its effects.

It is fair to add, however, that notwithstanding the considerable increase in prices in Canada during the past twelve months, our increase in the cost of living above the pre-war levels has been considerably less extreme than in almost all other countries.

In January 1948 the Canadian index of consumer prices, what we call "the cost of living," stood at forty-eight per cent above pre-war. As in this country, food prices had gone up more than other things. Canadian retail food costs were about eighty per cent above 1939; clothing and textile costs were up about sixty per cent; fuel, light, heat and rent were up about twenty per cent.

But rather than talk in index numbers and percentages let me give you a few actual average prices. At the beginning of January the average Canadian housewife bought her milk at 14 cents for an American quart; butter cost her 70 cents; round steak 49 cents; lard or shortening 28 to 30 cents; and eggs 57 cents a dozen. Bread was 8½ cents a pound, sugar 9½ cents, coffee 56 cents. Oranges were 38 cents a dozen and strawberry jam 25 cents a pound.

Such prices may not seem high to some of you, but in most cases they are high enough to create widespread public concern in every province of our Dominion.

In general our problems are very similar to yours. It could hardly be otherwise, because the Canadian economy and Canadian standards of living are closely related to yours. We are your best customer, and you are ours. More than twenty million Americans crossed the boundary into Canada last year, either on business, or to visit friends and relatives, or to spend a part of their vacations in our holiday resorts. Many of them stayed only a few hours or a day or two, but many others paid us more extended visits. You, in your turn welcomed more than ten million visitors from Canada. I would guess that at least half the people in Canada have relatives or close personal friends in the United States. American business men have profitably invested over four billions of their capital in Canada.

You will, therefore, easily realize that things that happen in the United States cannot but affect Canada, and to a lesser degree what goes on in Canada is not without some influence on the United States.

But while there are many similarities there are also many differences in the way in which we do things and in the way in which we approach our problems; and it may be of some interest to this conference to hear how we have been approaching the problem of rising prices.

The outbreak of war in September 1939 found our prices like yours, at a very low level. For both our countries the years of the thirties were years of low prices - almost disastrously low prices. Fifty-five cent wheat, 6 cent steers, 20 cent butter, 8½ cent cotton and 15 cent wool - these were depression prices; they were the inevitable concomitants of mass unemployment both here and abroad.

I do not think any thoughtful person would want to go back to the general level of 1939 prices and the conditions which they reflected.

During 1940 and 1941, as we in Canada expanded our war potential and you mobilized for defence, shortages began to replace surpluses, unemployment disappeared and by the summer of 1941 signs of an inflationary spiral in prices began to be evident. It was then that we worked out our plans for an over-all system of price control; and we put our over-all ceiling into effect on December 1st, just a week before Pearl Harbour.

This vigorous price ceiling policy was effective in controlling prices and in breaking off the inflationary spiral; and for four and a half years the Canadian price level was held to a steady level. I would count the reasons for our success in price control as chiefly three in number: first, the whole-hearted support for the policy from practically every industry, group, section and class; second, it was a highly realistic policy, ably administered and firmly applied; and third, thanks to your later price controls and to the effective work of the wartime inter-allied Combined Boards, it did not have to suffer the excessive strains of rapidly rising prices beyond our borders.

There were many differences of detail between our price ceiling and yours. We used subsidies more frequently than you did and I think we did a more effective job of mobilizing public opinion, especially that of the women, behind our policy. But it was in our decontrol programme that we differed more sharply from you. In thinking over our plans for decontrol, away back in 1944, we felt that the process of decontrol, the programme of dismantling our wartime restrictions, would probably have to be spread over a period of about two years. And while our plans were always kept flexible, we always had about a two year period in mind.

Broadly speaking wartime civilian controls were of two kinds - supply controls and price controls. It seemed clear to us that supply controls could probably be relaxed quite quickly, but that price decontrols would have to be approached more cautiously.

We therefore relaxed our supply controls fairly quickly and by the end of 1945 most of them had disappeared. Price and rationing decontrol, however, was not even begun until February 1946, and for more than a year after that was handled in a careful and cautious manner. It was not until the Spring of 1947, less than a year ago, that we began to decontrol and de-ration the staple constituents of the people's food, fuel, clothing and shelter.

