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First Session—Twenty-seventh Parliament

1966-67

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 32

TUESDAY, JANUARY 31, 1967

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Dr. Otto Thür, Department of Economics, University of Montreal.

Dr. Walton Anderson, Agricultural Economics Research Council of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25600—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,	Inman,	Thorvaldson,
Cook,	McDonald (*Moosomin*),	Urquhart,
Croll,	McGrand,	Vaillancourt—(12)
Hastings,	O'Leary (*Antigonish-Guysborough*),	
Hollett,		

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,	Horner (*Acadia*),	McLelland,
Andras,	Irvine,	O'Keefe,
Basford,	Lamontagne,	Olson,
Cashin,	Leblanc (*Laurier*),	Otto,
Choquette,	Lefebvre,	Ryan,
Clancy	MacInnis, Mrs.	Saltsman,
Code,	Mandziuk,	Smith,
Crossman,	McCutcheon,	Whelan—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and rpeort upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract from the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

25600—1½

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(For text see Interim Report in Committee Proceedings No. 27.)

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(*For text see Interim Report in Committee Proceedings No. 27.*)

J. F. MACNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, January 31, 1967.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, Code, Lefebvre, Mrs. MacInnis, O'Keefe, Olson and Smith—9.

In attendance: Dr. R. Warren James, Special Assistant.

Dr. Otto Thür, Department of Economics, University of Montreal, was heard.

At 11.50 a.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: *For the Senate*: The Honourable Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, Leblanc (*Laurier*), Mrs. MacInnis, McCutcheon, McLelland, O'Keefe, Olson and Whelan—11.

Dr. Walton Anderson, Agricultural Economics Research Council of Canada, was heard.

At 5.20 p.m. the Committee adjourned until Thursday next, February 2nd, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

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For the House of Commons: Messrs. Allmand, Basford (Joint Chairman), Boulanger, Leblanc (Laurier), Mrs. MacInnis, McCutcheon, McLellland, O'Keefe, Olson and Whelan—11.

Dr. Wilton Anderson, Agricultural Economics Research Council of Canada, was heard.

At 5.30 p.m. the Committee adjourned until Thursday next, February 2nd, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, January 31, 1967

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: We have a quorum. This morning we have with us Professor Otto Edouard Thür. Professor Thür began his university career in Hungary in 1947 and studied there until he left the country in 1949. Later the same year he entered the University of Louvain where he received his commerce degree in 1952 and his licentiate in economics in 1954.

While still in Europe and after coming to Canada in 1959, Professor Thür benefited from a wealth of experience in the socio-economic field. He was research director for six years at the Louvain Institute of Economic and Social Research. In 1959, he completed a study for Henry Spaak, the Secretary General of NATO, on the subject of price stabilization of international raw materials. In 1960, he did a study of Quebec's hospital insurance plan.

Among numerous other publications, he was instrumental in 1963 for the issue by the University of Montreal of a monthly journal, called the *Canadian Economic Outlook*. Besides, he has headed several economic research projects, some of which were undertaken for the Province of Quebec.

Professor Thür's teaching career has taken him through the universities of Louvain, Luxembourg, Laval and Montreal, where at present he is professor in economics.

Besides teaching, Professor Thür is presently preparing three special studies for publication, one of which dealing with the economy of Quebec, is being done in collaboration with Madame Thür.

Professor Thür has not a brief prepared, but he will speak from notes, and will first cover the price cost relations and administered prices. He will then deal with monetary and fiscal policy versus income policy, so you will be obliged to make notes as we go along.

Professeur Otto Thür, professeur d'economie politique, Université de Montréal:

Je vous remercie, monsieur le président. Je dois dire que c'est un grand honneur de pouvoir déposer ici aujourd'hui. Je vais tâcher de faire, d'abord, un bref commentaire sur un rapport, celui du Conseil économique du Canada, un rapport difficilement attaquable parce que, comme toujours, ce rapport est merveilleux, équilibré, parfaitement proportionné. Il n'y a aucun élément d'exagéré, ce qui est toujours la force du Conseil économique du Canada.

Mes commentaires seront faits sur deux sujets spécifiques. Le premier est le problème coût et prix. Je crois que le nombre de détails qui sont contenus aujourd'hui dans le rapport est peut-être un peu trop élevé. En effet, ce que je

voudrais dire par là, c'est que la fameuse distinction que nous faisons entre petite inflation, les nombreux types d'inflation, et dans lesquels nous retrouvons deux grands groupes qui sont les inflations du type «demand-pull», posées par la demande. Alors que la seconde catégorie les «cost-push», que ces distinctions en soi, bien que les économistes les utilisaient pendant bien longtemps pour dire quelle était la cause à l'effet, je crois qu'elle a très peu de valeur en soi, dans le sens que si vous prenez l'augmentation des prix d'une part, et l'augmentation des salaires de l'autre; vous inscrivez l'augmentation des prix = poule, que l'augmentation des salaires = œuf, et vous retrouvez tout le problème. On ne sait pas quelle est la raison, je crois, parce que, en fait, c'est parfaitement interdépendant. Alors, suivant que vous choisissiez une année de base, vous aurez l'impression que c'est plutôt par la demande qu'une augmentation des prix est intervenue: si vous choisissez, par contre, une autre base, et que vous vous reportez par rapport à cette autre année de base, dans ce cas-là, vous aurez l'impression que c'est à cause des salaires que l'augmentation des prix a eu lieu. Je crois fondamentalement que l'aspect de la pleine augmentation des prix et des salaires est secondaire. La chose importante est de savoir de quelle façon cela arrive.

Je crois que, pour bien saisir les augmentations, et surtout la récurrence périodique des augmentations, il faut accepter une vision fluctuante de l'économie, de ce qu'on appelle, en fait, la conjoncture; ce qu'on appelle, en anglais, en fait, le «business cycle». Ce «business cycle» est une expression beaucoup trop précise pour dire le mouvement que nous connaissons en économie. En effet, ce cycle n'est pas du tout un mouvement absolu. Cela veut dire que cela peut se traduire parfaitement par une augmentation de la croissance et une diminution de la croissance, mais tout en restant une croissance positive. Donc, nous avons un phénomène d'une certaine fluctuation, mais qui se développe à base de mécanismes spécifiques, et je crois que l'essentiel des prix est de les relier à ces mécanismes une fois qu'il y a augmentation.

En effet, quelle que soit la raison, le premier pas d'une expansion au Canada, c'est bien, il me semble, que le Conseil économique du Canada ne se fasse pas d'illusions. Généralement, cette poussée qui fait produire l'expansion, elle le fait par l'exportation vers les États-Unis. Maintenant, dès que ce premier pas a été donné, il y a immédiatement augmentation de revenus. Alors, l'augmentation de revenus va provoquer un effet du type multiplicateur, que l'on considère un mécanisme multiplicateur, c'est-à-dire la dépendance entre l'un et l'autre.

Évidemment, une première dépendance, quand elle est distribuée à travers le pays, a des effets plus que proportionnels, ce qui veut dire que l'accroissement de la dépendance se multiplie dans le temps et, après avoir épuisé la capacité de la production qui existe dans le pays elle déclenche un second phénomène que nous appelons accélérateur. Dès que l'accélérateur entre en fonction, et l'accélérateur n'est rien d'autre qu'une réponse des investissements à des demandes. Cette accélération va produire, évidemment, de nouveaux effets multiplicateurs, parce que toute dépendance des investissements sera de nouveau un revenu, ce qui veut dire que notre système économique est basé sur un niveau de plein emploi, que ce soit dans les capacités de production, ou bien que ce soit dans les facteurs de production.

Maintenant, lorsque nous approchons le plein emploi, une économie rencontre une série de plafonds, et ces plafonds ne sont pas nécessairement uniques pour tous les secteurs. Il n'y a pas seulement un plafond. Il y a autant de plafonds possibles qu'il y a de secteurs. Donc, chaque fois qu'un secteur arrive à la pleine réalisation de ses capacités, on peut dire que l'on a atteint un plafond, ou un terme, et qu'il y a un certain manque d'affaires par rapport à la demande. Maintenant, chaque fois qu'un secteur arrive à ce plafond, donc, en touchant le plafond, la possibilité d'adaptation quantitative dépend des matériaux nécessai-

res, et, ce qui reste, c'est seulement la possibilité de l'augmentation des prix. Maintenant, dès qu'une augmentation des prix se produit, généralement notre système économique est aujourd'hui un système qui peut-être caractérisée par des prix administrés, ce que—il y a toute une littérature sur ces «administered prices»—et qui veut dire, en fait, une chose très simple, qui est une pratique industrielle et commerciale, aujourd'hui, en fait, suivant le Professeur Andrews d'Oxford, c'est une pratique qui a été connue depuis fort longtemps, sauf que l'on ne sait pas rendu compte tout à fait en temps de l'impact sur le nombre de secteurs dans lesquels quelques entreprises auraient dominé la situation, étant moins prononcée qu'elle ne l'est aujourd'hui. Bien, le principe des prix administrés, c'est en fait le principe du coût total. En fait, c'est une utilisation de ce qu'on appelle «full cost pricing». «Full cost pricing» veut dire que l'entreprise essaie de couvrir tous ces coûts en y ajoutant ensuite une marge bénéficiaire qui est considérée comme normale dans le secteur. Ces marges bénéficiaires, évidemment, sont différentes, comme dans tous les autres pays, d'un secteur à l'autre.

Maintenant, le problème est le suivant: c'est que, lorsque le moindre coût augmente, que ce soit à cause du prix des matières premières que l'on utilise, ou bien qu'il y ait augmentation du coût parce que certaines catégories de travailleurs augmentent le salaire, or, chaque fois, nous sommes dans une phase d'évolution; cela veut dire tout simplement qu'un certain nombre de gens qui ont une qualification spéciale, eh! bien, deviennent de moins en moins disponibles, ce qui veut dire que, si on désire les avoir, on procède à une opération de prendre ces gens-là où ils se trouvent, ce qui nous amène, en fait, à une situation de «wage drifts». Ce fameux «wage drift», c'est en fait un paiement qui n'est pas du tout fonctionnel; c'est en fait une sorte de sursalaire, un surplus qui accompagne tout notre système dès qu'il approche du plein emploi. Maintenant, utilisant donc notre «cost pricing», évidemment, dès qu'un élément de coût augmente, son effet immédiat, ne change pas ses prix, mais son taux de profit a diminué et, dès que son taux de profit diminue, il y a une indication que l'on ne peut pas retrouver la situation précédente, et qu'il faudrait recourir à l'augmentation des prix. Quand cette augmentation aura lieu de façon précise, ça dépendra, avant tout, de la position de l'entreprise la plus forte dans les secteurs. En effet, la décision est prise finalement par le plus important qui est, lui, le «price leader»; les autres s'adaptent. Ceci ne veut pas dire, comme on a peut-être vu dans des expériences récentes, que le «price leader» sera celui qui fera le premier pas; ce qui veut dire que ce sera une entreprise moins importante qui fera l'essai et sera le «price leader»,—quand il aura vu la réaction des marchands, du Gouvernement, des autorités publiques, devant cette augmentation. Ceci étant, je crois qu'une augmentation des prix, dans des conditions, disons, conjecturées et spécifiques, dans lesquelles le Canada se trouve, cette augmentation est restée encore relativement modérée.

Notre problème, et ce que le rapport du Conseil économique regrette aussi, c'est que, dans l'ancien temps, disons il y a 15, 30, 50 ans, c'est celui où la conjoncture avait des effets de hausse et de baisse sur les prix—ce que nous n'avons plus, à travers un service de prix administrés; il n'y a plus de baisse, mais des hausses, plus ou moins variées. C'est-à-dire, quand nous avons des hausses de 1 ou 2 p. 100, nous considérons cela relativement normal; quand nous avons 4 ou 5 p. 100 d'augmentation, nous commençons à nous inquiéter. Mais, à aucun moment dans l'après-guerre, au Canada, il n'y avait de baisse de prix, comme telle. Ces baisses de prix sont évidemment exclues, à cause de cette application d'une politique des prix de la part des entreprises et, ensuite, à cause de tout le système de négociations salariales que nous avons. C'est que, notre système de négociations salariales est un système dans lequel on interdit la rigidité dans le système. Nous avons des conventions-types, pour un, deux ou

trois ans, et on prévoit des augmentations—et ces augmentations produiront un effet, par ailleurs, sur la situation de l'emploi.

Maintenant, ces augmentations de salaires, évidemment, comme d'ailleurs les prix, ont une tendance à se généraliser; d'où vient cette généralisation? C'est que les salaires ne sont pas uniquement du type économique; les salaires ont, en effet, une dimension sociologique et, du point de vue sociologique, dans les salaires, il y a une partie fondamentale, ce qui veut dire qu'il y a différentes courbes de salaire. Ce qu'ils tâchent de défendre le plus, c'est leur position relative, par rapport à d'autres travailleurs. Donc, chaque fois qu'il y a pression dans un domaine, il faut nécessairement que d'autres, qui ne voudraient pas avoir un pouvoir d'achat amoindri—ils tâchent de suivre, et d'autres tâchent de laisser cette différentiation des salaires qui est la nôtre, dans tout le système économique. Ceci, évidemment, introduit des augmentations qui sont absolument irréversibles, et elles seront d'autant plus fortes, quand on sait le nombre de secteurs dans lesquels l'augmentation de productivité est difficile à obtenir et devient de plus en plus grand. Je crois que c'est une des choses qu'il faudrait envisager, et que le Canada étant un pays extrêmement évolué du point de vue économique; c'est un des grands pays développés.

Ça se présente sous quelle forme? C'est que nous avons une industrie primaire qui est assez importante en tant que valeur de production mais qui, en nombre d'emplois ne représente pas un très grand nombre de personnes.

Nous avons une industrie secondaire qui se développe, mais qui, cependant, elle-même ne représente pas encore un très grand nombre de personnes. Ce qui veut dire que nous avons une population qui a tendance à se déverser dans le secteur tertiaire, c'est-à-dire dans tous les services possibles. Dans la productivité, dans les services, ces choses sont très difficiles et pratiquement inconnues, comme mesures. Ce qui veut dire, disons, que nous avons un certain nombre d'augmentations où la productivité pourrait être mesurée.

Admettons que dans la sidérurgie elle peut être mesurée, mais, dès que cette augmentation est en mieux, c'est que d'autres secteurs entrent en jeu. Nous avons un changement dans les rapports des revenus de ceux qui sont dans l'industrie manufacturière, et ceux qui sont dans les services, et, donc, un ajustement par les prix de ceux qui sont dans les services, par exemple pour ajuster leurs revenus.

Ils peuvent avoir un certain avantage, mais sa productivité ne change pas de façon spectaculaire; ça reste à peu près la même chose. Alors il va rénover son revenu en faisant une chose très simple—en augmentant son prix.

Alors, il y aura une augmentation irréversible et je crains qu'elle devienne d'autant plus forte que le secteur des services devient plus fort. Aujourd'hui, ils représentent une demie de la population et dans une dizaine d'années ils représenteront peut-être 75 p. 100. Ceci pose évidemment le problème de quelle façon? Est-ce qu'on peut lutter contre ce genre de chose?

Je crois qu'au Canada il y aura un certain nombre de prises de position très nettes à ce sujet, suivant le côté où on se trouve, dans notre système économique, et pour tout le monde, ça correspond très bien à ces intérêts, disons, dans la prise de position, qu'on ne voit pas de quelle façon un contrôle de prix peut être efficacement installé. Je crois qu'un contrôle a une importance, et c'est extrêmement efficace s'il est appliqué pour une période très courte; mais, toutes mesures d'une restriction de ce genre s'émoussent avec le temps; donc, son effet devient de plus en plus faible, et ça devient un très grand désavantage; c'est que, lorsqu'on intervient sur un certain nombre de prix, le trouble qui se fait à chaque fois, c'est d'agir sur les symptômes, sans agir sur les causes; on essaie d'éviter que les prix montent dans un secteur donné, car on croit que c'est

important pour le coût de la vie; on tâche de freiner là, et on laisse le reste. Ce qui veut dire qu'on fait un déséquilibre—et la chose principale à saisir, dans les interventions économiques, c'est que, quelle que soit notre intervention, elle touche nécessairement, en fait, l'ensemble; ce qui veut dire que les sytèmes sont parfaitement interdépendants; lorsque nous touchons les prix, nous créons un déséquilibre ailleurs; nous corrigeons un deuxième point et nous en créons un troisième.

On en a un exemple magnifique, en ce qu'on a le marché, au Canada, sur le contrôle du lait. Le Gouvernement fédéral intervient sur ce programme différent. On a commencé avec le lait, ensuite le beurre, les importations, les exportations et, donc, on déplace les équilibres. Alors, disons que les pressions au sujet du contrôle des prix sont fondamentalement inefficaces. Le problème est celui de faire, contre ça, une politique économique dans laquelle on pourrait éviter notre mécanisme d'accélération et de multiplication, produisant un total de croissance d'un autre ordre. Il ne faut pas se faire beaucoup d'illusions; le Canada étant un pays extrêmement ouvert, il ne contrôle pas nécessairement l'ensemble de l'évolution de certaines autres croissances qui sont souvent dictées par le taux de croissance, tel qu'il a été obtenu aux États-Unis. Alors, je crois que, cependant, même si ce problème est difficile, il faudrait lentement y arriver, et peut-être, sur ce plan, disons, je suis, en partie, les propositions du Conseil économique du Canada et, en partie, je ne les suis pas. Ceci rentre dans le second problème de ce que j'aimerais développer, d'une part, la politique des prix, enfin, pardon, excusez-moi, la politique monétaire et la politique fiscale, et d'autre part, la politique de revenu.

Du point de vue de la politique de revenu, le Conseil économique du Canada a pris une position excessivement réaliste, c'est-à-dire que la politique de revenu n'est un succès, aujourd'hui, nulle part. Donc, ce n'est pas une solution pour le Canada dans le proche avenir. Je crois que le Conseil économique du Canada a parfaitement raison, car ce n'est pas une chose que l'on puisse improviser d'un jour à l'autre et qui va donner suite à des résultats immédiatement. En effet, une politique de revenu présuppose beaucoup de choses, notamment, un certain type d'organisations syndicales, un certain type d'organisations patronales en même temps qu'un certain type de relations ouvrières, et aussi, disons, une étude gouvernementale qui est peut-être très différente de ce que nous avons, en fait, dans les pays nord-américains.

Ce que j'aimerais simplement souligner c'est que, bien que la politique de revenu ne puisse pas être réalisée au Canada dans un proche avenir, il faudrait, cependant, penser—et je crois que c'est le Conseil économique du Canada lui-même qui devrait y penser—vers quoi l'on s'en va dans ce domaine? Parce que nous nous rendons tout de même compte aujourd'hui qu'il faudra que l'on arrive à un peu plus de contrôle, à un peu plus de cohésion, car l'on ne pourra pas continuer, disons, avec notre système de législation. Je trouve que, actuellement, c'est très bien de dire que nous sommes habitués à ce que nos décisions se fassent par petites unités autonomes. C'est prouvé que, lorsqu'un problème, disons, du point de vue de l'économie nationale, n'est pas énorme, mais lorsque ces petits groupes autonomes représentent les débardeurs d'un port comme Montréal, cela pose un problème énorme, peut-être, pour toute l'économie d'un pays. Mais, lorsque dans un secteur on a une grève de quelques semaines, c'est ça le drame, puisqu'il y a des grèves beaucoup trop longues. Une grève de 24 heures, ce n'est pas mauvais, mais une grève qui dure 6 semaines, ou 2 mois, cela devient dangereux.

Donc, il faudra chercher une politique de revenu, d'ici 25 ou 30 ans, qui sera exactement le genre d'organisation que nous aurons; une politique de revenu où les partenaires se mettront d'accord, mais ce sera une politique de revenu en

bonne et due forme. Je crois que le Conseil devra garder son intérêt pour ces problèmes. Je crois que nous devons y arriver un jour, et que nous y arriverons, en fait, disons dans une période fixe, ou d'ici 15 ans. Il faudrait tout de même savoir ce que l'on voudrait faire. Alors, 15 ans, ce n'est pas long.

Maintenant, en ce qui concerne une politique monétaire, une politique fiscale. Nous nous sommes donc, mis d'accord auparavant que, aujourd'hui, notre mécanisme d'accélération multiplicateur tâche de les freiner à travers des politiques de prix, pardon, de politique monétaire et de politique fiscale. Pour être certain que nos politiques monétaire et fiscale sont efficaces,—et on n'est jamais tout à fait sûr, parce que l'on ne sait pas les réactions d'une économie à un moment donné,—on a l'impression que c'est ce que nous faisons en mettant un frein suffisamment pressant pour produire le résultat. Alors, si le frein est suffisamment pressant, cela veut dire, évidemment, qu'il exclut nos mécanismes multiplicateurs et accélérateurs. Mais, en les excluant, nous obtenons, en fait, soit un arrêt, soit une baisse, ce qui veut dire qu'il est difficile de voir de quelle façon, avec une politique monétaire, et même une politique fiscale, on pourra aller beaucoup plus loin. Ce que nous connaissons, c'est le «stop and go». Donc chaque fois qu'il y aura un accroissement plus important des salaires, l'on prendra des mesures fluctuantes, la «expansion oriented». Evidemment, «expansion oriented», cela veut dire une productivité continue. Le chômage s'accroît et là on se dit, évidemment, qu'il n'y a plus de raison de garder les freins sur la productivité d'expansion. Il faut éviter ce genre de difficultés qui, aujourd'hui, pour le Canada, ne posent pas de problème.

En ce qui concerne les prévisions à courts termes, parce que tout le problème est pour une politique de revenu, soit une politique fiscale ou monétaire, cela suppose, en fait, une image relativement claire de ce qui se passe dans notre système économique. Or, ce qui est difficile, au point de vue économique, c'est que, avec les renseignements que nous avons à notre disposition nous faisons, en fait, une prévision de la journée même dont nous nous trouvons; cela veut dire que l'on ne fait pas de prévision comme telle, on fait de la prévision du présent. C'est que nos données ont 3, 4 mois de retard. Nous n'avons de renseignements que pour cette période. Nous tâchons donc de prévoir ce qui se passe aujourd'hui et ce qui va se passer demain. L'effet d'une politique à court terme risque donc de subir certains retards nécessaires. Nous ne sommes pas suffisamment efficaces au point de vue de politique économique. C'est que nous nous rendons compte des choses avec un certain retard. Alors, on pense de prendre les mesures pour contrecarrer les forces en présence. Finalement, on décide sur les politiques et ensuite on commence à réaliser facilement que l'addition de ces retards atteint 9, 10, et même 12 mois.

J'aimerais utiliser un simple exemple d'une expérience très récente au Canada, et c'est la question de savoir ce que serait exactement l'année 1966. Bien, à la fin de l'année 1966, tout le monde était parfaitement d'accord que le maintien, cela veut dire en prix, au mois de décembre, au mois de novembre en partie, que le maintien de l'économie canadienne va vers une expansion plus lente que précédemment, et ça, c'était un diagnostic fait avec beaucoup trop de retard. Il aurait dû être fait beaucoup plus tôt. Moi-même, j'ai fait, dans ma revue du mois de février, parce que, au mois de février, il m'apparaissait à moi-même que la croissance économique du Canada, donc, le taux d'expansion, serait plus élevé, et il l'a été d'autant. Et que, après cela, viendrait une diminution de ce taux. Mais, il se pose, évidemment, un autre problème, celui d'un budget supplémentaire. Si ce problème avait été réglé à la fin du printemps, plutôt qu'à la fin de l'automne, je crois qu'une certaine chose aurait été empêchée partiellement. Mais, ceci n'est pas important. Ceci démontre simplement que, même si nous avions des méthodes, disons, que je tâche de mettre à point, il y a moyen de se rendre compte où est cette tension afin d'en prendre connais-

sance. Alors, les gens prennent conscience de ce qui se passe et, dès qu'il y a évidence que ces choses se produisent, c'est un peu trop tard.

Je crois donc, que, sur le plan d'une politique monétaire, d'une—politique fiscale, je serais beaucoup moins optimiste sur cette possibilité, à travers ces deux politiques, d'obtenir, disons, une croissance parfaitement stable sans aucune fluctuation, parce que, normalement, nous devons appliquer des mesures plus fortes que la raison, que les causes. Alors, nous appliquons des politiques plus fortes. Évidemment, nous posons toujours le mécanisme de plus d'expansion.

Je crois que c'est à peu près l'essentiel de ce que je voulais dire. Mais, je voudrais, encore, avec une longue expérience de la politique à court terme, faire une remarque sur un sujet débattu dans le rapport du Conseil économique du Canada, et qui a été débattu, en fait, au colloque de Toronto, à savoir qui devrait faire—et c'est un programme en trois points, je crois,—au Conseil économique du Canada, qui devrait faire le travail d'analyse à court terme et exiger des politiques gouvernementales, ou est-ce que c'est mieux que ce soit une chose absolument externe, parfaitement indépendante, qui donne une opinion à laisser ou à prendre.

Je crois qu'il est excessivement difficile d'un institut gouvernemental, donc, le Conseil économique du Canada, qui est conçu d'une certaine façon, cela veut dire où on a tenu compte de la représentation, on a mis un certain membre parce qu'il représente différents milieux, différents centres d'intérêt, et c'est excessivement difficile, avec un groupe semblable, d'arriver à une conclusion qui soit une conclusion, disons, qui signifie une chose très précise. Le problème est, lorsqu'il y a 25 personnes qui doivent signer une déclaration, c'est toujours plus long, parce qu'il s'agit d'une politique déterminée, dans l'immédiat. Si vous demandez à un groupe de 25 personnes de signer un document de ce genre, eh! bien, on va éplucher le texte aussi longtemps qu'il ne restera plus rien d'intéressant, et ce sera donc un texte parfaitement nul qui ne se prononce sur rien. Nous avons l'habitude, en temps différents, dans cette conjecture, de faire des déclarations de ce genre. En fait, en Europe, dans les pays de la communauté économique, eh! bien, lorsque les différents instituts allemand, français, italien, belge, néerlandais, lorsqu'ils se sont mis d'accord, ils se sont mis d'accord sur un texte qui ne voulait rien dire du tout, et qui ne prenait aucune position, parce que, effectivement, si vous prenez une responsabilité, il faut la prendre seul. Ce qui veut dire qu'un homme libre peut prendre des responsabilités sans engager ses responsabilités à lui, et, quand chacun, avec ses intérêts à défendre, émet un certain nombre de points de vue, ceci ne s'applique pas ici, ceci ne s'applique pas là, etc.

Donc, je crois que le Conseil économique du Canada, sur ce plan, a parfaitement raison, et disons qu'il faudrait que ce soit un organisme indépendant qui ferait ce genre de travail et qui se rapporterait, soit au Conseil des ministres, à un comité parlementaire, peu importe le canal. Disons donc, que je crois qu'il est important, dans ce genre de prévisions, qu'elles se fassent d'une façon très ménagée, par des gens qui n'ont absolument aucun intérêt, ni d'un côté, ni de l'autre, c'est-à-dire, qu'il ne soit engagé, ni du côté patronal, ni du côté syndical,—il y a le fait même qu'on évolue, et j'admets que les personnes doivent obtenir une marge d'objectivité. Quand on évolue dans un milieu déterminé, on ne se rend pas compte d'un certain nombre de réalités, car ce n'est pas le problème qu'on discute dans le milieu même.

Ceci étant, je vous remercie de votre attention. Je crois que peut-être j'ai parlé un peu trop longtemps, car il est peut-être plus important que je réponde à des questions précises, et que je donne des explications à un certain nombre de problèmes. Je vous remercie beaucoup.

Senator CARTER: Mr. Chairman, I want to say how much I have enjoyed this very interesting talk that we have just been given. I was getting it second-hand through the translation system, and it is possible I might not have quite got the full meaning of what was said, so I would like to phrase my questions in a way to ascertain if I did get the correct interpretation.

Did I understand you to say, sir, that in a few years the economy of Canada will reach a point where regulation by stop-and-go methods will no longer be feasible?

Dr. THÜR: It is feasible, and it is done today, because we have no choices to make than this stop-and-go. But the problem is the question of logic in our expansion. Is it so normal to pay this price of stop-and-go because this is a loss? Every time you have a stop it is a loss of social efficiency. It is not easy, but I am not sure it cannot perhaps be voluntary in the future. I think perhaps it is easier to do so with an incomes policy. I do not know how it could be done today. It is extremely complicated as a subject matter, and I think perhaps a logical system by incomes policy should be certainly easier than it is with fiscal and monetary policy, because we have kinds of measures which are sometimes and very often, too strong to meet the problems.

Senator CARTER: You emphasized that monetary and fiscal policy depended on timing.

Dr. THÜR: Yes.

Senator CARTER: And it was very difficult to determine the exact point of time when this should be applied if the maximum effect is to be attained; and I gather you are pessimistic about their ability as a measure.

Dr. THÜR: It can be improved, but it is very risky to do so.

Senator CARTER: What would you substitute?

Dr. THÜR: We accept today we have some delays in these measures, and really we have six months, nine months or perhaps one year delay. That is our problem, that we discuss the problems, and it is too late. The de-taxation in Canada in 1965 is an excellent example. It was just the wrong thing to do in 1965.

Senator CARTER: You started out your talk about the causes of inflation and the question of demand-pull and cost-push. It sounded very much to me like the argument about the chicken and the egg, which came first.

Dr. THÜR: Yes.

Senator CARTER: Depending which base you take, the chicken could come first, or the egg could come first, and depending on the business cycle in that particular year.

Dr. THÜR: It is not very important to know whether it is a demand-pull or a cost-push, because it is always one of the two.

Senator CARTER: What about inflation due to factors outside of Canada?

Dr. THÜR: It is a real fact in Canada, and I think it is very difficult to avoid this problem, because we are not sufficiently informed compared to the United States. There are economic situations in our economy which are derived from the effects of the United States. As the Economic Council pointed out, our fluctuations are just something stronger than they are in the United States. So, I think on this subject the Canadian economy is dominated by the problem of the structure activity, where we have too much industry working for export to the United States and too much importation from the United States.

Senator CARTER: You did not give us very much hope that prices would ever come down. You said productivity gains take place mostly in the manufacturing and service industries, and that pushes up prices and salaries, and that causes other sectors to push for increases where there is no productivity, and the sociological results are that they must have the standard of living. Why cannot productivity gains be passed on the consumer without injuring the standard of living?

Dr. THÜR: It is very difficult to do so because it is a question of accounting practices. In an enterprise, if you have a price increase, the first effect will be a decrease in profits. It will be a decrease of all the inventories; the real value of the inventories will be decreasing. So, there will be all these losses, and all these losses together will have a terrific effect on new investment. So, it is the way to prepare, perhaps, for a major depression.

The last real attempt to deal with the problem was in continental Europe in the thirties. The French, or the gold bloc, tried to down prices. England tried it 10 years before, in the twenties, and then continental Europe in the thirties.

Senator CARTER: It is mainly because of our system of accounting, is it?

Dr. THÜR: Our system of decision depends on our system of accounting.

Senator CARTER: Do you say the means are more important than the ends?

Dr. THÜR: No, not at all, but we cannot realize the ends with the means we have today. In another kind of system, where accounting has no big importance —take a very centralized socialistic system—it is a very different kind of decision; they can do with prices what they want. This is the price we pay for our system.

Senator CARTER: Maybe the system is not worth the price, if we are not getting the benefit from it?

Dr. THÜR: I do not know if there is no benefit at all. It was the position of Professor Flichter from Harvard that mild inflation is perhaps the price to pay for expansion.

Senator CARTER: I do not think anybody would quarrel too much with that.

I have numerous questions to ask, but other people want a chance, so I will wind up with this one.

Did I understand you to say that we are reaching a point where labour should no longer bargain in small units?

Dr. THÜR: I think it is a question of the logic of our system, that we cannot pay the price of these very centralized discussions because our possibilities of information are big today. All the newspapers, radio and television always give the results of these discussions. It was perhaps unimportant 30 years ago, and all these local discussion had a local colour, but today they have always a national colour and we have to accept they have. There is the problem of the teachers and other groups. There is a certain solidarity between the income categories throughout Canada.

Senator CARTER: Do you advocate the system used in Switzerland, say, where management as a whole bargains with labour as a whole?

Dr. THÜR: Yes.

Senator CARTER: Do you think it is feasible in Canada?

Dr. THÜR: Yes—Well, certainly not today, because we have no organization for this.

M. LEFEBVRE: Merci, monsieur le président. Je veux premièrement féliciter le conférencier pour les grandes connaissances qu'il a démontrées dans son exposé, ce matin. J'aimerais poser quelques questions, d'une façon générale, parce qu'il y a certains arguments dans votre exposé où j'étais perdu.

Premièrement, est-ce que les salaires augmentent, après que les prix ont subi une hausse, ou croyez-vous que c'est le contraire?

Dr THÜR: Le point, c'est le point de la poule et de l'œuf; ça dépend où vous regardez, et à quel moment vous regardez. Il y a l'année de base que vous choisirez, et il vous paraîtra que les salaires augmentent parce que les prix augmentent. Si vous choisissez une autre base, il paraîtra que les prix augmentent parce que les salaires ont augmenté; les deux choses vont ensemble, et il se produit une chose, par l'expansion, vous arrivez près du plafond, de plus en plus, dans le secteur; alors, vous avez élevé le prix et le salaire, et vous savez, en fait, comment ça se passe.

M. LEFEBVRE: Mais pour dire où ça commence...

Dr THÜR: Ce n'est pas possible. Je crois qu'on perd du temps à vouloir chercher la cause exacte, parce qu'il y a des faux chemins vis-à-vis le système économique, comme un lien de causalité; ce n'est pas ça, c'est parfaitement indépendant, que chacun agit dans tous les sens. C'est pour ça que je crois qu'on perd son temps à vouloir chercher la cause exacte.

M. LEFEBVRE: Vous dites aussi que notre système économique ne pourrait pas prendre le plein emploi, que ceci dépend, premièrement, de la situation aux États-Unis. D'après votre expérience, en général, qui a la meilleure chance de joindre les deux bouts,—le Canadien ou l'Américain?

Dr THÜR: Je n'ai pas saisi, quant à rejoindre les deux bouts.

M. LEFEBVRE: C'est-à-dire, un homme de métier, au Canada?

Dr THÜR: Du point de vue augmentation de salaire?

M. LEFEBVRE: Oui; c'est-à-dire, de rejoindre les deux bouts, qu'il ne dépense pas plus qu'il gagne, en salaire; il arrive souvent au Canada que des travailleurs dépensent plus que ce qu'ils gagnent?

Dr THÜR: Aux États-Unis, il y en a probablement autant dans le sens que ce serait une question de système spécifique, dans lequel nous sommes installés. Disons, dans d'autres pays, on a peut-être moins cette question, comme vous avez, par exemple, des systèmes du type anglais, dans lequel on dit,—et je crois que la mesure a beaucoup d'importance,—on dit que pour acheter à crédit, il y a un minimum de paiements, mais variables—et la Banque d'Angleterre, ou la Banque de Belgique, ou d'autres banques centrales, peuvent décider quelle sera la partie que l'acheteur devra payer, et il ne peut y avoir de prix à la consommation, comme pour le reste,—ce qui permet de jouer sur le multiplicateur, de façon beaucoup plus efficace.

Quand vous avez une pression pour certains biens, ce que vous tâchez de faire, c'est de diminuer la pression, parce que vous augmentez, et vous dites: la voiture, vous pouvez l'acheter autant que vous voulez, mais on peut avoir du crédit pour 60 p. 100 de la voiture, et non pas 90 p. 100. C'est donc un changement, suivant la position, on change les pourcentages. Mais, c'est difficile de passer à un système pareil quand on est pris dans cela des dizaines d'années, dans l'autre système, où il laissait parfaitement libre et, là, les gens sont engagés. Si nous voulions faire un remous avec le système, il y aurait quelques années très difficiles à passer.

M. LEFEBVRE: Il y aurait peut-être une crise économique?

Dr THÜR: Exactement, oui.

M. LEFEBVRE: Vous dites aussi que, probablement, qu'il n'y a plus la baisse des prix, mais seulement la hausse. Comment peut-on s'attendre à une baisse des prix dans une période de plein emploi?

Dr THÜR: Il n'y a pas moyen. Je crois qu'il faut fondamentalement accepter une augmentation légère des prix. Ce que nous aimerions, c'est que les prix n'augmenteraient pas plus de 2 p. 100 par année.

Ici, je pose un problème, c'est un problème essentiellement social; il faut accepter qu'un système économique peut produire n'importe quel résultat, n'importe quel taux de croissance, si vous acceptez un taux élevé d'inflation. Si vous laissez augmenter les prix de 8 à 10 p. 100, dans l'année, vous verrez que la production va aussi augmenter autant. Vous allez dévaluer,—mais cette politique qui était celle de la France,—ils l'ont fait depuis 1945-46, jusqu'à 1958, c'était leur politique.

M. LEFEBVRE: Croyez-vous qu'on devrait avoir plus de règlements du Gouvernement pour contrôler la pression des prix?

Dr THÜR: Je ne sais pas si beaucoup de règlements...parce que je ne crois pas dans le contrôle des prix, dans son efficacité; je n'y crois pas du tout. Si vous voulez soutenir un certain contrôle. Je crois que le contrôle ne pourra se tenir qu'en contrôlant lentement ce qui entre dans les coûts, qu'est-ce qu'on accepte en tant que coûts, au niveau des prix. Ce qui veut dire, que disons, que c'est une opinion personnelle,—et je crois que, par exemple, qu'il y ait une législation très nette, par exemple, dans la publicité. La publicité coûte une fortune, aujourd'hui, c'est fondamental. Elle arrive à quoi? Vous avez un budget de publicité, vous savez que les 3/4, ou les 4/5 de ce budget ne servent qu'à se défendre contre une attaque de publicité par quelqu'un d'autre. C'est dire là, une organisation, un système énorme qui augmente les coûts d'opération sans cesse, et qui, en fait, n'est que de la dépense. Quand vous avez, dans les grandes entreprises, au niveau continental, 50 millions de dollars en budget de publicité, vous êtes sûr que 35 millions, c'est seulement pour tâcher de compenser, par exemple, chez General Motors, ce que Ford fait,—et le contraire.

M. LEFEBVRE: Croyez-vous que le consommateur paye trop cher pour la publicité?

Dr THÜR: Il la paye de toute façon; c'est-à-dire que tout ce qui a été rendu sous forme de services, ça doit être payé par quelqu'un, ce qui veut dire que ça sera indiqué dans le coût, par définition, et, encore là, il faut faire attention. Cependant, quand on a permis cette expansion extraordinaire de la publicité, on a infléchi dans la structure de l'activité, dans ce sens.

C'est exactement le même problème de discuter qu'est-ce que sont les «open accounts». C'est bien de toucher cela, mais qu'est-ce que cela veut dire, à part une série de magasins à chaîne, ou de restaurants,—ils fonctionnent avec cela; il y a peut-être trop de poussée dans ce sens-là.

M. LEFEBVRE: Vous parlez aussi d'une politique monétaire et fiscale efficace; après un accroissement de salaire, il faut apliquer les freins au coût de la vie. Pourriez-vous nous donner vos suggestions dans ce domaine-là?

Dr THÜR: C'est difficile, parce que toute intervention d'un type économique est une intervention des données, parce que la vie économique ne permet pas de voir la vie en noir et en blanc, c'est toujours une nuance de gris. Je crois que plus de discussion sur le sujet sera utile. On pourrait envisager, un jour, qu'on ait une institution parfaitement indépendante dans son opinion et, en plus, ce qu'on peut faire, comme en Allemagne, on charge quelques personnes, qu'on appelle les sages, de déposer un rapport, un rapport qui reçoive de la publicité, et on voit quelle politique doit être faite. Qu'est-ce qu'il faudrait faire, dans les 6

mois à venir? On pourrait demander à 3 ou 4 personnes d'une université, de déposer un rapport qui, d'ailleurs, peut parfois provoquer des discussions énormes. C'est ça, le but.

M. LEFEBVRE: Une dernière question. Qu'est-ce qu'une ménagère ordinaire peut faire, pour assurer qu'elle donne le meilleur rendement possible à sa famille, avec le budget à sa disposition? Je crois que c'est très important, parce que, depuis qu'on a commencé à siéger à ce comité, c'est surtout du problème des ménagères qu'on a traité, et c'est pour ça que je vous demande cette question.

Dr THÜR: Il est très normal que c'est là que le problème se pose le plus. Je n'ai pas de formule magique à ce sujet. mais disons que c'est une très longue lutte à faire, qui est une lutte d'éducation. Ce qui est important, c'est que les gens ne soient pas pris par un certain nombre de facteurs extérieurs, pour être indépendants par rapport à la publicité. Ça dépend de votre niveau d'éducation, disons, et une publicité agressive produit exactement l'effet adverse. On nous a donc pris dans ce jeu-là; ce qui veut dire qu'une personne serait relativement libre de toutes ces influences extérieures; c'est celle-là qui a une forme de rationalité. Je ne pense pas qu'on devrait présenter à des ménagères des budgets types, parce que ça change tellement d'un ménage à l'autre, que c'est pratiquement impossible de dire quelle est la bonne répartition du budget, par exemple, quand quelqu'un arrive à un niveau de 5,000 dollars.