During the year 1947 decontrol proceeded at a more rapid pace, and we had in mind the possibility, if not the probability of complete decontrol by the Spring of 1948. Eggs and poultry were decontrolled and meat rationing discontinued in March and April; dairy products were decontrolled and de-rationed in June; ceilings on canned fruits and vegetables disappeared during the summer, and those on meats, textiles and feed grains in the autumn. Sugar was de-rationed in November. Four months ago all that remained of price control were the ceilings on wheat, sugar, oils and fats, soap, shortening, primary iron and steel, and tin. In addition we continued and still continue our rent and eviction controls.

One point deserves special mention. Under authority conferred by Parliament, our government has never lost its power to reimpose price ceilings whenever conditions warrant them; and the sharp further upswing in prices early this winter caused the government to use these powers. During the past three months we have reimposed ceilings on most canned fruits and vegetables, on butter and on cabbages. The government, in addition, has directed the Prices Board to draft the necessary orders reimposing ceilings on all meats. Further, in view of presently unsettled conditions, the government has invited Parliament to extend its price controlling powers for another year, that is, to March 31, 1949.

In brief, the present position in Canada is that Parliament has not withdrawn from the government the general power to control prices; that the government has power to retain price ceilings and to

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reimpose ceilings previously suspended; and that these powers are being used. The government has made it clear, however, that it regards these as emergency powers, and that it does not intend to go back to a general or over-all price controlling system. It is using its powers only to place specific controls on those sections of the price structure which appear to be getting out of line.

A further recent development in Canada is the appointment at the request of the government of a special Parliamentary Committee to hold public hearings to ascertain the facts concerning the causes of the recent rise in prices and to examine whether and to what extent profiteering and hoarding have contributed to the rising cost of living. This committee started its hearings last week.

To a major extent the increase in the level of Canadian prices is a reflection of the rapid rise in world prices, or, to speak more precisely, the rise in American prices. Canada ranks as the third largest importer and exporter of goods in the world. Until recently we had insulated ourselves from much of the effects of these rising external prices by retaining extensive and elaborate controls and subsidies both domestically and on imports and exports. As these controls have been withdrawn, piece by piece, the Canadian price structure has become more and more exposed to these external influences.

There has been a good deal of discussion in this country as to the effects of overseas credits and assistance on your price level. We, too, have had this problem. In a speech in this city two weeks ago our Ambassador to Washington gave a few figures. He told his audience that since the end of the war Canada has extended post-war credits to Western Europe in amounts in excess of \$1,750,000,000. This may not sound large to a country accustomed to do most of its national accounting in billions. But we in Canada have only one-twelfth of your population, and about one-eighteenth of your national income. The United States in this same period has extended about \$9 billions in overseas credits. Had your country made its credits on our per capita basis your total would have been \$21 billions; had you done it in proportion to our respective national incomes your total would have been over \$30 billions. I have repeated our Ambassador's figures for the sole purpose of suggesting that if your credits have influenced your price structure, our European credits have imposed upon our economy an even greater strain.

May I conclude by repeating that we in Canada have been and are going through much the same price cycle as you are, but hitherto at least, on a much less exaggerated scale. This moderation of our price rise has been due in very large part to a more cautious and flexible decontrol policy which has been spread over a much longer period of time.

We are having our troubles and our difficulties. Like almost all your customers we are short of American dollars, and we are having to cut our import cost according to the cloth of our dollar resources. We are nevertheless, enjoying a standard of living that is considerably above our pre-war standards, and among the nations it is second only to yours. Our prices are quite a bit higher than they were a year ago, but they are lower than in almost any other country.

If some of you should make a return visit to Canada as fraternal delegates to our Canadian Conference of Mayors, I think you will find us a friendly country, different but not too different from your own, where prices are reasonable, and where the standards of integrity and efficiency in both business and government are high.

We sometimes hear ourselves described as a quieter and less volatile people than yourselves. I think that may be true. We are a bit more conservative; we swing less violently from optimism to pessimism and back again; we don't easily get quite so excited about passing events. There is much that we can learn from you, and perhaps there are a few things, here and there, that you can learn from us. In any event we are, both of us, good neighbours, and like you we enjoy exchanging ideas as well as goods.

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