M. LEFEBVRE: C'est surtout un problème d'éducation?

Dr THÜR: Oui, et de données dans la rationalité,—qu'on ne paye pas un cent de plus, si ça ne vaut pas la peine pour moi.

M. LEFEBVRE: Pourriez-vous nous donner votre opinion sur le système de timbres-primes, et de «cents off»?

Dr THÜR: Personnellement, je suis hostile à ces choses; je suis parfaitement hostile parce que vous donnez à des personnes des choses qu'elles n'ont jamais désirées; si elles désirent les acheter, qu'on leur laisse l'argent, et elles l'achèteront si elles le veulent. Mais, acheter des aliments pour obtenir finalement quelque chose autre, ce n'est pas normal; s'ils en ont besoin, ils l'achèteront. Le système de timbres-primes, etc., c'est tout de même un coût. Ce coût devra donc se retrouver dans le prix des produits alimentaires. C'est impossible de faire autrement, ça se retrouve. Il ne faut pas augmenter bien des choses secondaires de ce genre pour que ça rende un mauvais service aux prix.

M. LEFEBVRE: Merci, professeur.

Co-Chairman Senator CROLL: Mr. Allmand.

M. ALLMAND: Vous avez rejeté le contrôle des prix comme une solution contre l'inflation; mais vous avez dit que vous luttez plutôt contre les symptômes, plutôt que les causes?

Dr THÜR: Oui.

M. ALLMAND: Est-il possible, au Canada, que des produits, ou des services essentiels, et si nous contrôlons les prix de ces services, nous contrôlons la cause plutôt que les symptômes? Par exemple, l'acier, ou la sécurité sociale? Avez-vous étudié le «Canada Pension Plan», l'an dernier, qui a été entrepris le 1er juin 1966,—et les prix durant cette année-là?

Dr THÜR: C'est un problème que je n'aurais pas à étudier. Est-ce que le «Pension Plan» a influencé les prix, comme tels. Ce qu'il faut étudier, ça pose un problème de l'État, à savoir qu'il devrait contrôler certains prix. D'abord, quel genre de contrôle devrait être efficace? Je crois en un contrôle de législation. Il y a une loi, par exemple, qui détermine un prix de l'acier, à un certain nombre de figures; ce serait très délicat et difficile à faire. Par contre, ce qu'on pourrait

faire, à des moments dans lesquels on a des difficultés d'approvisionnement, par exemple, le secteur est arrivé à sa pleine capacité d'utilisation, dans ce cas, ce qu'on pourrait faire, ce serait de jouer plus libéralement avec les importations et les exportations,—de faire pression à travers les importations.

M. LEFEBVRE: Avez-vous étudié le contrôle des prix en Angleterre, l'année dernière,—le contrôle des prix et des salaires?

Dr THÜR: Oui.

M. LEFEBVRE: Que pensez-vous de cette façon de contrôle?

Dr THÜR: Il y a un certain nombre de vues qui peuvent être obtenues, quand vous vous retrouvez devant une situation d'urgence nationale, et que vous avez beaucoup de difficulté d'obtenir ailleurs ce que vous voulez; ce qui veut dire que, fondamentalement, la politique anglaise, si vous la regardez, en comparaison de la politique américaine, où il y a le niveau de «income policy», ce n'est pas très différent; c'est-à-dire, indirectement, c'est de donner un «guideline»,—combien il peut être supportable, par rapport à la balance des paiements; les États-Unis ont tâché de faire la même chose. En Angleterre, cela a une bonne portée, car les syndicats sont fondamentaux, c'est toute une organisation différente; c'est-à-dire, si ça nous intéresse, on essaie de se conformer à ça. Est-ce que le Gouvernement va ensuite contrôler les organisations locales, si elles acceptent le principe? Quelques messieurs, disons, sont les conseillers du «pricing», et tâchent de s'en tenir à 3 p. 100, 2 p. 100. Il y a plus de gens en Angleterre qui sont impliqués, et vous avez une expérience, dans laquelle on s'est rendu compte, et le danger est que ça serait à la dérive dans deux mois.

M. LEFEBVRE: Si je comprends bien, vous dites que la cause principale de l'augmentation des prix au Canada était la demande faite par les États-Unis?

Dr THÜR: En partie; ça dépend de quoi. Ce que je voulais dire,—que nous sommes dans une économie que j'appellerais, au sens mathématique, un dérivé de l'économie américaine.

M. LEFBVRE: Je parle de l'an dernier, la guerre au Vietnam?

Dr THÜR: Non, je n'ai pas l'impression que c'est la guerre vietnamienne qui a provoqué une hausse des prix ici.

M. LEFEBVRE: Vous ne le croyez pas?

Dr THÜR: Non. La guerre au Vietnam a une certaine importance. Mais, disons que le champ militaire aussi a une importance fondamentale sur un certain nombre de secteurs extrêmement précis et limités. Je crois que les États-Unis se sont approchés du plein emploi, et le Canada aussi, et cela a été beaucoup plus décisif que la guerre au Vietnam, qui est un pur accident.

M. LEFEBVRE: Une dernière question; je vous suggère qu'au Canada, ce serait mieux, si les négociations des salaires étaient nationales?

Dr THÜR: Oui.

M. LEFEBVRE: Oui, mais, avez-vous pensé comment est-ce qu'on peut faire. ça, au Canada, avec notre système fédéral? Nous avons dix provinces.

Dr THÜR: Oui. Malheureusement, j'ai pensé souvent....

M. LEFEBVRE: Nous avons dix provinces,—et quatre dans les Maritimes....

Dr THÜR: Disons que la description nationale,—j'envisage moins d'avoir, d'abord, un niveau gouvernemental. Ce que j'envisagerais, d'abord, c'est d'avoir des organismes responsables, du côté patronal, et du côté ouvrier qui, un moment donné,—ce que je veux dire, disons que les secteurs comme tels, dans l'industrie du textile, par exemple,—qu'on tâche d'avoir une politique du côté patronal, et du côté syndical, et qu'on tâche d'avoir une politique de ce que sera

la politique des salaires, et des profits, au Canada. Je ne crois pas qu'il faille envisager ceci aujourd'hui, comme une discussion qui devra se faire avec l'arbitrage car, effectivement,—on ne sait pas qu'elle est là. Alors, pour l'instant, il ne faut pas envisager, je crois, les choses économiques,—ce qui est graduel. Mais, il faut avoir de la patience, patienter 15 ans, pour avoir cela; mais, les résultats peuvent être quelque chose de positif, organiser, par exemple, dans l'industrie du textile, quelque chose qui se tient. En même temps, les grands manufacturiers seraient organisés, pour qu'ils sachent exactement les possibilités de payer les salaires dans différents secteurs. Il serait bon que la sidérurgie sache qu'elle peut payer tel salaire, et que les ventes lui permettent de payer un salaire élevé, tandis que l'autre ne pourrait pas le faire. Mais, ce qui pose le problème, c'est que, beaucoup de secteurs beaucoup moins bien situés, ne peuvent pas les payer. Or, ils seront obligés de le faire, parce que les écarts deviendront trop grands, et ils devront les payer aussi,—parce que les secteurs qui n'ont pas une existence suffisante, à longs termes, sont aussi obligés de s'ajuster, par les prix.

Senator CARTER: If we bargain on this grand scale of industry, say the whole brewing industry or the whole textile industry, with management on one side and labour on the other, would that not produce inefficiency, because some textile firms cannot pay more than others, and if they have to go down to the lowest common denominator, would that not result in inefficiency?

Dr. THÜR: I would not think so, because today in this fractional discussion you respect all the inefficiencies on a local level, too. If you take the textile industry and you discuss salaries in Victoriabille and Montreal, the results in Victoriaville will be quite different from those in Montreal. Perhaps with a general discussion for the textile industry, it would provide for the difference in these industries. I suppose it would perhaps accelerate the disappearance of certain very inefficient enterprises.

Co-Chairman Senator CROLL: It is well to note that the packing industry does bargain nationally at the present time.

Senator THORVALDSON: Professor, I would like to comment that once again an economist trained in Europe appears before us. I find it very interesting to listen to you and to such gentlemen—I am referring to the gentlemen from Sweden who came some time ago. You have detached views that our Canadian economists sometimes do not have. I wish to make that remark, because your remarks have been most interesting.

I presume you have followed the proceedings of this committee. I would like to ask you one question, if the chairman will allow it.

You saw the testimony in regard to the growth of a very huge empire, namely, the Weston empire in Canada, which controls a tremendous amount of industries, mainly in the food sector. Would you care to make a comment as to whether an amount of concentration of capital and economic power, which is indicated in that, has reached the danger point for a country like Canada. When I say danger point I mean it from two points of view, namely, to the consumer and also to the competitive system that we pride ourselves on having in Canada. Would you like to comment on that?

Dr. THÜR: My first point of view is that I do not care very much about the dimension of an enterprise, in the sense that competition among a few—perhaps two or three enterprises—can be much more efficient than the competition among a fractioned production system of 10,000 or 20,000 enterprises. I am not sure that it is really a question of competition, in the case of the number. I would say that two or three can be quite competitive, and if there are only two, you have a very big facility that, if there is some problem to industry, you have a direct fiscal control on them. You can do with them what you want.

It is much easier to influence a system of three or four big enterprises than to influence perhaps ten thousand small ones.

The big enterprise has one advantage, its stability. It was an economist's dream to arrive at perfect competition. We had just one sector of growth in competition, it was in agriculture, which was the most unstable of activities we had. I do not believe that perfect competition has all the virtues given to it by economic theory.

Perhaps a certain control should be exerted on the big companies. I think that in the case of big companies fiscal control can be easily exerted.

Senator THORVALDSON: Would you care to compare the development of control by strong economic groups in Canada, say in the food industry, to those in, say, France or some of the European countries?

Dr. THÜR: The situation is perhaps comparable in Germany, not in France. In France in a certain amount of factors, France has a special protective policy for many years. So they had this family enterprise, and it was a very big step for France to accept the Common Market because on the industrial level they were the worst prepared for a common market, because they were not organized for big markets.

I think Germany today, and Belgium and the Netherlands, have certainly enterprises in the food industry which are proportionately as important as Weston Foods in Canada.

I do not remember discussions about abuses of economic power by those enterprises.

Senator THORVALDSON: Would you care to comment on England, on the United Kingdom? Is there any concentration there in the food industry? I have not observed it myself.

Dr. THÜR: I do not know.

Senator THORVALDSON: You referred to the Economic Council of Canada, which we all agree performs a splendid function. However, you spoke of the problem of economic forecasting, which is important, and because of the make-up of the Economic Council it was difficult for the Council to make long-term forecasts. Is there real importance to the forecasting that ought to be done in a country like Canada, long-term?

Dr. THÜR: I think that today all our investments represent such deep amounts, that you would wish to see what kind of development you have. It is very important to have one institution discussing problems over five or ten years, because the economic structure is quite stable and you cannot change anything in one or two years. But in eight or ten years you can change something. If you have a clear perception of the problem, I think you can do some work of convincing people why they should do what we are expecting of them to do, and so on.

It was a good idea to have an institution to think about these problems. It is not in governmental administration that you can expect such results, because they have no time for this, they always are in the direct discussion of the problems of the day.

The problem of development is to know what to do in eight or ten years.

The first time that I met Monsieur Lesage and I was asked to prepare the economic content of his budget speech, was in 1961. He asked me: "What do you think, how should I organize government?" And I told him the best thing to do is perhaps to have one minister—just one with no connections, who will never come to the discussions in the council, who will have an excellent and very nice

department but the only thing he will think about is what will be done in ten years later, to find out what kind of thing should be done.

Mr. LEFEBVRE: Did he find that man?

Dr. THÜR: I do not think so.

Senator THORVALDSON: Is there any organization of which you know socially connected with the European Economic Market, which has a long-term policy to study long-term trends?

Dr. THÜR: In Europe, with the exception of Germany, each country has an organization for this. In France it is institutional. In Belgium it is also institutional, Le Bureau des Programmes Economiques. In the Netherlands, it is institutional, they have a Central Planning Bureau, and in Italy they have a similar organization.

In Germany, however, they have not; in Germany this kind of work is done by the Berlin Institute.

Senator CARTER: What is the situation in Japan?

Dr. THÜR: They have a government organization, the Central Planning Bureau, for Japan.

Co-Chairman Senator CROLL: Mr. Boulanger.

M. BOULANGER: Monsieur Thür, vous comprendrez facilement que déjà 5 ou 6 de mes collègues vous ont posé de nombreuses questions, et, des quelques questions que j'avais, il y en a déjà quelques-unes auxquelles vous avez répondu; je n'ai pas été nécessairement d'accord avec chacune des réponses que vous avez données à certaines de ces questions, mais, afin de ne pas revenir sur ces sujets, étant donné que nous sommes ici pour prendre des idées que vous pouvez émettre...

Dr. THÜR: Je ne demande pas que vous soyez d'accord, enfin, j'exprime mes idées.

M. BOULANGER: C'est ça, étant donné que ce n'était pas là la nature de notre rôle. Toutefois, il y en a une qui m'a frappé, quand vous avez parlé d'organismes extérieurs indépendants, et qu'il s'agissait de trouver des gens; quand vous dites cela, dites-nous donc quelle serait la qualité ou quel serait le genre d'homme qu'il faudrait trouver dans un organisme indépendant? Serait-il, encore, un économiste? Où irions-nous chercher ces gens-là?

Dr. THÜR: Alors, on devrait aller chercher des technocrates. Alors, les technocrates sont les techniciens qu'on n'est pas. Je crois qu'il ne faut pas déprécier le travail excessivement efficace qui peut être fait. Il faut avoir des bonnes personnes quand vous avez une discussion aux trois niveaux de gouvernement. En 1962, exactement, lorsqu'on m'avait demandé de préparer un projet de rapport sur la possibilité de tenir une exposition universelle à Montréal, à la fin de ce rapport, je donnais trois problèmes et, aujourd'hui—je suis tellement modeste que je m'en vante et je le souligne, parce que je n'avais pas tout à fait tort,—j'ai posé trois problèmes. On voulait faire, comme premier approche, l'hypothèse que, aujourd'hui, il y a 37,000 ouvriers dans la construction sur l'Île de Montréal, disons que l'on pouvait augmenter cela, avec un certain nombre d'efforts, on pouvait obtenir, en 1966-67, 42,000 travailleurs, pas plus que cela. Donc, lorsque vous avez un projet d'investissement, un projet de construction, et que vous voudriez mettre sur une base un petit organisme représentant les trois niveaux de gouvernement, trois personnes, pour faire, disons, un choix de priorité au point de vue de permis de construction; on m'a dit que c'était trop compliqué pour le faire. On l'a payé cher, parce que, effectivement, ce que nous avions à Montréal c'est une organisation de compagnies de

construction qui est, en effet, en dehors de toutes proportions, parce que, effectivement, en 1966, ou 1967, il n'y aura pas plus que 42,000 travailleurs à Montréal. Je crois donc qu'il y a moyen de vous exprimer une opinion. Lorsqu'il y a trois personnes qui travaillent, un groupe de deux ou trois personnes, c'est tout—je sors une revue, laquelle est publiée 11 fois par an, et sur laquelle il y a trois assistants et moi qui travaillons, pas plus, et, de cette façon-là, il y a moyen de faire beaucoup de choses.

M. BOULANGER: Ca répond à cette question-là.

Dr. THÜR: Car, vous savez, lorsqu'il y a une organisation de 200 fonctionnaires, cela devient trop lourd dès que vous avez un grand nombre de fonctionnaires, ou, par exemple, des professionnels, des économistes, c'est plus difficile que lorsque vous n'avez que quelque 10 personnes. Alors, vous tracez un programme exact et chacun sait ce qu'il veut dire, de sorte que il y a plus de flexibilité lorsque vous avez un petit groupe de trois personnes. Alors, vous pouvez donner du travail pour trois à trois jours de distance et demander ceci parce que c'est cela qui est important dans l'avenir, et c'est cela qui est important.

M. BOULANGER: Vous avez surtout amplifié sur le fait que, dans notre système, qui est pratiquement impossible, j'ai pensé que je pourrais demander au témoin comment on pourra réaliser de réduire les prix de 2 ou 3 p. 100—disons que vous n'avez pas à répondre ni à recevoir des associations de consommateurs, vous admettez cela, et, en admettant cela, puis étant donné que, par rapport à notre système qui nous gouverne dans le moment, ainsi de suite, et qui amène ces changements de prix, et surtout ces dernières années, l'augmentation, qui était le point du rapport, je n'ai pas le montant, l'augmentation au cours de l'année passée

Dr THÜR: Du coût de vie?

M. BOULANGER: Oui.

Dr THÜR: C'est à peu près de 4 p. 100.

M. BOULANGER: Alors, cela veut dire, et admettant aussi, quand vous avez répondu à M. Carter, que, dans la publicité exagérée, il y a un danger, parce que, à ce moment-là, il entre dans le prix un surplus, c'est-à-dire que cela sous forme de serviettes dans les boîtes de savon, des primes dans une livre de steak...

Dr THÜR: C'est un coût inutile.

M. BOULANGER: Alors, admettant tout l'ensemble de ceci, par exemple, forceriez-vous une chaîne de compagnies de publicité, ou essaierait-on de réduire leur budget, dans l'ensemble? A ce moment-là, qu'est-ce qui pourrait arriver? Qu'est-ce qu'un comité comme le nôtre pourrait faire? Est-ce que nous pourrions, par une loi, forcer ces compagnies qui dépensent des millions à réduire leur budget? On se buterait envers quoi?

Dr THÜR: Évidemment, on se bute toujours à un certain nombre d'intérêts; ce qui veut dire qu'il y a aujourd'hui des intérêts extrêmement puissants, car cela engage l'industrie publicitaire, tout le problème de la radio-télévision, placez sur cela tous les journaux et toutes les revues, ce qui veut dire que là vous avez tous les moyens d'information qui seront contre le Parlement. Je crois que ce qu'on veut essayer de faire, c'est bien de revenir en arrière, ce qui n'est pas possible, de remplacer le programme. Ce que l'on pourrait faire avec les gens dans ce secteur, par contre, il serait peut-être possible de limiter l'expansion de cette publicité, et cette limitation de l'expansion, je crois, qu'elle devrait prendre une forme fiscale, c'est-à-dire...

M. BOULANGER: Une forme fiscale?

Dr THÜR: En fait, au point de vue de comptabilisation, le coût est reporté exactement, et il est une augmentation, disons, acceptable, parce que, si une entreprise après l'autre, enfin, commence à augmenter le budget de publicité de 20 à 30 p. 100 par an, cela fait 2 ou 3 p. 100 des coûts globaux qui vont augmenter chaque année. Je crois qu'il y a moyen, à travers la fiscalité, de réduire la tendance à l'expansion.

M. BOULANGER: Maintenant, il y a une question, pour un homme public, et c'est toujours délicat à poser, parce que, à ce moment-là, il y a toujours le danger d'être mal interprété, parce que l'on parle du public, de la masse, qui fait les achats, qui achète, mais, moi, je suis moralement convaincu, et je veux avoir votre opinion là-dessus, que, si la population, la ménagère, disons, surtout, quoique l'homme aussi achète, et surtout lorsqu'il achète une voiture de 6,000 dollars, que c'est au-delà de ses moyens et qu'il aurait dû plutôt acheter une voiture de 3,000 dollars, croyez-vous que, étant donné que vous nous avez parlé de politique, du déséquilibre de l'organisation, et qu'il manque dans tout notre système auprès du consommateur un système plus simple pour qu'il soit possible d'éduquer les gens; moi je trouve, dans toutes ces expressions-là, parce que ce que vous avez expliqué, quand vous arrivez devant 25, 30 madames révoltées, parce qu'elles payent la saucisse, le savon, trop cher, cela c'est correct, mais pour ce monde-là, ça ne veut encore rien dire. En d'autres mots, ces gens-là s'imaginent qu'ils sont truqués dans les prix qu'ils payent. On va leur expliquer des lois. Ils sont moralement convaincus que, pour une livre de beurre, ils ne devraient pas payer plus que .60, au lieu de 70; ne trouvez-vous pas que tout cela devrait tre placé sur une campagne d'éducation que le comité pourrait se charger de faire, même si cela était avec le Gouvernement, une campagne d'éducation pour éduquer la femme, la ménagère à savoir comment acheter? Moi, ce qui me frappe le plus—et je donne cela comme exemple—et je vous demande de nous donner votre opinion, car vous allez prendre la dame qui entre dans le magasin, dans l'épicerie, elle prend un panier, et vous vous demandez comment il se fait que, au bout d'une demi-heure, elle ait réussi à emplir son panier. Moi, je suis convaincu qu'elle n'a pas pris le temps d'étudier article par article par rapport au prix qu'elle payait; ne trouvez-vous pas que l'on pourrait faire quelque chose, et que c'est là que ça manque l'éducation?

Dr THÜR: Oui, d'accord. Je suis parfaitement d'accord là-dessus. C'est pour cela que j'ai tâché de dire en réponse à une question, disant, en fait, que la rationalité de l'économie se fera par l'éducation. Maintenant, il ne s'agit pas, disons, d'envisager que tout le monde devra avoir demain une éducation universitaire. Il y a un moyen beaucoup plus simple, beaucoup plus efficace et effectif. Il y a sur ce point, l'attitude de la ménagère, d'une part, et il y a un manque d'information, qui est énorme, d'autre part, ce qui place plus ou moins notre population d'aujourd'hui—et peut-être la population de tous les pays, car ils ont la même situation. On sait que la majorité des mesures qu'un gouvernement devra prendre seront, par définition, des mesures de type économique. La ménagère mesure l'importance que l'on prend du caractère économique avec un certain nombre d'autres choses qui, en soi, s'organisent à la condition de notre vie. On vote, mais on vote sans avoir pris les moindres renseignements sur un programme quelconque. Ils ont une option économique quelconque, mais rien du tout dans l'option globale. Il y a la ménagère qui choisit chaque fois qu'elle va au magasin, et je voudrais qu'elle ait beaucoup plus de critères. En tant que citoyen, elle devrait avoir beaucoup plus de renseignements qu'elle en a aujourd'hui. Alors, si cette éducation pourrait se faire, il reste à savoir exactement qui pourrait la faire, et de quelle façon, par des brochures, etc. Mais, ce n'est pas facile parce que cela se lit, et ceci ne se lit pas.

M. BOULANGER: La dernière question, une question additionnelle. Alors, disons que toutes les compagnies qui font de la publicité, ces grossistes, ces

manufacturiers, s'il y avait une recommandation, si on leur suggérait un budget, disons, de 10 millions de publicité réparti dans 4 ou 5 différentes compagnies, ou différents produits, et qu'on leur demandait dans cette publicité-là des explications additionnelles sur le produit qu'elles offrent, des explications plus justes, plus précises, est-ce qu'on pourrait arriver à faire comprendre à ces compagnies que, dans le même budget, elles pourraient renseigner de façon plus réaliste qu'elles ne le font dans le moment?

Dr THÜR: C'est difficile à faire, disons fondamentalement, plus de publicité, de présenter le produit, disons que tout cela a donné lieu à un style publicitaire, et la ménagère s'amuse à lire la publicité, parce que ça donne l'impression que vous avez toutes les merveilles du monde absolument pour rien. C'est ça qui est merveilleux dans le langage. Alors, je crois, disons que, si vous voulez, une sorte de publicité qui renseigne sur le produit, il ne faut pas la demander ni à l'entreprise de la faire, ni à l'entreprise de publicité.

M. BOULANGER: Cela veut dire, en somme, que, si on admet le manque d'information publique pour le consommateur, et qu'il faut dire à madame pourquoi acheter du bœuf rouge au lieu du bœuf bleu pour 3 ou 4 cents de différence.

Dr THÜR: C'est difficile, parce qu'il faut qu'un producteur commence à dire que c'est ça la liste des avantages de mon produit; voilà les trois défauts principaux; c'est véritable.

M. BOULANGER: J'en aurais plusieurs autres, mais je vais laisser ma place à un autre.

Co-Chairman Senator CROLL: Mr. O'Keefe.

Mr. O'KEEFE: Professor, would you agree that certain fiscal policies, tight credit, for example, have an uneven and often unfair effect on different parts of Canada? Do you agree that a dose of castor oil does not always work equally for each of the provinces?

Dr. THÜR: All our monetary policies are to a very large extent, in an economic sense, in a liberal tradition. From the beginning our problem was that we did not make distinctions as between enterprises. The only thing to do is to have a general means of intervention, and it seems that that means is money. We always suppose that it is perhaps the most neutral means of intervention. Today we are quite convinced it is not necessarily so. There are perhaps some unfair effects for certain types of enterprises for particular reasons. This could be quite true. To change this is possible, but it would require very long effort. First of all it is difficult to make or to realize a project of Mr. Kieran's on this problem—the generalization of banking policy in Canada. I do not know if it is possible. It could be possible, perhaps, one day, but you have changes to make in the banking system. It is just impossible for a bank with a federal charter to make a regional difference, and it is much more difficult for enterprises in different sectors because this policy would mean that you give credit scopes to different enterprises or to different sectors, and it should be done by the Bank of Canada. It would be a very long procedure today, and not necessarily the best.

Mr. O'KEEFE: We have heard a lot about the 11 per cent sales tax and its effect on the low income group's budget. Would you change this tax from goods to services, or is the present policy more equitable?

Dr. THÜR: Not exactly, because this kind of transmission tax applies in every country. It is a means of paying tax revenue to the government. Now I am convinced that all these taxes are always paid by the consumer, and the problem is to know who should pay and for what exactly. I have no preference because services are consumed in the same range by persons in the low revenue bracket as by those in the very high.

Mr. O'KEEFE: But surely not to the same extent.

Dr. THÜR: Not necessarily to the same extent, but I don't know if it could be changed because it would be quite difficult to have eleven per cent on medical services and so on.

Mr. O'KEEFE: I think that is a change. What is your opinion of the possible policy of a guaranteed basic income for all Canadians?

Dr. THÜR: I think it will be a trend which will develop and strengthen in the future. The problem is the following: We accept that there is some inflationary evolution in our development. Now if we have just private security the problem is very costly.

Mr. O'KEEFE: I don't quite understand that.

Dr. THÜR: If you have to organize your own personal security it is quite expensive. And it will be expensive for the results you will get at the end, because the problem is you have a 2 or 3 per cent price increase every year. What does that mean to a private pension plan?

Mr. O'KEEFE: What about a basic minimum income clause?

Dr. THÜR: With a private plan you have a revenue of 68 or 65 or 70, which represents 65, 60 or 62 per cent of what you can expect today, so I think it is unavoidable that the Government should enter this field and organize minimum security for everybody.

Mr. O'KEEFE: Do you think this is a good thing?

Dr. THÜR: Yes. It is a question of living with our fear.

Co-Chairman Senator CROLL: Even the chairman thinks that will be a good thing.

Mr. O'KEEFE: What effect do you think the tragic war in Viet Nam will have on Canada ultimately?

Dr. THÜR: There is certainly the economic effect, but I would not like to over-emphasize this effect because our problems are not closely connected with the problem of the war in Viet Nam. Without the Viet Nam war perhaps the only difference we would have today—it would be the same price and wage increases in 1965, the same price and wage increases in 1966—it was a problem of getting the flow to a ceiling and perhaps the situation of depression today.

Mr. O'KEEFE: It is true to say that Canada really has not benefitted by this tragic war?

Dr. THÜR: No, I do not think it has.

Mr. O'KEEFE: Do you foresee any recession or depression in the near future in Canada?

Dr. THÜR: It could arise very easily now. It is not sure today, but it could be the case perhaps. It depends on the circumstances, on the Viet Nam conflict, because if in the United States there is some slowing down we will be in a depression. There are signs of slowing down in the United States, but, on the other hand, there is a neutralization by the military expenditure. Without a rapid increase of military expenditure it would be quite difficult today not to foresee a recession. The problem is to know if really military expenditures are what they appear to be. So these expenditures could be down for other purposes too. It is not necessarily only the military.

Mr. O'KEEFE: What is your opinion?

Dr. THÜR: I do not know, because I do not like this kind of prediction if I have not sufficient reasons. I know today we are in a slow-down period. Our

expansion is slowing down. It could become a recession from now on, but there is no necessity that it should arise.

Mr. O'KEEFE: How would you avoid this possibility?

Dr. THÜR: I think the measures today are just, in this sense: a drop of the interest rate in this country, and then some projects in the construction industry, and so on.

Mr. O'KEEFE: That is obviously being done. Can you suggest anything else we should be doing?

Dr. THÜR: That it quite difficult to say, what we should do, in the sense that the problem is—and that is perhaps my point—to prefer a kind of organization for long-term projection, so that if you have some long-term plans you know how to spend money, if you need to spend it, and in an efficient way, because today if we decided to spend money, I do not know for what and for what economic advantage. I would not advocate today very big increases in spending on social welfare and so on. I do not know. It is not necessarily the way to do it. Perhaps if there are some problems, the best way to deal with them is with some income tax cut, perhaps in June or July, if there is some necessity for this.

Mrs. MACINNIS: I would like to get at one or two of your views on controls. Let us take an example, this proposed legislation in Quebec which will introduce a rental control board operating around the Montreal area for the duration of Expo. Do you think this is a good principle for controlling rents?

Dr. THÜR: No. What they are doing is to avoid the problem of very big shake-ups. I think it is a very temporary measure, and it is not intended at all to be a permanent body for control.

Mrs. MACINNIS: You think it would be good temporarily?

Dr. THÜR: Yes.

Mrs. MACINNIS: Why would it not work on a permanent basis?

Dr. THÜR: If you have these controls, as in the case of rent controls, then there is no construction at all, and you have dwelling problems for the population. There should be a fair economic return on capital spending. So, if in secondary industry you have a better return than from housing, why should you invest in housing?

Mrs. MACINNIS: We are interested in the price of housing and rents. How does one control rents so that people would not see the rent going up and up and up? Is there any way of doing that?

Dr. THÜR: It was done, I think, everywhere during the war period, that the rents were controlled.

Mrs. MACINNIS: I am asking whether this should be done on a permanent basis, because right now we are experiencing rising rents. Should there be a control?

Dr. THUR: I think not.

Mrs. MACINNIS: What are we going to do to keep down the cost of living in the housing field?

Dr. THÜR: It would be just a kind of pressure on just one sector of prices, and I do not know really if it is a solution to the problem, because 10 years later you will have a housing problem.

Mrs. MACINNIS: All right. I will come back to that.

One question on this advertising of these large concentrations, these big firms. Do you think it would be a good idea to recommend action along the line of limiting the amount of budget, by law, they could put into advertising?

Dr. THÜR: The increase of their budget.

Mrs. MACINNIS: The increase in the amount for advertising and promotion?

Dr. THÜR: Yes, or have some ratios of total cost, and so on.

Mrs. MACINNIS: I would like to get at this business. You could educate housewives, and you should educate housewives and consumers along various lines, but I do not think you could or should educate housewives to pay prices beyond their means. If we cannot take measures to keep prices down—and you seem to be pretty doubtful about that—what measures can we take to keep incomes in line?

Dr. THÜR: That is always a problem. It is a question of point of view. The housewife is afraid to pay the price she has to pay, but she is not afraid at all that her husband is on strike for a 25 per cent increase.

Mrs. MACINNIS: But the reason why he is on strike in the lower groups is very frequently because there just is not enough coming in. You know about people in the low income groups who cannot afford the kind of food they must have.

Dr. THÜR: Yes. Certainly, it is a question of a fair situation for everybody, but I do not suppose today there are income groups in Canada which have lower real incomes in '66 than they had in 1964. Of course, there are some pension categories, and so on. There is always the problem of general security, because if you have a private pension plan and you pay in $150 a month, what does it represent 30 years ahead?

Mrs. MACINNIS: Yes, but we do know there are certain income groups in Canada who pay 40 per cent of their budget for food whereas other income groups pay only 20 per cent. Does not that mean that the ones who have to pay 40 per cent are condemned to a much lower standard of living—and here I am thinking of other things than food. How are we going to get a decent standard of living for Canadians when we cannot interfere with the prices that the big companies want to charge and, on the other hand, we cannot move up incomes? What are we going to do?

Dr. THÜR: But, on the other hand, the high income groups are consuming the services. If you look at the increase in prices over the past 5, 10 or 15 years you will see that the biggest increase has been in the price of services. It has not been in the price of food. The increase in the price of food was an explosion.

Mrs. MACINNIS: But food is not the only element. Many other things go into the making of a modern standard of living. What are we going to do? We are investigating the cost of living. What are we going to do to get this good guaranteed all-round standard of living for people if we cannot have control over prices? What measures should be taken.

Dr. THÜR: Today I think there is—

Mr. ALLMAND: May I add a supplementary? Increased production would be a step towards lower prices.

Dr. THÜR: The only thing to do is to have better jobs, and better paid jobs, and so on. It is a question of expansion then. But, I do not think that today there is a possibility of legislation with respect to incomes, and in such a situation an incomes policy is involved.

Mrs. MACINNIS: But you do believe, do you, that we will have to work towards an incomes policy in this country?

Dr. THÜR: Yes, but it is a 25 years' prospect.

Co-Chairman Senator CROLL: I am sorry, but I shall not see it.

Mrs. MACINNIS: I have an old gentleman of 106 in my riding.

Now, I would like to come back to this other angle, if I may. You spoke of the desirability and necessity of long range forecasting, and you spoke also of the difficulty of getting an objective body to make those forecasts.

Dr. THÜR: There are two things—the long range and the short range. I think the long range forecasts can be done, and are done in certain circumstances, by the Economic Council of Canada.

Mrs. MACINNIS: Yes.

Dr. THÜR: For the short term forecasts you need just a very small organization—an advisory organization, that is all.

Mrs. MACINNIS: Well, again, are you not going to run into the same difficulty of getting objectivity? How are you going to find in that small advisory group the objectivity that you pointed out so well was so very difficult to find even in the set up of the Economic Council now.

Dr. THÜR: I think that in three or four years there are no problems with respect to objectivity. It is very objective. It is, perhaps, too objective. There is no discussion at all.You cannot discuss a report of the Economic Council because it is so objective and so proportionate. There is no angle at all. As for the short term forecast, I think it helps to have three independent men in Canada making it, and it is possible to find three independent men.

Mrs. MACINNIS: Referring to forecasts, do you also believe that these people are capable of outlining certain plans and being able to advise the government on long range planning?

Dr. THÜR: It should be the duty of such an advisory body to say: "We see the problem this way, and we see that this should be done in the short term", but that is all.

Mrs. MACINNIS: There is one last point that I want to get at. What should be the guiding principles in such planning? What is one trying to do with the economy—to keep it in balance, or what?

Dr. THÜR: To endeavour to maintain a certain kind of balance, and to avoid fluctuations in social costs—and unemployment is a very high social cost. In long range forecasting it is a matter of the choice of the kind of economy the Canadian wants. It is really a problem of colour T.V. or, perhaps, of education —there are some priorities. Over 20 years you can choose priorities, but over two years you cannot. All your priorities are given for a very short period because you cannot change a long term trend in a very short period. You have some options in a longer period.

Mrs. MACINNIS: Could I dare ask you to name a few priorities that would be important to you as an economist.

Dr. THÜR: I think there is—the economist in a value judgment is not any better than anybody else in this country. If it is a question of a very general choice then I am not interested at all to give my personal choices. Perhaps they will meet with some agreement, but perhaps not. I think that everybody in Canada is as well situated to have some ideas on the general objectives of an economy as I am, because economics is the science of means; it is not the science

of aims. Our science is as to methods of how with a limited amount of resources or factors of production you can get the best results. But, what kind of result is open to the population to—

Mrs. MACINNIS: In other words, there is still a function for government?

Dr. THÜR: Yes.

Co-Chairman Senator CROLL: If I thought he was going to advocate the doing away of government then I would not have invited him here.

Senator MCGRAND: Most of my questions have been answered or partially answered. You said earlier in your remarks that a price increase of about 2 per cent a year would be a normal behaviour in our economy. Now, in order to maintain that would it be necessary that wages and profits rise only in that proportion?

Dr. THÜR: No.

Senator MCGRAND: What I am getting at is: Is it fair to discuss this rise in the cost of food and living at the three levels of profits, wages and taxation?

Dr. THÜR: Yes. The first question is with respect to a price increase of 2 per cent. This is just the difference between a cost increase and a productivity increase. If you have a general cost increase of 5 per cent and a productivity increase of 3 per cent there is no problem. You have a price increase of only 2 per cent, and that is all.

With respect to your second question, I think that what you touch on in the three propositions is just an incomes policy. It is exactly that—wages, profits and taxation.

Senator MCGRAND: I am sorry, but I did not hear you.

Dr. THÜR: The second point is a question of discussing how to manage wages, profits and taxation in the food industry. Now, there can be, perhaps, some very particular interventions in the food industry, but I do not advocate a special intervention. I do not think that it is very important. But, on the whole, what you touch on in your question as to profits, wages and taxation is the revenue of the state, and this implies an incomes policy, and that is all. So, if you accept tomorrow, perhaps, the possibility of an incomes policy then all of these three problems are regulated.

Senator MCGRAND: The thing is this, that over the past few years we have had a considerable increase in salaries and wages, and we have had an increase in taxation. We have had an increase in the social security level. In spite of these improvements—higher wages, better social security measures, together with the taxation to provide for them—people find the cost of living squeeze perhaps harder to bear than they ever did before. What is the reason?

Dr. THÜR: Because of *un point de sensitivité*—a sensitive spot. I think that if your price increase exceeds 4½ per cent you have this kind of reaction, and when your increase is about 2 per cent you have no reaction at all. Between a normal level and the actual situation there should be about a 2 per cent difference. If it would be perhaps from 3 per cent to 5 per cent or from 2 per cent to 4 per cent, you reach a reaction from the population.

We are discussing today, I think, real prices. However, also the pressure is going down. The maximum pressure was between July and perhaps October and November, and our price increases are going down now. This will continue for several months, and certainly one year because of a generalization of a certain price increase of a month ago.

Senator McGRAND: Would you agree with me that in spite of the rise in salaries and wages and our social security measures and the increase of taxation to provide social security measures, people are finding it as hard as ever to buy the necessities of life today?

Dr. THÜR: Yes, certainly.

Senator McGRAND: Then what is the answer?

Dr. THÜR: I am not sure that it is objectively more difficult than it was one year ago.

Senator McGRAND: I do not mean just now compared with a year ago, but I will say over a period of 15 or 20 years.

Dr. THÜR: Yes. There is some delusion concerning the situation, because if you look back over a period of 20 years you will never have bad memories, they are just good memories.

Senator McGRAND: I am not a reactionary, you know. I am a left-winger.

Dr. THÜR: But we forget the small difficulties of life 20 years ago. You cannot have a memory of a headache you had ten years ago. I think there is a great delusion about the manner of living 20 years ago as compared with the manner of living today, because the standard of living today is certainly about 25 per cent or 30 per cent higher, and perhaps more, than it was 20 years ago.

Senator McGRAND: What I am trying to arrive at is, did not the average Canadian 15 or 20 years ago have as much money to meet his obligations as he has now?

Dr. THÜR: Yes, certainly.

Senator CARTER: But he did not have the same obligations.

Senator McGRAND: The obligations have increased, and the standard of living has increased.

Dr. THÜR: Obligations can be a very subjective thing, because if you purchase a car for $6,000 or $7,000, that may not be an obligation according to your social standing. You never will have sufficient money to buy everything, that is impossible.

Senator McGRAND: That is what I have been trying to find out from somebody for months.

Co-Chairman Senator CROLL: Have you further questions, Senator McGrand?

Senator McGRAND: I have finished, but I have not yet received the answer.

Mr. BOULANGER: When the witness answered my question as to what people should buy, he said it is a question of buying a car in relation to one's personal comfort, and that a car which cost $6,000 or $7,000 is just as good for one's purpose as a $3,000 car. One person feels he should have two cars instead of one, or perhaps one costing $3,000 instead of $6,000. You choose for yourself.

Co-Chairman Senator CROLL: Arising from a question asked by Senator Thorvaldson and perhaps not clearly on the record, and because you have a background that seems to fit into the question, can you tell us, Professor, in order that a layman may understand what is keeping Britain out of the Common Market? In short, we are a bit confused. Why are they keeping her out, or attempting to do so?

Dr. THÜR: The big problem of Britain today is that it is a socialist organization. It is a very strong trade union organization, and in order to have an efficient income policy you need something that is efficient in comparison with other

countries, because we have no absolute standard in economics. You can be fooled in economics, but not more than your neighbour at all. So I think Britain today is expecting from the Common Market competitive pressure which it does not have, competitive pressure of Germany, Italy, France, which will be more efficient for checking price increases, wage increases, than is the situation of today. They have an organization which is not very efficient in a certain sense, because Sweden and Portugal and Austria are not really competitors of British goods. So I think in joining the Common Market the British industry would have a higher degree of competition than they have today.

Co-Chairman Senator CROLL: Then why should Britain be attempting to fight a competitive position that is very difficult?

Dr. THÜR: Very difficult, but it is perhaps the only way to have an efficient economy. You can have every kind of economy if you are completely protected, but it can be very inefficient.

Co-Chairman Senator CROLL: The purpose then is to make their own economy more competitive?

Dr. THÜR: You oblige their own economy to be more competitive.

Co-Chairman Senator CROLL: Then why is France opposing it?

Dr. THÜR: There are some problems in the Common Market and especially in the United Kingdom joining the Common Market, because the United Kingdom is a world power and has world ties so the United Kingdom cannot enter the Common Market without some very specific conditions. In regard to those very specific conditions, France will perhaps disagree.

Co-Chairman Senator CROLL: Has France a veto, or has any other power a veto?

Dr. THÜR: Everyone has a veto.

Co-Chairman Senator CROLL: So Denmark could have a veto?

Dr. THÜR: No, Denmark is not in the Common Market.

Co-Chairman Senator CROLL: Is Sweden in the Common Market?

Dr. THÜR: Sweden is not in the Common Market. There are six.

Co-Chairman Senator CROLL: Does Belgium have a veto?

Dr. THÜR: Yes.

Co-Chairman Senator CROLL: Any one of those six has a veto, so there is no special responsibility?

Dr. THÜR: They will not—

Co-Chairman Senator CROLL: They have said that.

Senator THORVALDSON: On the point of the Common Market, may I put it on the record that some of the finest literature I have read in regard to the Common Market is contained in the current issue of "Round Table" which came out a couple of weeks ago. There is in particular an article by Monsieur Paul-Henri Spaak in regard to Britain taking part and I think it is the finest I have read in reference to the Common Market.

Mr. BOULANGER: You asked an opinion on this Common Market. It gives me an opportunity to ask about the same information. What is the freezing of prices and wages and the control of industry like, as in last year?

Co-Chairman Senator CROLL: That is a domestic problem they have to deal with.

Mr. BOULANGER: Some people in this country said many times since last year that they should have done it or should have tried.

Co-Chairman Senator CROLL: I did not hear many people.

Mr. BOULANGER: I did. I will ask about it again.

Senator CARTER: I think I misunderstood the translation. I thought I heard that there was one point at least at which you disagreed with the Economic Council. If that is correct, what would you say about it?

Dr. THÜR: I did not exactly disagree. I think that there was one point or perhaps two small points.

The first one is that the report is a perfect report but perhaps too extensive on this price issue, so what I am challenging is all the discussions about the origin of inflation.

The second is perhaps the too negative position towards income policy. I agree completely that today it is of no aid to Canada or for the next year it is of no aid for income policy; but in ten or 15 years it is something. It is a line which should be discussed and should be underlined in the future as well as in the past.

Senator CARTER: Would you say that our present monetary system is too antiquated to permit the benefit of the mass distribution of the fantastic wealth that is possible, that can be created today by automation and synchronization?

Dr. THÜR: Our monetary system—I do not know that there are really problems about our monetary system.

Senator CARTER: I am talking about the system, not the policy.

Dr. THÜR: Money is quite a kind of institution and it develops according to the needs. It had a gold price and so on for 150 years; then we had bank notes as a second development; we have today cheques as a third development. There is a possibility of extension and change.

Senator CARTER: Would you say it would be better if money were limited to its use as a medium of exchange and not used as a commodity to be bought and sold?

Dr. THÜR: Money has to be a commodity. It is a commodity like all the other commodities, with just one difference, that it has a general power of choice on all the other groups, and so on. It is a commodity of itself. So money has an advantage, because it is useful and there is not plenty of money, there is some scarcity of money. A good money must have two conditions—it should be useful and there should be an area of scarcity.

Co-Chairman Senator CROLL: Would you mind telling Senator Carter if there is any alternative for money?

Dr. THÜR: There is not, because it is a problem of what you are using. You can use other things. Historically, one used everything.

Co-Chairman Senator CROLL: The credit card.

Senator MCGRAND: Coming back to a question I asked, I did not get a satisfactory explanation. Dealing with the increased cost of food, clothing and the necessities of life, in order to buy them and provide money for the increased cost of food, shelter and clothing, will the two per cent increase in wages or salaries meet that obligation or necessity, or is it necessary to have a three or four per cent increase in salaries and wages to meet that normal increase or will two per cent cover the cost of necessities of life, taking in food and shelter? What are the other factors which enter into this and make it necessary for a higher rate of wages and salaries to be paid in order to meet the normal increase that you would expect? It is an academic question.

Dr. THÜR: Wages and salaries are related directly to a productivity concept. If productivity progresses at three or four per cent, if wages and salaries progress at three or four per cent, there is no reason at all for a price change, the general level of prices will be the same. If there is a two per cent increase, it would mean that the nominal wages are growing faster at every period, perhaps nationally faster than productivity does.

In this connection, the wage increase becomes quite indifferent. If we have the productivity increase of eight per cent, and if wages increase by eight per cent, there will be no price effect at all. But if the increase were only six per cent, there would be a price increase.

Mrs. MACINNIS: What is to stop price increases even if wages and productivity stay in line?

Dr. THÜR: If price and wage increases are just in line, the problem is to know what kind of productivity increase you can achieve. On a national level, it is very difficult to have more than three per cent.

We have a supplementary problem that, if we have a progress in productivity of three per cent a year, it does not mean at all three per cent for everybody, and there is the problem.

On our general level of prices, they can be completely stable, but we will have price effects on some categories of prices, because in some categories there is no productivity increase.

Mrs. MACINNIS: We are talking about administered prices, these big firms, what is to stop them from raising their prices to whatever they like, even if the other two are in balance. What is to stop them from doing it? We have had people here before us and they have said that frankly their job was to make a profit. What is the limit to the amount of profit they set in their minds to reach?

Dr. THÜR: Generally, there is no ceiling for profit, but there is a lower limit. This lower limit is perhaps six or ten per cent that they have to pay for the loan of capital.

Mrs. MACINNIS: But if they have the capital themselves, because they do not distribute their dividends?

Dr. THÜR: If you do not distribute dividends, then your shares have not the same preference, because the shareholders are paid by an increase of assets, so I think that if an enterprise is self-financing of their investments, there is a need to realize about six or seven per cent of profit, as minimum profit. If they do not do so, the problem is that they have shares and investments and the investments are not very good paying so that the shares will have low prices and the shareholders will not be content. That is all.

Senator THORVALDSON: This question may have been asked. There are eleven months left in this year. I was wondering if you could make a firm prediction, or have you made it in your own mind, as to the likely trend in food prices between now and the end of 1967?

Dr. THÜR: It is my opinion that the price increase in Canada is slowing down, but that there will be a further increase in the Montreal area.

Co-Chairman Senator CROLL: Because of the special conditions there at this time?

Dr. THÜR: Yes.

Senator THORVALDSON: But there will be a lowering of prices in the rest of Canada?

Dr. THÜR: Yes.

Co-Chairman Senator CROLL: Mr. Boulanger, did you have one more question?

Mr. BOULANGER: No. The answer has already been given to Mr. Allmand about the policy in England.

Co-Chairman Senator CROLL: That completes the questions, then. May I say to you, Professor, that by the very questions that have been asked here today you must realize how interested the members were in "picking your brain," and a good brain it is indeed. The information you have given us is very valuable and all I can say to you is that we feel beholden to you. Thank you very much.

Dr. THÜR: Thank you, Mr. Chairman.

The committee adjourned

—Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: Honourable Senators, ladies and gentlemen, our witness this afternoon is Walton J. Anderson, Director of Research, Agriculture Economics Research Council of Canada. The Council is an independent research organization, established three years ago to carry out research in agricultural economics and rural sociology. Prior to joining the Council, he was professor of agricultural economics at the University of British Columbia. He has published numerous works for the Council some of these being *Review of Agricultural Policy in Canada, Symposium on International Trade in Agricultural Products, Symposium Study—Rural Canada in Transition.* A recent publication is *Canadian Wheat in Relation to the World's Food Production.*

You have a brief before you, and I have asked the witness to read the brief and then we shall have a period of questions and answers.

Dr. Walton J. Anderson, Director Of Research, Agricultural Economics Research Council of Canada: Mr. Chairman, honourable senators and members, I have prepared the brief in which I have attempted to do two things with this subject—prospects for world food supply. The first is to state some of the basic elements of the situation and secondly to say something about the projection for growth on both the demand and supply sides, and at make some suggestions as to what I think this means.

The Basic Elements: The total requirement of the world for food has two dimensions, namely, the consumption of food per capita and the number of people. The magnitude of the first of these factors is determined by physical need, purchasing power and individual tastes. The determinants which govern the size of the human population are more difficult to isolate; demographers when making projections of population numbers rely heavily on the trends from the past.

The evidence indicates that the growth in population will be a most important factor determining the future requirements of the world for food. World population, which is now 3.5 billion persons, has been projected to increase at the rate of two-thirds of a billion persons over 10 years. The demand for food is also influenced by purchasing power. Per capita income for the world which now stands at US $505 has been projected to increase by US $200 over 10 years. Later I will indicate that the distribution of this income varies greatly throughout the world.

Since the end of World War II the rate of expansion of food output has barely equalled the rate of population growth in the world. This is generally viewed as unsatisfactory because many of the world's population continue to be short of food by nutritional standards. The World Food Budget, 1970, prepared by the United States Department of Agriculture, states that two-thirds of the

world's people live in lesser developed countries with nutritionally inadequate national average diets. The Budget also projects food deficits in 1970 as equivalent to 54 million tons of grain, 6.5 million tons of nonfat dry milk, 3.2 million tons of pulses and 3.1 million tons of vegetable oil. The cost of the food represented by this deficit at 1963 prices would be US $6.8 billion per year.

The prospects for fulfilling the requirements are determined by a number of factors; these include: (1) the available supply of land; (2) the amount of capital used by agriculture for the production of food products which, together with the quality of the technology used by producers, determines the yields from land, labour and capital; (3) the policies of the undeveloped countries as they affect the prices of farm products, and the cost of the inputs which are used in production; (5) the investment in research for expanding the potential food supply; (6) there is also the matter of international and interregional trade, which serve to make the cheapest sources of food available to the population. International trade may take place under two distinct sets of circumstances; one of these is the normal commercial channels through which products are exchanged at prices determined by some set of economic forces, including prices negotiated between the importing and the exporting countries. The other is often called food aid or noncommercial sales which refer to concessional sales and direct gifts of food to developing countries.

There are three main groups of countries in the world viewed from the standpoint of economic development and the degree of central direction of the economy. These groups are: (1) the developed countries (DC), (2) the centrally planned countries (CPC), and (3) the lesser developed countires (LDC).

These categories, I might say, are used by the United Nations.

The centrally planned countries stand apart because of the greater centralization of decision-making; in terms of development, countries within the centrally planned group are found in the full range of developed and lesser developed countries. In each of those two groups the rates of population and income growth are different. Also the food supply situation differs between the groups, and so does the possibility of expanding the food supply.

Turning now to projections of growth in which I compare the lesser developed countries and the developing countries, I have a table appended to this paper which I am going to refer to from time to time that is attached with a paper clip so that if you want to follow it I have made it easy to remove.

This table shows:

(1) The population and income in 1965 in each of the three groups of countries, (2) the rates of growth of population, of income, of the demand for food, and of the production of food; each rate has been projected over the period 1965 to 1975. These are data which have been accepted by the United Nations Food and Agriculture Organization, and have been confirmed by studies carried out within the United States Department of Agriculture to provide basic data for The World Food Budget, 1970.

Column (1) of the table shows that 45 per cent of the world's population in 1965 was within the lesser developed countries; to this must be added the population of those centrally planned countries which are in the developing stage; this would bring the total population in lesser developed countries up to about 65 per cent of the world total. The second column indicates that the rate of growth of population, projected 1965 to 1975, is more than twice as fast in the lesser developed countries than it is in the developed countries.

You will note the rate is given as 2.6 per cent per year in the lesser developed countries and 1.1 per cent per year in the developed countries.

In terms of income the situation in the world is the opposite to that of population. Approximately two-thirds of the world's income is generated in the developed countries and only 12 per cent in the lesser developed countries. That is shown in column 3 of the table, which gives the percentage of income associated with each of those three categories of countries. Expressed in per capita terms the income in developed countries is 11 times what it is in lesser developed countries. This is shown in column 4, where you will note that the income per capita in 1965 in the lesser developed countries was $133 per capita as compared with $1,506 per capita in the developed countries.

Projecting the rate of growth of income to 1975 indicates that the rate is somewhat higher in the lesser developed countries than in the developed countries. This is shown in column 5, the first part of which shows the growth rate 1965-75 in per cent per year. These are expected ranges, a high rate and a slower rate of growth in each of those categories. You will notice that the rate of growth in the lesser developed countries is expected within the range of 3.9 to 5.8 per year and in the developed countries it is 3.5 to 4.8. However, this higher rate will be partly due to the more rapid growth of population in the lesser developed countries; thus when the growth of income is reduced to a per capita basis the projection shows a rate that is considerably higher in the developed countries than in the lesser developed countries. That is shown in the second part of column 5, where the expected rate in developed countries is in the range 2.3 to 3.6 per cent per year and in the lesser developed from 1 to 2.9 per cent per year.

As indicated in the first paragraph, the demand for food is made up of two main elements, one of which is the size of the population, the other being the consumption per capita. Changes in the latter to a large extent are determined by the changes in income. The combined influence of population and income growth on the expansion of the demand for food is shown in column 6. The data indicate that in the developed countries the projected rate of growth in the demand for food is in a range of 1.6 to 1.8 per cent per year. In the lesser developed countries the projected rate ranges from 3.1 to 3.8 per cent per year, which is approximately double that of the developed countries.

The production of food in the world has been projected and is shown in column 7 in order to provide supply data comparable to the projected demand for food. The data in column 7 indicate that the production in the developed countries is expected to grow at the rate of about 2.0 per cent per year, while in the lesser developed countries it is expected to be considerably faster, the rate being 2.8 to 3.6 per cent per year. The significant fact, however, is that the projected rate of growth in production is greater than the comparable growth in demand in the developed countries, while the reverse is true in the lesser developed countries.

So, if you compare columns 6 and 7 in developed countries you will see the projected rate of growth of food production is greater than the rate of growth of population, while the reverse is true in the lesser developed countries, the rate being somewhat higher in food demand than in food production.

In connection with these rates of growth it is important to note that the food production of the developed countries assures adequate diets. A large proportion of the people in the lesser developed countries are inadequately fed by reasonable nutritional standards of calorie intake, or of balance in the diet between energy, proteins and fats; there has been little change in that position over the postwar period. Therefore, the slower rate of growth in production in the lesser developed countries is significant in that it indicates a tightening of food supplies per capita in countries where the diets are already inadequate.

I raise one or two questions about this situation which I would like to deal with now. Why not adjust the uneven world distribution of food through greater trade in food products? International trade like the exchange of products between regions within a country, enables everyone to participate in the advantages of supplies from areas where the costs of production are the lowest. The world trade in foodstuffs, while quite substantial, takes place in large measure among the developed countries themselves. The fact is that the developed countries and the lesser developed countries have tended to be insulated from each other with respect to commercial trade in foodstuffs because of trade restrictions, exchange controls and lack of purchasing power on the part of the lesser developed countries. While the exports from the developed countries to the lesser developed countries are limited in the commercial market, there have been sizeable transfers in recent years under food aid, including gifts and concessional sales. But the supply-demand imbalance in the lesser developed countries is so great that students of the subject are agreed that the real solution to the impending greater pressure of demand on food supply is to produce more within the countries themselves. The reason is that it would require an inordinate shift of the resources within the developed countries if they were to undertake to supply sufficient food to fill the gap under food aid or concessional sales. It would be a burden of cost on the developed countries which they likely would be unwilling and probably unable to assume.

Then I ask: Why is it that the developed countries have been so much more successful in relating the food supply to the growth in population than has been the case in the lesser developed countries? Part of the explanation is the fact that the developed countries, when they were experiencing the rapid rate of growth in population which occurred during the 19th and early part of the 20th century, were able to expand considerably the land area devoted to agriculture into the western regions of the United States and Canada.

The developing countries at the present time do not have the same opportunity to expand the area under cultivation to feed their expanding populations. Therefore, the means available to them to expand the food supply is primarily by increasing the yield per acre. Such increases, in fact, have occurred in the developed countries. Grain yields in the United States, for example, have increased substantially since the 1940's; so have they also in Japan and in Britain at an earlier date. These increases in yield per acre have been achieved by expanding the use of inputs, including fertilizers and other commercial products, which increase the productivity of land.

I should like to say a little bit more about expansion within the lesser developed countries. Why, then, have the lesser developed countries, faced with the serious problem of population expanding faster than food supply, not taken advantage of the possibilities which, in the developed countries, have proved to be effective in increasing food output per acre? The answer is partly in the attitude toward economic development, which is reflected in policy. The lesser developed countries, since the end of World War II have been conscious of the need for economic development. Generally, they have tended to define economic development in terms of industrialization, thereby seeking to expand employment, and influenced of course by the impressive progress in the developed countries. What the lesser developed countries seem to have often missed is the fact that the developed countries built the industrial structures upon the base of an adequate supply of food.

The results of this tendency to underemphasize agriculture on the part of the developing countries is that they have encouraged, as a matter of policy, capital investment in nonagricultural enterprises; they have underemphasized the importance of agricultural research. Secondly, the price relationships be-

tween agricultural products and agricultural inputs have not provided sufficient incentives to agricultural production. The latter is the result of the demand for cheap food as a political force, that low cost food makes it easier to accumulate capital for investment in the nonagricultural sector, and that yield increasing inputs are expensive. The response is as one might expect. Farmers in lesser developed countries find that it is unprofitable to make use of the kinds of inputs and the technology which will produce increases in the yields per acre. Thirdly, there is considerable lack of awareness of opportunities to increase output on the part of producers in the lesser developed countries. Thus, the lesser developed countries do not reap the benefits of the food production possibilities which actually do exist.

To some extent the underemphasis in development plans of the place of food production has been aided and abetted by concessional sales and food aid from developed countries. Food aid extended beyond emergency circumstances tends to obscure the fact that the prerequisite for economic development is an assured and adequate food supply for the population. This assurance can only be achieved through developing a viable, dynamic agriculture which, in turn, is dependent upon favorable price-cost relationships and a policy which enables capital and research investments to be directed into agriculture.

Now a word about forces influencing farm prices in developed countries. The prices of farm products have tended to be unfavorable throughout the world in the postwar period, but for different reasons in the developed countries than in the lesser developed countries. In the latter where population and demand have been expanding rapidly, the normal forces of the market would be expected to work in the direction of turning prices favorably for farmers. This tendency, as indicated in the previous paragraph, has been dampened by deliberate policies aimed at developing an industrial economy.

In the developed countries the output of agriculture has tended to run ahead more rapidly than the growth in demand ensuing from population and income expansion. Thus, the normal forces of the market have tended to turn cost-price relationships against farmers. During the fifties many countries attempted to strengthen farm prices as a matter of public policy. In the United States this led to the accumulation of surpluses; these have now been disposed of, largely through the aggressive policy of concessional sales to lesser developed countries, particularly India.

Recently in Canada there has been an upturn in farm prices making them more favorable to farm producers. These have stemmed from the reduction in inventories in the United States, the large orders which have come from Russia and China for Canadian wheat, and the strong demand for food in Canada and the United States associated with high incomes and full employment.

Given the favorable turn that these factors have given to prices, plus the overall fact that world food is in short supply, might suggest that the terms of trade are due for further improvement. The most uncertain element in that forecast would be the assumption that the strong commercial demand from Russia and China will continue; the uncertainty associated with any forecast based on the continuance of these sales is obvious. There is the fact that Russia harvested 6.3 billion bushels of grain in 1966, which was three-quarters of a billion bushels greater than ever before, and 2.4 billion bushels greater than in 1965. Indications are that Russia is providing the inputs and the incentives to farm producers which, in the other developed countries, has proved to be successful in stimulating increases in yields per acre. The situation in China is fraught with a high degree of uncertainty and it is impossible to say what will emerge out of the current situation. It seems highly likely, however, that the commitment on the part of the present Chinese government to properly feed the

population will continue under whatever changes may take place in the regime. In that case the prospects for the continued sale of Canadian wheat to China would be favorable.

On the supply side the possibilities of increased production per acre or per animal unit are great in the developed countries. The European Economic Community is pretty well committed to a policy of near self-sufficiency in food, even at some considerable cost. If Britain enters the EEC this fact would bring her within that type of policy, giving her obligations to purchase food within the EEC. Within Canada farmers are embarked on a course which will probably lead to some substantial increases in yields per acre; there is a much extended use of fertilizer; also new varieties and techniques which would expand yield are on the horizon. In the United States the upward movement of yields seems to be established.

Another influence on agricultural prices could be the extent of food aid adopted by the developed countries. This form of trade began as a means of surplus disposal in which case it does not cost the donor much in income foregone. With surpluses now nearly cleared away, food aid must come within the more general context of foreign aid, to provide emergency relief or as a particular form of capital grants. However if surpluses are not at hand donor countries may look rather differently at the cost of food aid. It will be logical for them to calculate the cost of food aid as the cost of producing this food rather than the much lower value of unsaleable surpluses. Also they will ask whether the donor contributes as much through food aid as through technical aid and capital grants which enable the recipients to produce their own food. Taking these factors into account, it is unlikely that food aid will be a factor large enough to have a significant impact on the farm prices in the developed countries.

As a concluding comment:

The prospects for world food supply are good from the standpoint of the physical possibilities of producing food for the expanding population; there is a store of knowledge which applied research could adapt to the resources of the developing nations to increase yields as in the more developed countries.

The prospects for adequate food in the underdeveloped regions of the world, however, are conditioned by some basic factors, many of an economic and social nature. There are barriers to trade imposed by both rich and poor countries; these suppress the benefits obtainable from locating production where costs are lowest; the barriers also increase the cost of yield-increasing inputs in the developing countries. Furthermore the rewards and incentives to farmers in the developing countries tend to be unsatisfactory; factors such as unfavorable cost-price relationships and outmoded tenure systems contribute to the inadequate rewards to farmers. Also producers need to be better educated to enable them to make use of better production methods. Research and development must be carefully planned to meet the needs of these countries.

Canada's contribution to the problem of world food supply should involve some expansion of food aid because our commitment has been small. It was noted above that, to the extent that developed countries sell food on concessional terms the developing countries are relieved of the basic responsibility to devise the policies which will bring new technology, capital and improved cost-price relationships into agriculture. Thus the granting of food aid should take into account the fact of possible competition with domestic agriculture. This involves techniques of making the grants so that new capital is created as a result of the food aid, and so that food aid does not compete directly with domestic production.

The fundamental means of expanding output is to enable agriculture in developing countries to become more productive, and thereby to provide the food base necessary for the industrialization phase of economic development. This suggests that Canada's main contribution to the world food problem should be through supplying technical assistance in research and development, and aid either in the form of agricultural inputs or by assistance to increase the capacity to produce these inputs.

On the commercial market and in the longer run Canada needs to be alert to the fact that growing incomes in developing countries are a firm basis for expanding trade. An excellent example is the growth of income in Japan and the ensuing expansion of the market for Canadian grain.

Mr. Chairman, that is the end of my brief.

Co-Chairman Senator CROLL: Mr. Allmand?

Mr. ALLMAND: Dr. Anderson, in calculating food deficits do the statisticians consider what is the actual consumption in the developed countries or what is required by the consumers in the developed countries? In other words, I have read statistics that in the developed countries we over-consume, we are consuming food to the extent that it actually affects our health, and I am wondering whether in calculating food supply and food deficits they just take for granted that the ordinary American and Canadian consumes so much, and therefore that is not considered as surplus in those countries, but rather what is actually consumed; but if another person in another country does not get enough that is considered a deficit. How do they calculate this?

Dr. ANDERSON: To take a specific example—the world food budget prepared by the United States Department of Agriculture, they use what they call a minimum requirement for calories, proteins and fats. It is not as high as the consumption in countries with high incomes such as Canada and the United States, but it is a minimum requirement for health and growth and energy required by the population,—also taken into account is the age distribution within these populations.

Mr. ALLMAND: Therefore, in calculating world food deficits, do these facts state that there is over-consumption in some of the developed countries such as the United States and Canada, and that perhaps this is food that could be used in other countries to balance the deficits?

Dr. ANDERSON: No. They assume the present level of consumption will continue in the high income countries.

Mr. ALLMAND: Therefore, they accept over-consumption as a fact of life?

Dr. ANDERSON: I am not sure they would call it over-consumption; but they accept the level of consumption that is now current in these countries with high incomes.

Mr. ALLMAND: But as you know, there are many medical articles criticising Americans and Canadians for using too many fats, carbohydrates, etc.

Dr. ANDERSON: Yes, I am well aware of that.

Mr. ALLMAND: Another factor that I did not see discussed in your brief is the problem of storage in the underdeveloped countries. I understand that one of the many problems in the underdeveloped countries is the problem of storage even if they could produce enough food for the people in that particular country, but they do not have adequate storage facilities and it has to be brought to the market and sold right away. How correct is this?

Dr. ANDERSON: They are short of marketing facilities of all kinds, of which storage and transportation are two of the more important ones. There have been estimates of the amount that is lost in the world by reason of inadequate storage, and it is quite a substantial figure.

Mr. ALLMAND: Is much of our aid to the developing countries given towards a system of storage and distribution of food, as compared to production?

Dr. ANDERSON: As far as I know, there is very little aid going into that, to assist in the area of food distribution.

Mr. ALLMAND: What is the stage of development of the production of food in the air and in the water? I notice that on page 1, in discussing factors required for the development of food production, you say: "(1) the available supply of land." But I have read in articles, some put out by the FAO, that research into development is in the air, that we are living higher up and food will soon be produced through chemicals in the air and in the water.

Dr. ANDERSON: I am well aware of this possibility. In any of the work that is being done, forecasting where the food supply is going to come from in the next ten years—which is the horizon that I use—not much is expected from those sources which you mention; it is the land and inputs that go into the land that are the sources expected to produce the food for the growing population.

Mr. ALLMAND: You say "in the next ten years". How much can we expect, or can we expect anything, beyond the next ten years? Are there real possibilities?

Dr. ANDERSON: Oh, I think there are real possibilities, that science will enable us to convert various kinds of products into edible foods. I think there is every indication of that—but this remains somewhat in the future.

Senator CARTER: What about the food pill?

Dr. ANDERSON: Well, yes perhaps.

Mr. ALLMAND: With respect to the availability of land and over-population and so forth, if you look at some of the countries—take India, although it has a big population there, you go for miles and miles and see vacant land, yet in the cities there is a teeming population. In Japan, there are more people per square mile than in India and yet Japan seems to be able to feed its people on a much higher basis. Even Communist China seems to be ahead of India, although China has a big land area and a big population. The problem does not seem to be just a large population but the use of all this barren land. I guess irrigation is one cause and there are many others.

Dr. ANDERSON: Yes, that is exactly the point that I was making in my brief, that in the development plans in a country such as India the agricultural phase has been under-emphasized and the capital and inputs that should have gone into agriculture have gone into other development phases of the economy.

Mr. ALLMAND: In trading, you say that we need a newer system of trading so that countries with high surpluses will be able to trade with countries with needs. Do you think that this can be arranged with the traditional commercial systems of trading, or will some government agencies have to regulate this in some way or other, through the United Nations or some other body? Can it take place through trading, just the free flow of trade as traditionally conceived?

Dr. ANDERSON: As between private traders, as it were?

Mr. ALLMAND: Yes. Someone said there seems to be a wall between the less-developed countries and the developed countries, where the developed countries are trading among themselves and both have surpluses, and the

under-developed countries are trading with the developed countries and they all have deficits. You say it is important as to what method of trading ought to take place, but it can take place in the traditional way? It seems to me it could not.

Dr. ANDERSON: I am not quite sure what you mean by the traditional way.

Mr. ALLMAND: Through countries trading with other countries and through free enterprise.

Co-Chairman Senator CROLL: Commercial business.

Mr. ALLMAND: Commercial business, yes.

Dr. ANDERSON: A good deal more could take place on that basis, were it not for artificial restrictions which are imposed by both rich and poor countries.

Mr. ALLMAND: Tariffs.

Dr. ANDERSON: There are tariffs and there is the exchange control. Then of course there is the very great difference in the purchasing power between the two groups of countries.

Mr. ALLMAND: Is the FAO working on this aspect of the problem, too? I suppose Canada works with FAO on these problems, that you have discussed in your paper?

Dr. ANDERSON: Yes, of course, Canada plays an important role in FAO.

Mr. ALLMAND: Is the distribution problem one of the problems they are working on as well as on that of production?

Dr. ANDERSON: Yes, FAO is working on the distribution problem. You mean distribution as between rich and poor countries?

Mr. ALLMAND: Yes. Trying to establish new ways of trading so that the poor countries will be able to get the surplus without upsetting the ordinary commercial patterns?

Dr. ANDERSON: FAO has a World Food Program which is a means of distributing food aid from the surplus countries to the deficit countries, the food-short countries.

Mr. ALLMAND: Is this a give-away program?

Dr. ANDERSON: Yes, it amounts to what you might call a give-away program. Countries with surpluses such as Canada—I should not say surpluses, because we do not have them now—countries which are able to afford gifts can make a contribution to the World Food Program and then this food is distributed on a multilateral basis.

Mr. ALLMAND: This is in addition to the bilateral?

Dr. ANDERSON: This is in addition to the bilateral food aid which characterizes the United States program.

Mr. ALLMAND: Do you think that anything can be done in a country like Canada to force a reduced consumption of food so that we could increase supplies to underdeveloped countries? Do you think that in practice we could be brought to do this, because this seems to be the sort of real tragedy, that so many countries in the world have so much waste and so much over-supply, while other countries have people starving and there seems to be no way to bring the two together.

Dr. ANDERSON: The only way—I do not think it is a very practical way—is if Canadian taxpayers as a group will commit themselves to supplying food aid to those countries. It means they will have to assume the cost, if they are willing to

do that. I suggest that this would be more of a burden than they would be willing to bear.

Senator McGRAND: I have asked this question at a former hearing and I will ask it again. It takes a good many tons of vegetable matter to produce one ton of beef. If the world population increases and the good land in developed countries is taken over for other purposes, as is going on today in industry in Canada, will meat production drop and more vegetarian diet be more common to meet the food shortage?

Dr. ANDERSON: Your question is, as I understand it, that we are encroaching upon agricultural land in this continent and that this will in effect reduce the area in which food supplies can be grown, and this will make products such as animal products, which require a great amount of basic material to produce, more expensive, and therefore we will be forced into a more vegetarian diet.

I do not think that we will actually be faced with this, because the possibilities of production are expanding so rapidly that even though we are losing agricultural lands, the productivity of what remains is going up fast enough to offset these losses. And I would not foresee the possibility which you suggest, that the diet is going to shift towards a cereal diet and away from the high protein animal food diet that we now enjoy.

Co-Chairman Mr. BASFORD: Doctor, you say in your concluding comments on page 8 that "the prospects for world food supply are good from the standpoint of the physical possibilities of producing food for the expanding population."

From all my somewhat limited experience I find that a rather astounding statement. I understand that world population is going to double in some 25 years and then redouble again in another 20 years. Further, unless something is done to limit the population of the world, we will not have enough to eat. You seem to disagree with that.

Dr. ANDERSON: You will notice that my statement is that the physical possibilities are good. Then I go on to say that the prospects are conditioned by some basic factors, many of an economic and social nature.

Co-Chairman Mr. BASFORD: Yes.

Dr. ANDERSON: Now, I have also limited my horizon to the next ten-year period, in which case any effects of decrease in the rate of growth of the population as a result of birth control will not have been felt. So I am saying that within this period, at the rate of growth that we can expect, the physical possibilities are good.

Co-Chairman Mr. BASFORD: I see. But how useful is that projection, when, surely, you must also look at the long-term projections? The long-term projections, as I understand them, are, certainly, that unless something is done to limit world population we will not be able to feed the world physically.

Dr. ANDERSON: I am quite sure, if you look at the long run, the rate of growth of population cannot proceed at its current rate. There has to be some population policy in major regions of the world that will slow down this rate of growth. It will press not only on food resources, but on all kinds of other resources in the world.

Co-Chairman Mr. BASFORD: So then I take it that this statement should really be qualified, as you have qualified it just now, as a ten-year projection.

Dr. ANDERSON: Oh, yes.

Co-Chairman Mr. BASFORD: Secondly, you also believe, though it is not stated here in your brief, that unless there is some form of limitation policy, we will not be able to physically produce food for the world's population.

Dr. ANDERSON: I would not want to say or forecast that we could not produce the food physically, because the possibilities of what scientists can do are quite astounding, if they really direct their research attention along those lines.

I would not want to say for sure that there were not physical possibilities, but I would say that it may get to the point where it would take an inordinate amount of our resources of the world just to feed the population.

Co-Chairman Mr. BASFORD: I am sorry that I did not bring with me some speeches I have in the office. For example, I have one by Eugene Black, the former President of the world bank. I wish I had brought that because I do not think he would agree with you. In fact, I am quite sure he does not.

Dr. ANDERSON: Well, I would answer that by saying that statements such as that made by Mr. Black are made with the assumption of these conditions which I set forth here, that the social and economic factors provide serious barriers to the actual increase in the food supply to provide adequate diets for the rapidly growing population of the world.

Co-Chairman Mr. BASFORD: Rather than extending the food aid that you suggest, would it not be better Canadian policy to put our aid resources into population limitation or advice for that?

Dr. ANDERSON: This is certainly one of the important aspects of relating world population to world resources. I was talking in this brief entirely about prospects for food supply within the 10-year period.

Mr. ALLMAND: Would you replace food aid, though, by aid to reduce population? Is it a matter of choice? Do we have to choose between one and the other?

Dr. ANDERSON: I am not sure if I quite understand you.

Mr. ALLMAND: I mean that Mr. Basford asked you if, instead of sending aid to produce more food, would you not use that effort to try to reduce the population? I am asking you is it necessarily a choice between one and the other or should not both be done?

Dr. ANDERSON: Oh, yes, certainly.

Co-Chairman Mr. BASFORD: But you say that the Canadian contribution to the problem of world food supply should involve some expansion of food aid because our commitment has been small.

Well, we have eliminated for all practical purposes our surpluses in Canada and, therefore, rather than trying to grow more food to provide food aid, would we not be better off to tax Canadian people to send Lippes' Loops to India?

Dr. ANDERSON: The reason I did not get into the question of population control is that the horizon I put on these prospects was within the next ten years, or from 1965 to 1975, when population control would not have any effect on the rate of growth and the amount of food that would be required.

Mr. O'KEEFE: On a point of order, Mr. Chairman, I suggest that this is a committee to examine the prices charged consumers; we are not here to go into the question of the abolition of future consumers.

Co-Chairman Senator CROLL: You have a point there. There is no question that you have a valid point, but they are producing something by discussing the question here. It is quite a wide subject, as you can see.

Mr. O'KEEFE: As a member I am perfectly in favour of family planning, but it is perfectly obvious that Mr. Basford is trying to direct the witness to an area entirely different from his brief.

Co-Chairman Senator CROLL: The witness is holding his own very well, Mr. O'Keefe.

Co-Chairman Mr. BASFORD: I was curious, Mr. O'Keefe, to know why that very important subject was left out of the brief, because it certainly has a great deal to do with worldwide food prices.

Mr. O'KEEFE: Then, I suggest you bring Mr. Black here to answer questions on that subject.

Co-Chairman Senator CROLL: Well, perhaps Mrs. MacInnis can decide this issue. He is your witness, Mrs. MacInnis.

Mrs. MACINNIS: I am afraid that the one subject cannot be discussed intelligently without the other. Surely, Dr. Anderson, there must be some sort of optimum figure of population in the world that would make a suitable figure, given conditions in the world the way they are? Do you think the supply of food, to go no further than food, is unlimited in terms of what science can produce?

Dr. ANDERSON: It depends on what time horizon you put on this kind of question.

Mrs. MACINNIS: I have in mind now a chart made by an American writer, in which he shows by his figures that world population has been increasing steeply while, relative to it, food production has been going down for some time. The reason I am asking this question is that I have tried to find out what percentage of our national income should go to feed hungry people in other parts of the world. The ordinary people of Canada that I have talked to have said to me "What is the use of dropping all this down the well? The population in those areas is doubling and so all the time there are more mouths than we can feed." Do you think this is relevant?

Dr. ANDERSON: It is very relevant, but this is a social question that is answered differently by different countries and by different cultural groups in various parts of the world.

Mrs. MACINNIS: Which of the underdeveloped countries today are making some kind of impact in trying to get their population to match their resources? What countries are really coping with this problem?

Dr. ANDERSON: India is attempting a population policy. When you ask how well they are coping, I don't think the effect is showing up yet, but as I understand it, it is quite a positive policy in this regard. If you want an example of a country which has used a population policy very effectively, I would mention Japan. I believe it is the outstanding example in this regard in the world.

Mrs. MACINNIS: Is land ever worn out? I now have a chance to ask a few questions that I have wanted to ask for a long time. I have been reading about various land methods in use in underdeveloped countries. And I have often wondered if land ever gets to the stage where it is completely worn out or if with modern methods of production it is possible to bring it back into production in the future?

Dr. ANDERSON: Land can be destroyed to the point at which it cannot be brought back at any reasonable cost.

Mrs. MACINNIS: Are there many underdeveloped countries that have wide tracts of land of that kind?

Dr. ANDERSON: You mean that have been destroyed by cultivation?

Mrs. MACINNIS: Yes.

Dr. ANDERSON: There are tracts, but I don't think they would be large in relation to the total land in the world.

Mrs. MACINNIS: Could most of these countries use practically all of their land for food production if they had the scientific know-how?

Dr. ANDERSON: Well, I would put it this way; the shortage of land is not the most serious factor in limiting the supply of food to these countries, because land can be made more productive by the education of the people to farm better and by the addition of fertilizers and various modern techniques for increasing yields.

Mrs. MACINNIS: In your view what are the main factors, apart from ignorance or lack of education, that hold back production of food in these countries?

Dr. ANDERSON: Ignorance on the part of the producer is an important one, and I would place a great deal of stress on the need for education of producers in those countries. Secondly, there is a great need for more and better applied research so that the scientific know-how which we do have is actually made available, and is adapted to the kind of resources available. There can be quite a barrier to overcome in adapting modern technology to particular conditions. The third factor is the general policy of the country and its attitude towards agriculture, particularly those countries that are involved in extensive development plans. It can make a great deal of difference to food supply, depending upon how much they emphasize agriculture in terms of the amount of capital allocated to it and the price-cost relationships that are established. One of the points I made in my brief was that there is quite a tendency to keep food prices down. Because food is scarce and people are poor, they try to keep food prices down. This, of course, means the incentives are not there to the producers to enable them to use the kind of inputs necessary to increase yields.

Mr. MCCUTCHEON: May I have a supplementary question here?

Mrs. MACINNIS: Yes.

Mr. MCCUTCHEON: In your opinion, Professor, has the give-away food program of our neighbour to the south not contributed to some degree to the lack of development in agriculture in some of these developing countries? In other words, they get it dumped in there and they do not have to produce it, and they have not taken to the idea of scientifically approaching it on their own because they have had this great surplus accumulated in the years gone by in the United States?

Dr. ANDERSON: It is my opinion, and I have suggested it in the brief, that concessional sales or food gifts tend to relieve the developing countries of their basic responsibilities to develop their own agriculture. Thus, to the extent that they have a tendency to underemphasize agriculture they are aided and abetted by food aid, unless it is handled so carefully so that it does not become a competitive factor with the domestic agriculture.

Mrs. MACINNIS: Do you think Canada could make a contribution by sending more farmers in there, or people with farm know-how?

Dr. ANDERSON: Well, as I mentioned in my brief—

Mrs. MACINNIS: What I mean is this: Are we sending enough agricultural experts proportionate to our other kind of aid? Do you think we are sending a large enough proportion of people with farm knowledge?

Dr. ANDERSON: No, I don't. I think that we could make our greatest contribution in the form of inputs on the one hand and sending technical people on the other. This is the area where we could make our greatest contribution.

Mrs. MACINNIS: Suppose we were doing our fair share of looking after underdeveloped countries, have you any idea what percentage of our national income we would need to devote to this.

Dr. ANDERSON: Are you referring to Canada's national income?

Mrs. MACINNIS: Looking over the whole picture, how much would it cost to get these countries out of the hole? How much should we be giving, roughly? What would it amount to?

Dr. ANDERSON: Using the estimates in the world food budget, the cost of bringing up the level of consumption to what it defines as adequate, and taking into account the growth in population, by 1970 the cost would be U.S. $6.8 billion.

Mrs. MACINNIS: That is for the whole job?

Dr. ANDERSON: For the whole job.

Mrs. MACINNIS: And our share would be?

Co-Chairman Senator CROLL: A little heavy. Do you mind if we let the farmers have a workout now? Senator McDonald and Mr. Olson.

Senator MCDONALD: Dr. Anderson, there are many people who seem to be under the impression that you can increase agricultural production by keeping the price paid for a unit of production down. In other words they believe that if a farmer has a return from one hog which means that he must produce a number to make a living, that he will thereby be inclined to produce more hogs. Do you not agree with this?

Dr. ANDERSON: No.

Senator MCDONALD: Do you agree with the opposite, that if there is an adequate return on the investment, then production goes up?

Dr. ANDERSON: Yes, farmers are economic men, and they respond to those kinds of rewards.

Senator MCDONALD: Would you say that Canada's production in agricultural products generally today is much less than it would be if there was a better return for the investment dollar in agriculture?

Dr. ANDERSON: If the price of agricultural products were higher relative to costs, then certainly we would have more agricultural production.

Senator MCDONALD: Do you think it is possible in Canada to double our agricultural production within ten years?

Dr. ANDERSON: Physically possible to double it?

Senator MCDONALD: Yes.

Dr. ANDERSON: This would be a growth rate of 10 per cent per year. It would be physically impossible, but I would not be prepared to say how much economic incentive it would take to do it.

Senator MCDONALD: It might not be practical to increase it that rapidly?

Dr. ANDERSON: No.

Senator MCDONALD: But it could be done?

Dr. ANDERSON: I would think it could be done, physically.

Mr. MCCUTCHEON: Do you not think you would have to have the co-operation of the weather man?

Dr. ANDERSON: Yes, I have to assume some kind of average weather conditions when I say that.

Senator McDONALD: Dr. Anderson, I was very interested in your paper. It is thought-provoking. It is an excellent paper, and with a great deal of it I agree. I am very interested in your comments on the effect—and some questioners have been asking similar questions—of giving food to underdeveloped nations of the world, and could I ask you now a personal question? Have you ever been to India?

Dr. ANDERSON: Yes, I have.

Senator McDONALD: I have too. I had the privilege of visiting it a couple of years ago, and I got my eyes opened. I am convinced that give-away food throughout the world has done more harm than good, in my personal opinion. From my observations in India, I am convinced that if they were as far advanced in agriculture as we are in Canada—and I think we are a long way behind the times—they would not be an importer of food but an exporter. In my humble opinion, India has sufficient land resources to feed her own people and to export food.

This is a dangerous statement I am going to make now. In my humble opinion, the advice which has been given on agriculture, and in many instances followed, has done more harm than good. It seems to me she has had too many textbook theorists trying to advise her on agriculture and not enough farmers. I never have met a successful farmer yet who learned how to farm out of a book. If these people went farming they would go broke. They and many of the underdeveloped nations of the world need good, successful farmers. Would you agree with the statement that a good, successful American or Canadian farmer could do a lot if we could get some of these people into underdeveloped nations of the world with government authority behind them to try to change the ways of agriculture in nations or countries such as India?

Dr. ANDERSON: I am sure that good farmers could make a substantial contribution to showing how to adapt the production methods that have been successful in this country to conditions which prevail in countries such as India.

Senator McDONALD: I think your technicians and your highly trained men in agriculture have a place, but the people who benefit most from their knowledge are your best farmers, and your poor farmers, as a rule, copy the best farmers. They are totally incapable of absorbing the knowledge of your technical and highly trained people. This seems to be the problem in countries like India. As far as I can make out, the average farmer is almost illiterate and it is beyond his abilities to copy that knowledge that is made available to him from the highly trained agricultural technician. There is a gap, in that he cannot look at his neighbour and see what his neighbour is doing because he is doing exactly the same, and they are both in bad shape. But if we had practical farmers who could put into use the knowledge of our trained agriculturists, and the run-of-the-mill of farmers would copy what he is doing, we would make far greater progress.

There is little or none of this done, that I know of, in India. Is not there a place for us to set up demonstration farms in India and not tell the farmer what he can do, but do it and let him copy it? Is this practical or possible?

Dr. ANDERSON: I would answer that by saying that I am quite sure the whole program of extension is inadequate in those countries, and that a good extension program would include all these elements which you have mentioned.

Senator McDONALD: But we are not doing that.

Dr. ANDERSON: I am quite sure it is inadequate in those countries.

Senator McDONALD: As you have said in your brief, in the past we have been giving away surplus food from Canada and the United States. Now, if we are going to keep giving it away—which I hope we will continue to do—we are giving away something we could sell some place else for cash. It seems to me our whole program should be reviewed because of the situation in which we find ourselves now. And we might get far better results, both for ourselves and the recipient countries, if we were to spend an equivalent amount of money in research, demonstration and training in countries like India, so that they can produce their own food. So, perhaps we should not be sending food abroad any longer, but we should take the money we receive from selling it to integrate a program which will make it possible, over period of years, for them to feed themselves or to make a much better effort in feeding themselves. Would you agree with this?

Dr. ANDERSON: I think there is a place for a food aid program. But the largest and most significant aid that we could give is technical assistance, sending people of the kind you mentioned, plus the inputs that enable the developing countries to make their land more productive. There is a place for food aid, certainly, first of all, on an emergency basis; and, secondly, it has been demonstrated that food aid carefully tied to development programs can really assist in developing the capital of those countries; but it has to be well planned.

Senator McDONALD: One other question. Many of the over-populated nations of the world, in areas where there is starvation—I suppose you could use that word—governments of the day have endeavoured to use the resources of their country, in many instances, to industrialize their nation. And yet in many their richest resource is their land, but they have not laid emphasis on the development of their land to produce food. It seems to me it is impossible to industrialize a nation if your main resource is land and yet you cannot supply food enough. For instance, in India they are making great strides to build automobiles, and it seems to me they would be far better off if they were building irrigation pumps. They could build automobiles after they have been able to feed their workers. Would you agree there has been some misdirection in the development of the resources?

Dr. ANDERSON: Yes, I do. I tried to make this point in my brief, that part of the reason why they were not able to produce sufficient food was that they completely missed the point that the developed countries of the world first established agriculture so the population was well fed.

Senator McDONALD: But without this base it is pretty difficult to develop anything else, is it not?

Dr. ANDERSON: Yes.

Senator McDONALD: Especially in a country like India. For instance, someone mentioned Japan. Japan and Great Britain are great examples of where you have an island with not too much land, but this is not true of many of the over-populated and hungry nations of the world.

Dr. ANDERSON: No.

Senator McDONALD: They do have land, but it is not being utilized.

Dr. ANDERSON: Yes, I agree.

Senator McDONALD: And yet many of these nations are planning and putting their latest efforts to doing things that they are not naturally equipped to do. Is there not some way through foreign aid by which we can advise them to develop their agriculture first, and to forget about these other enterprises?

Dr. ANDERSON: I would say that the developing countries in recent years have become more conscious of their agriculture. India's most recent five year plan puts more into the agricultural sector than the previous ones.

Co-Chairman Senator CROLL: Dr. Anderson, as I understand the approach of the United Nations, it is exactly what Senator McDonald was talking about. The emphasis seems to be on sending these countries technically trained people, with these countries saying: "We do not want them. They are not acceptable". What has been your experience in respect to this. Can the United Nations have been wrong all these years in pursuing a policy that did not seem to pay dividends?

Dr. ANDERSON: The technical people who have gone abroad from the developed countries have by and large done a very effective job, and have justified the expenditure that was made in this direction by the developed countries. I do not think there has been enough resources put into that area and, has been suggested, there has certainly not been sufficient people who were able and willing to work right at the level of the producers in those countries.

Senator MCDONALD: May I ask one more question?

Co-Chairman Senator CROLL: Go ahead.

Senator MCDONALD: How close are we to producing edible protein from petroleum products?

Dr. ANDERSON: I do not know. I read in the papers that this is now a scientific possibility, but I have no way of knowing how close it is to being an economic possibility.

Mr. OLSON: Mr. Chairman, I would like to ask Dr. Anderson if he or the F.A.O. have ever made a survey in an attempt to project the possibilities for total output of human nutrient requirements using the present technology—that is the present known technology—and the present known land area.

Dr. ANDERSON: I have in my table, in columns 6 and 7 such a projection for the next 10 year period—the rates of growth in the demand and the supply.

Mr. OLSON: Yes, but as I read these tables I think that you have projected your figures on the basis of what you expect to happen rather than on what could happen from the physical point of view.

Dr. ANDERSON: These are what would be expected to happen, taking into account—

Mr. OLSON: You certainly do not expect the countries in the near East or in Central Africa and Asia, and so on, to be capable of using all of the known technology in the production of food during this period, do you?

Dr. ANDERSON: Oh, no. This is assuming a reasonable rate of acceptance of the technology. Are you suggesting that we could suddenly lay the whole level of technology of the developed world upon the undeveloped world?

Mr. OLSON: No, what I am asking is whether any attempt has been made by anyone—and presumably it would be the F.A.O.—to project these figures if the technology, skills, and science of the farmers of the western world was applied? For example, there are some very highly productive areas in western Canada, in the central and western United States, and there are also some in Europe. If you applied all of that technology to all of those arable acres in the world, what would be the possibility of the total output? I am not suggesting it is going to happen, but when we keep getting fogged up with what we do first in respect of this food crisis, and about population control and so on, I am wondering if anyone has done anything about projecting what we are capable of producing on the acres we have, with the technology that we have, and without using any

imagination as to what further improvements there might be in the future coming from research?

Dr. ANDERSON: No, I cannot recall having seen any study that has been made on exactly the conditions you state.

Mr. OLSON: I am interested in this because it has been asked whether Canada could double her production in ten years, and I am of the opinion that Canada could more than double her production of total human nutrient requirements in less than ten years if there was an economic incentive to do so. We could to it by using all the land that is not used to the maximum now, and changing the product patterns, for example, on millions of those acres out there is the objective was to turn out a huge total output of nutrients, rather than have as our main consideration what it pays to grow them.

I have seen some examples of this in the near East, and I have compared the output in Israel to that of some of the acres east of Israel. The production in Israel is much greater because of the application of knowhow by people who know how to use it. This is why I raised the question as to whether there has ever been such a survey made.

Dr. ANDERSON: Well, my answer is that I do not know of any study that has been made under those particular conditions that you outline.

Co-Chairman Senator CROLL: When our surpluses are gone, as everybody agrees they will be within a short time, would there not be sufficient incentive there?

Mr. OLSON: No, not at the present time. In southern Alberta, for example, because of the irrigation projects that are installed at the moment, the potential output is perhaps five times the actual output, and yet when farmers move into these areas they find, because of the price they get for some of these specialty crops—vegetables, potatoes, etc.,—that while they can increase the total tonnage tremendously they cannot pay the added cost of doing so. In those cases the farmer finds himself in financial difficulty, and so he goes back to some of the other kinds of lower cost production, and this greatly lowers the total output, although the net return to the farmer is higher.

I say thousands of square miles in central Africa stretching from the southern fringes of the Sahara Desert down to the jungle on which, if modern knowhow were applied to them, and if they had some farmers from western Canada farming them, the production would go up not two or three times, but ten or twenty times. A tremendous amount of production could come out of those thousands and thousands of square miles.

That is why I raised this question. I get a little tired of this argument that the land area in the world is not able to produce when I see millions and millions of acres on all of these continents just not being used.

One other thing I would like to ask about is with respect to this policy of trying to help some of these so-called developing countries. Have you run into political problems with their governments in that they simply do not welcome people with know how in increasing productivity? I was rather startled, as a matter of fact, in some of the countries I visited to discover that there was a kind of obsession to get rid of those who had knowledge of this because of some nationalism that was the government policy at the moment, and down went production because they could not apply the modern technologies. Did you find any of this in those countries?

Dr. ANDERSON: In the examples that you cite I am sure there are several where nationalism has arisen in a country, the result of which has been to drive out people who could make tremendous contributions to the technical and

economic life of that country. However, what I thought you were going to ask was whether there had been resistance to the United Nations or to developed countries sending technical people to assist, and I would say that I do not know of any or that I have heard that this is a problem.

Mr. OLSON: I agree that they pay lip service to this at the United Nations and at other conferences I have attended, where they welcome technical and educational aid, but when you come to the point of supplying them with some practical people who know about these things and the incentives to get those practical people to go there, then the door is shut.

Co-Chairman Senator CROLL: That is what I said earlier, and I did not get much of an agreement from Professor Anderson on that line. That was my experience.

Dr. ANDERSON: All I can say is that I have not been aware that that is a problem.

Co-Chairman Mr. BASFORD: Alberta farmers will be welcome in the jungle, Mr. Olson.

Mr. OLSON: There are other areas in the jungle where the farmers can make an enormous contribution in output, but I do not think they are welcome in other countries where the fertility and climatic conditions are different, because of narrow nationalistic policy which prevents them from going in, not in a small area, but thousands of square miles.

Co-Chairman Senator CROLL: Have you any other questions?

Mr. OLSON: Yes, Mr. Chairman. I am interested in your comment that many of these countries are trying to keep food prices down—Senator McDonald explored this for a moment—and that therefore this has resulted in substantially less than the optimum in food production. Do you think Canada perhaps has been holding food prices down in the past few years?

Dr. ANDERSON: Canada is a developed country, and I was talking of the underdeveloped countries.

Mr. OLSON: I realize that. My question is whether your examination of Canadian policy and the total output of food has been such that we have over-emphasized keeping food prices down and the end result has been that our total food output has been substantially less than it could be?

Dr. ANDERSON: No, I would not say that food prices or that farm prices have been kept down in this country by that kind of policy.

Co-Chairman Senator CROLL: Mr. Olson thinks that we are politically underdeveloped in this country.

Mr. OLSON: Perhaps I could refer you to one specific product, sugar. Are you familiar with Canada's policy on sugar, which is one of our basic food products?

Dr. ANDERSON: Yes.

Mr. OLSON: Do you think Canadian producers of sugar beets in Canada have been less than optimistic about increasing their production when they are having to sell against all the surplus or dumped products in the world all the time?

Dr. ANDERSON: I am afraid I do not know that much about the sugar beet industry in Canada, but it is my understanding that there is some protection of that industry.

Mr. OLSON: There may be some subsidies, but my understanding is that there is no protection.

Dr. ANDERSON: Are no excise taxes remitted in the case of sugar?

Mr. OLSON: On refined sugar, but not raw sugar. Concerning this aid program, you have stated that there should be a change in policy in these other countries to enhance the incentive of producing more food. What does this all mean to Canadian consumers? Does it mean that in your opinion we ought to be prepared and willing in the name of humanity to pay a little more for food to provide the incentive to produce more?

Dr. ANDERSON: Again, I think I have to emphasize that I am talking about the undeveloped countries. The developed and underdeveloped countries have very different economies. What I was talking about was the policy for development in those countries which tends to under-emphasize agriculture. One way that it is done is that food prices are kept as low as possible, partly because of the political pressure from the urban areas in those countries. Now, your question was, should Canadian consumers pay more, I presume in order somehow or another to affect the general level of food prices in the world and therefore provide the incentives for a more favourable situation for the producers in the underdeveloped countries. I find it difficult to make a connection between the two.

Mr. OLSON: In going over your brief—and I did not mark the spot, but I think you did suggest that we should be prepared to raise our food aid program?

Dr. ANDERSON: Yes, I mentioned that; it has been small.

Mr. OLSON: If we are to be able to deliver food to these countries under these increased aid programs we are also going to have to do something to induce farmers to produce more. I think the one follows the other. If we are going to give these food products we are going to have to produce them. I wonder with the ramifications of the cost of living index, the food index, whether or not in providing these incentives, this is a desirable policy, in your opinion, because certainly if these incentives to produce more are going to be there and Canadian consumers are buying in the same market, they will probably have to pay a little more.

Dr. ANDERSON: If Canada embarks upon a large program of food aid along with the other developed countries of the world, undoubtedly it will have some effect in raising farm prices. You are asking me if I think this is a desirable policy to pursue?

Mr. OLSON: Yes.

Dr. ANDERSON: I would say that it is a desirable policy only within very strict limits, the reason being that even if we put a large amount of expenditure into food aid it would not solve the food problem in the underdeveloped areas. So the real way to solve it is to provide them with the technical know-how and the input so that they can produce it themselves.

Mr. OLSON: But can we justify in this difficult food crisis situation that everyone talks about, holding down production in Canada by a price policy that holds down production?

Dr. ANDERSON: Well, our price policy is not designed to hold down production. This seems to be the assumption in your question.

Mr. OLSON: I am not trying to embarrass you, I am really concerned about this, because in most basic food products, such as wheat, flour and sugar, and many many other products, Canadian farmers are always selling against an international market that is protected for the domestic producers in those areas where it is produced.

Canadian farmers are always selling against an international market that is protected for the domestic producers in those areas where it is produced. For example, we do not sell wheat on an international market in competition with

what the producers in other countries get: we sell it against what is the declared surplus of their domestic requirements and they slough it off in some cases or sell for whatever price they can get. We Canadian wheat producers have to sell against that all the time, for what we sell to the domestic market, notwithstanding that there is a difference in price in the United States, in the United Kingdom, in West Germany and in France. None of them are selling into this market and we are selling against that all the time.

There is the same thing in sugar. There is a one cent and a half tariff or excise added on bulk sugar that comes into Canada that comes in raw form and our sugar beet producers are trying to sell against this type of market all the time. It keeps prices down. There is another question in that area. It also keeps down the incentive to the farmers to produce more. Is this a justifiable way of using our potential for production of food, when we have this claim that there is a food shortage or an imminent food shortage of crisis proportion coming very shortly?

Dr. ANDERSON: I still come back to the same answer that I gave, that any food crisis, as you call it, can best be met by production within the countries themselves. Therefore, the answer to your question is that our present production, which we are now able to sell, is presumably the economic one as expressed in the prices that we have.

Mr. OLSON: I agree with that, personally—there is no disagreement with that. The point I was trying to get at is, whether or not there is misplaced complaining about food prices in Canada, when we have some international obligations or responsibilities, from a humanitarian point of view, where in fact we could, with a small increase in our domestic prices to our consumers, substantially increase the total output and the balance of this would be available to those countries that are short.

Mr. MCCUTCHEON: Is this food crisis that we hear about as severe as is sometimes reported? The reason I ask the question is based on an article which I read recently, that in Pakistan they have been doing tremendous things with a Mexican variety of wheat. Our yield here is probably one ton per acre and this supposedly has a potential of two to two and a half tons of wheat per acre. It is assumed or mentioned in this article that they would be self-sufficient in a matter of five or ten years, or something of this nature. I forget the exact figure. Therefore, coming back to that article, I restate my question: Is this food crisis as severe as is sometimes reported?

Dr. ANDERSON: I think that it is possible to overstate it, and it has been overstated at times. There is no question that, using reasonable nutritional standards, large portions of the population of the world are undernourished. When you say "food crisis," though, I think of something like mass starvation and I do not believe that there is a crisis in that proportion on the horizon. I think the figures that have been derived by FAO, which I included here, show that developing countries are going to have a hard time keeping up with the growth in population and the demand on food; but it is not going to run into crisis proportions of the mass starvation dimension.

Mr. MCCUTCHEON: Have you anything that you can add as to the development of that program in Pakistan, other than what I mentioned? Is it progressing satisfactorily?

Dr. ANDERSON: I have not detailed knowledge of that program but I know of it, and what you have said generally agrees with what I have heard about it. There are other parts of the world where programs of this kind show great promise. I have heard that the development of corn growing in Thailand is very

promising. Furthermore, the production in Mexico itself of grains has been substantially increased in recent years.

Senator McDONALD: Could you tell me how closely we are now to the development of a hybrid wheat in Canada?

Dr. ANDERSON: I do not know how to answer that question.

Mr. McCUTCHEON: I would like to pursue the thought that Mr. Olson had about these low farm prices. I do not think it is possible to deny that we in Canada as consumers enjoy the lowest price on sugar of any nation in the western world. Our producers have to compete, not with the orderly marketing of sugar but with sugar that is surplus to all requirements on the London daily market. The point is this. Is there any implication there that this is purposely held down?

Dr. ANDERSON: I am afraid I have not any comment on that.

Mr. McCUTCHEON: Has there been evidence of our food aid programs in underdeveloped nations being tied to ideological programs? Has there been any evidence of this type of thing causing resentment in these places?

Dr. ANDERSON: When you say "ideological," do you mean to promote some particular political philosophy?

Mr. McCUTCHEON: I would assume that would come under that heading.

Dr. ANDERSON: I do not know.

Mr. McCUTCHEON: One more. How do you propose that we should overcome the negative attitudes which apparently exist in countries, to accepting our technical aid?

Co-Chairman Mr. BASFORD: Send better looking technicians.

Senator McGRAND: We are all short of years.

Dr. ANDERSON: That brings up the whole question of how best can extension be managed under various circumstances, to make it acceptable. I am afraid I have not the answer to that.

Mr. McCUTCHEON: I have one final question. I would like your comments, if you would, please, on the implications contained in this paper which you have presented to us, relative to the cost of food in our country, Canada, for the next ten years.

Co-Chairman Senator CROLL: Someone has come back to the subject. Now we are all interested, Mr. Anderson.

Dr. ANDERSON: The implications in my opinion to the farm price of food in this country are that these will remain about the same, relative to other prices, over the next ten years, as they are at the present time.

Co-Chairman Mr. BASFORD: You were talking about farm prices. I think Mr. McCutcheon's question was directed towards consumer prices.

Mr. McCUTCHEON: Yes. In other words, you see no rosy hope in the future that my farm colleagues over here will get greatly increased prices for their products? And where is the consumer going to be?

Dr. ANDERSON: Consumer prices are, to a certain extent a reflection of form prices: What might be added to this over and above what we now pay I would not be prepared to say.

Mr. McCUTCHEON: Did you say "over and above what we now pay?" I take it that the implication is that they will be going up.

Dr. ANDERSON: Are we going to add services because consumers are going to demand more services? That is the very important question which will determine what food prices might be.

Senator MCDONALD: May I ask one question? Do you look for larger imports into Canada of agricultural products over the next ten years?

Dr. ANDERSON: No. I would not expect that there will be larger imports of agricultural products.

Senator MCDONALD: I am thinking of butter at the moment. It is only a few years ago that, figuratively speaking, we had butter sticking out of our ears in government storage, but now we are importing it. It seems to me that the only reason we are importing butter now is that we will not pay the Canadian producer enough money to produce butter.

Co-Chairman Mr. BASFORD: The reason is that we are free traders. That is why.

Senator MCDONALD: I do not mind free trade that goes both ways, but I hate free trade that goes one way and not the other. Do you look for increased production of dairy products in Canada in the next ten years?

Mr. WHELAN: What about the lumber industry in British Columbia?

Co-Chairman Senator CROLL: Quiet please.

Dr. ANDERSON: That depends on so many things. When you say the next ten years—

Senator MCDONALD: Let us say in the next two years, then, coming to short term policy.

Dr. ANDERSON: No, I would not expect to find an increase in dairy products within the next two years.

Co-Chairman Senator CROLL: All right, Mr. Whelan, do you have some questions?

Mr. WHELAN: I just wanted to ask first of all, whether the witness would agree that foodstuffs should be gambled with on the market. What I mean by that is on the exchange they gamble on buying futures in them. There is gambling on food for human consumption. Do you agree that this is a good policy?

Dr. ANDERSON: The futures market can make a very significant contribution towards the marketing of food products.

Mr. WHELAN: Do you not agree that many of the people who make money on the futures never planted a grain or harvested anything, but they are the ones who make the money and create in many instances, the phoney prices.

Dr. ANDERSON: You are referring to the speculator, who is an integral part of such a system. Speculators both make and lose money in their dealings. If the exchanges are operated under proper rules, a futures market should anticipate to some extent price changes and, therefore, have a moderating effect on the fluctuations in prices.

Mr. WHELAN: I cannot think of the name of the man, but I am trying to remember who it was in the United States in the soya bean market—

Co-Chairman Senator CROLL: You are probably thinking of Cutten, who tried to do it.

Mr. WHELAN: He did it once.

Co-Chairman Senator CROLL: He sank himself with it.

Mr. WHELAN: He created a phoney soya bean market without any money of his own. He was the cause of consumers losing millions of dollars in the United States. He did this on the exchange. He made a real racket. I think they fined him and put him in jail, but there was no compensation for the people who suffered because of his manipulating the futures market. I think this is wrong, but I do want to thank you for your opinion.

Now, one thing in both Canada and the United States is that we have in our countries many people leaving agriculture: experienced people, and qualified people who know how to farm. These people are by no means "dummies". They are being put out of business by large operators, vertical integration, et cetera. Do you not agree that in many instances these people could be of assistance to the underdeveloped countries?

Dr. ANDERSON: Well, yes. I would say in answer to your question that farmers can make a contribution in the extension of knowledge in the underdeveloped countries. I would not say that we should necessarily choose for this purpose those farmers who are leaving the industry.

Mr. WHELAN: I am trying to make a point here, sir. You see so many organizations such as the Corps of Young Canadians which is supposed to be comprised of people who are trained to do agricultural work, but many of them have not had practical experience but they are trying to teach people in underdeveloped countries to do things in which they themselves are not well versed. Many of our Canadian farmers have worked with people from all over the world who could not speak our languages, but yet they became efficient workers and, in many instances, efficient farmers themselves.

These people have the ability to work with people who do not understand the native tongue that is spoken. They do not need even to speak the language in order to show these people how to do the job, because they are used to doing it themselves and they have the know-how.

At the Parliamentary conference which was held here last year I spoke on this subject in one of the sessions, and it was readily accepted by many of the delegates attending the conference that this was a wonderful idea.

I thought perhaps many Canadians and Americans, social workers and so called experts, who were saying that these farmers become social problems because they go to urban areas, would realize that these farmers would actually be making a contribution if they went to other countries, because they would be of assistance there and would be no problem here.

Co-Chairman Mr. BASFORD: Mr. Whelan, both the Peace Corps in the United States and CUSO in Canada endeavour to include agricultural workers.

Mr. WHELAN: Yes, and I know that some of these people, I agree with Mr. Basford, are making worthwhile contributions. I am not taking this away from them, but these other people could be making just a little bit better contribution and, if they were really dedicated to join this method of helping their fellow man, and if their whole lives were dedicated to agricultural production, then that would be far more valuable. And I might say that there is a difference between actually having done this type of work for many years and being superficially knowledgeable in the subject. And as for any talk of inefficiency in these people who are now leaving the field of agriculture, as far as I am concerned, that is the most over-talked subject there ever was.

One of the other questions that I would like to ask is whether you agree with the United States policy of buying up surpluses, putting them in storage and then subsidizing the farmer for his products? This is what they did with all their corn a few years ago, and it is what they are doing in Florida at the present time with the citrus crops. Apparently they are 40 per cent over the normal crop and the government has allocated so many millions of dollars to the purpose of

buying up the surplus and putting it into a form of frozen products and juices. This happened just a month ago. Do you agree that this is good policy?

Dr. ANDERSON: It depends on what context you put that in. Your latter example, where orange juice has been turned into a frozen concentrate and put into storage, I presume therefore spreads the sale over the market for a little bit longer period. There the Government is, in effect, operating a kind of futures market.

Mr. WHELAN: But are they not also guaranteeing that there is not going to be huge fluctuations in the price?

Co-Chairman Senator CROLL: That is exactly what he is saying.

Dr. ANDERSON: That is what I am saying. They are levelling out the peaks and hollows in both prices and the amounts that are offered on the market.

The first example you used applied to the United States policy in the 1950s, in which it was a longer run policy of keeping prices above the level at which the product could be sold, so that there was an accumulation of surpluses as a result of that.

Mr. WHELAN: Well, is an accumulation of surpluses not a really good thing at the present time? That surplus of corn has practically disappeared in the last two years, but was it not a good thing that you did not have this to help the starving peoples in the world?

Dr. ANDERSON: As I indicated, I have some reservations on that, on the grounds that to some extent this only provided developing countries with temporary relief. The agriculture of those countries remains undeveloped so that they have just postponed the day when this development will have to take place.

Mr. WHELAN: Do you really think they postpone it?

Co-Chairman Senator CROLL: He gave that here as evidence.

Mr. WHELAN: I have one more question. First of all I apologize for coming in late but unfortunately I was making representations in another matter. Now I know Mr. Olson was questioning you on this and you may have given the answer earlier. I want to ask about the potential production of Canada and the United States. What is the potential production of the United States and Canada? How much higher will it be than it is at the present time?

Dr. ANDERSON: My opinion is that it will readily expand to meet all the demands that the population of these two countries will make upon it and without increases in prices, as I have indicated.

Mr. WHELAN: But you are not saying anything about the rest of the world. At the present time much of our production goes to aiding the rest of the world. In the future do you think that we can still take care of helping these people we are now helping even if the population expands here?

Dr. ANDERSON: It would be possible to continue to export as much food as we have been doing over the last few years and still continue to feed our own population.

Mr. WHELAN: I have also heard Mr. Olson say that in Alberta they could increase our production five fold given the proper incentives. I just want to say that in southern Ontario with improved techniques and better use of fertilizers etc. there is also tremendous potential. We know from our experience of greenhouse production that there is tremendous potential in farming under glass and that we could increase our output five hundredfold. Even in the areas of the two counties of Essex and Kent the production could be increased tremendously. I am most optimistic of our producers being able to produce much more if given the proper incentives.

Senator CARTER: Dr. Anderson, you make no mention in your brief of the world food bank. This idea was popular some years ago. Is it not mentioned now because the food surpluses have disappeared?

Dr. ANDERSON: The world food bank of a number of years ago is really the world food program of today.

Senator CARTER: They are still carrying out that project under another name?

Dr. ANDERSON: The world food bank never became a reality, but in a modified form it is the world food program at the present time.

Senator CARTER: It didn't become a reality because it was not feasible because the surpluses disappeared? As I say, it was quite a popular idea a few years ago.

Dr. ANDERSON: It was, but it was unacceptable to the countries that had to be involved in it. That is why it failed.

Senator CARTER: What you have told us about technical aid that goes from Canada made me wonder whether it is worthwhile giving technical aid at all. The people we are trying to help do not have sufficient education to benefit from it, and the government policy of depressed prices does not provide any incentive to take advantage of it, so what point is there in continuing technical aid under those circumstances?

Dr. ANDERSON: Included with technical aid should be the raising of the educational levels of the people so that they know how to make use of technology. This is a very important part of it.

Senator CARTER: But in the meantime the prices build up and we cannot wait for that, and I think Senator McDonald had a better solution, that is that side by side with technical aid we should put in practical aid by sending people in there who would show these people what to do by doing it.

Dr. ANDERSON: I am sorry if I did not make it quite clear that I would include that practical aid with the technical aid. I was not separating them.

Senator CARTER: I want to ask some questions about these appendices. I am always a little leery of percentages. These rates of growth which you show, are they averages per year or are they progressive? My question also applies to the rates for population income and food demand.

Dr. ANDERSON: These are compounded rates.

Senator CARTER: So that each year there will be two per cent on top of the previous year?

Dr. ANDERSON: Correct.

Senator CARTER: I was not clear about that. The income for developed countries, this would include Canada, the United States, Scandinavia, Britain and, I suppose, Japan?

Dr. ANDERSON: Yes.

Senator CARTER: And all that will amount to just U.S. $1095 billion?

Dr. ANDERSON: That is right.

Senator CARTER: Is that the total?

Dr. ANDERSON: Yes.

Co-Chairman Senator CROLL: That is a lot of money. A billion is a thousand million. My co-chairman says he does not have that many pennies.

Senator CARTER: Oh, I was thinking that these were millions instead of billions.

Co-Chairman Senator CROLL: Any further questions?

Mr. BOULANGER: I want your permission to raise a point which I was going

to make at the beginning. It is a very serious one. It has been said by a member of the House on the presentation of our report this afternoon. When he made the point the Chairman could not get up, and it is very serious. This is a question of defamation and trying to defame the procedures of the members of the committee. First of all he used the declaration by a member of the consumers group that the committee could not do anything because of the money coming in to the parties. This is dangerous for the prestige of our members in the committee as well as in the House. He said that the lady made the accusation here and that no member of this committee answered it and so by their silence the committee members admitted they were guilty.

Co-Chairman Senator CROLL: Mr. Basford was there.

Mr. BOULANGER: This is why I think this is the first opportunity we have to talk about it, and this is why I am raising it. Maybe I should start at the beginning but I did not want to take time from the witness. The remark at the beginning was declared by Mr. Speaker as being out of order, and he got up again and brought it up again. If you allow me to speak on it, I have the report of the discussion and I have the exact words.

Co-Chairman Senator CROLL: Mr. Boulanger—

Mr. BOULANGER: I think you might let some member talk about it, or the chairman could advise on it. An inquiry should be made right away and establish how could we speak as members of the committee, if that is the accusation, we have not rejected our standards. I am throwing out the idea and we should talk about it.

Co-Chairman Senator CROLL: Mr. Boulanger, the co-chairman was there and we let him handle the situation.

Mr. BOULANGER: He could not get up.

Co-Chairman Senator CROLL: He knew what to do. He was present, and we are not going to get into that sort of wrangle in this committee.

Mr. BOULANGER: I want to get an answer on that point.

Mr. OLSON: There were several members of the committee asked her—and I think Mr. Allmand was one—if she had any evidence, and she blushed and said she did not.

Mrs. MACINNIS: Right.

Mr. BOULANGER: This is why I brought it up, to see if we could have an answer.

Co-Chairman Mr. BASFORD: This was moving concurrence in the third report empowering the committee to move from place to place. Mr. Grégoire got up and made his speech which I, as co-chairman, saw no purpose in answering. I was anxious to get the report through. What he said was totally inaccurate and was not worthy of reply in the House, and I saw no reason to dignify his remarks by getting up and making a big issue out of it. It was obvious from his remarks that he had not the faintest idea of what went on in committee and of what what Mrs. Wilson said, and I saw no need to make a big issue out of his remarks, which were senseless, meaningless and stupid.

In questioning by Mr. Allmand and others, Mrs. Wilson, in effect, withdrew those comments, and had they not been housewives who were inexperienced in the ways of parliamentary committees, probably they would have been asked for a formal apology, but I do not think any member of the committee wanted to insist upon that.

Mr. OLSON: We were being extremely charitable to Mrs. Wilson.

Co-Chairman Mr. BASFORD: The committee, in effect, did receive from Mrs. Wilson a declaration they were making no allegations against anyone. Therefore, I saw no purpose in answering Mr. Grégoire.

Mr. McCUTCHEON: Mr. Chairman, may I at this juncture say that what our chairman has done and the action that he took in the House is one I would commend highly; it is 100 per cent right. There is no point in lending any degree of credence to that little pipsqueak, and there is no point in referring to it at all.

Co-Chairman Senator CROLL: I agree, Mr. Basford was there and handled the situation, and I could not care less, and no one else could. We must avoid taking ourselves too seriously on this. As a matter of fact, Mrs. Wilson sat alongside me, and if I had not stepped in she would have had some pretty rough treatment here when she made the allegations in the brief. But I realized she did not write the brief and I do not think she had ever read the brief. I know who wrote it, and there was no purpose in chastizing her or any other of the women about the whole business.

We have to avoid this business of bringing arguments from the House or Senate into committee. We are a committee on our own and we are not paying too much attention to what others are doing. Let us do the right thing.

Senator McDONALD: Mr. Chairman, I would like to point out that in the most recent issue of the *Financial Post* there is a small article on this matter. I do not know which member of the press is responsible for it, but I think the article points out the situation exactly as it happened in this committee, and I would commend other members of the committee to read it.

Co-Chairman Senator CROLL: No one took it seriously here. So let us forget about it.

Mr. BOULANGER: I hope you get me right. I did not try to raise a fight over it or to blame our chairman. I was trying to find out if I had the right to bring it up. Now you have given an answer I am satisfied. We will get at it some other way.

Co-Chairman Senator CROLL: No. This is just what I am afraid is going to happen.

Mr. BOULANGER: You will be surprised what he said when you read it tomorrow.

Mrs. MacINNIS: I think everybody in the House felt the same way. We thought that Mr. Basford was doing the right thing in not rising, and we thought the matter did not merit being referred to. I do not think it should be referred to any more, because it may give it undue importance.

Mr. BOULANGER: I am satisfied with what our chairman did.

Co-Chairman Senator CROLL: If not, may I say, Professor Anderson, we have been very fortunate in having before this committee men who knew their subject well and thoroughly, and we have members on the committee who know what they are talking about too. When you are discussing agriculture we have some experts around here, and when in other fields we have experts in other fields. The discussion is a very helpful one to us; it is interesting; it adds to our knowledge and our understanding; and we are very proud of the fact we can call on our own Canadians who can talk to us in a way that makes us more knowledgeable.

That you took the time to prepare yourself and come to talk to us, for that we are very appreciative. Thank you very much.

The next meeting we have, on Thursday, will be the first chance to talk about co-operatives.

Mr. O'KEEFE: Mr. Chairman, will the expression "pipsqueak" appear in our record?

Co-Chairman Senator CROLL: Mr. McCutcheon can take it out if he wants to.

Mr. McCUTCHEON: I withdraw that remark.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966-1967

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 33

THURSDAY, FEBRUARY 2, 1967

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Co-operative Union of Canada: Dr. A. F. Laidlaw, General Secretary; Mr. R. S. Staples, President; Mr. D. F. MacDonald, Director; Mr. Jim MacDonald, Executive Secretary, National Labour Co-operative Committee.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25602—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Horner (*Acadia*),
Irvine,
Lamontagne,
Leblanc (*Laurier*),
Lefebvre,
MacInnis, Mrs.
Mandziuk,
McCutcheon,
McLelland,
O'Keefe,
Olson,
Otto,
Ryan,
Saltsman,
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved—that the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract from the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

25602—1½

Your Committee recommends that it be authorized to adjourn from place to place.

Mr. Basford, from the Sepcial Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(For text see Interim Report in Committee Proceedings No. 27.)

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—
Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its Second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(For text see Interim Report in Committee Proceedings No. 27).

J. F. MACNEILL
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, February 2, 1967.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Cook, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*), Thorvaldson, Urquhart and Vaillancourt.—11.

For the House of Commons: Messrs. Allmand, Asselin, Basford, (*Joint Chairman*), Boulanger, Lefebvre, Mandziuk, McCutcheon, O'Keefe, Olson, (*Mrs.*) Rideout and Smith.—11.

In attendance: Dr. R. Warren James, Special Assistant.

The following were heard:

Co-operative Union of Canada:

Dr. A. F. Laidlaw, General Secretary.

Mr. R. S. Staples, President.

Mr. D. F. MacDonald, Director.

Mr. Jim MacDonald, Executive Secretary, National Labour Co-operative Committee.

At 1.00 p.m. the Committee adjourned until Tuesday next, February 7, 1967, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, February 2, 1967.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: Honourable senators and members, the committee will please come to order. This morning, a brief is being presented by the Co-operative Union of Canada. Sitting on my immediate left is Dr. A. F. Laidlaw, General Secretary, Co-operative Union of Canada, whom I will call upon first to introduce the other members of his party and then to present the brief which is being distributed. Dr. Laidlaw.

Dr. A. F. Laidlaw, General Secretary, Co-Operative Union of Canada: Honourable senators and Members of the Commons who are members of this committee, I am pleased to introduce the members of our delegation. First, on my immediate left is Mr. R. S. Staples, President of the Co-operative Union of Canada. On his left is Mr. D. F. MacDonald, director of the Co-operative Union of Canada, who is also General Manager of Co-operative Farm Services in Moncton, N.B. One might note that Mr. MacDonald's organization is a dual organization, in two respects, that it is both a marketing and purchasing organization, and it is both rural and urban.

We also have Mr. George Davidovic, Director of Research of the Co-operative Union of Canada; and Mr. P. A. Moran, Assistant Secretary of the Co-operative Union of Canada. Also here is Mr. Jim MacDonald, Executive Secretary of the National Labour-Cooperative Committee, which is a joint committee of the Canadian Labour Congress and the Co-operative Union of Canada, the purpose of which is to promote co-operatives among labour union people in Canada. On Mr. MacDonald's left is Mr. Keith McCleary, who is Branch Operations Manager of United Co-operatives of Ontario, from Smiths Falls. Also, we are pleased to have in our delegation this morning the Director General of Le Conseil Canadien de la Cooperation, Mr. Hector Yelle, who is with us as a fraternal delegate.

Mr. Basford, I am wondering what is the wish of the committee. If it is your wish, we will proceed directly to the reading of the brief.

Co-Chairman Mr. BASFORD: Yes, please.

Dr. LAIDLAW: The brief is as follows:

1. Introduction:

The Co-operative Union of Canada, a national association of English-language co-operatives in Canada, welcomes the opportunity to make this presentation on behalf of its member organizations to the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices).

At the outset we wish to say how pleased we are that this parliamentary investigation is taking place. The evidence already given to the committee, showing the extent to which Canadian consumers may be exploited and in danger of domination by monopolistic concerns, particularly in the food industry, is ample proof of the need for such an inquiry.

The current protest over consumer prices, the steep upward trend in the cost of living, the widening gap between the prices received by farmers and the cost of food to consumers, the rapid increase in the cost of a multitide of services associated with distribution of food and consumer goods generally, the tendency towards monopoly control over retail trade—these are all matters of deep concern to the people who are members of co-operatives and who are adherents of the co-operative movement and its philosophy, because they are matters with which co-operatives have been engaged for quite a long time. In fact, co-operatives represent a consumers' protest that started over 150 years ago, long before government showed much concern for the welfare of consumers or recognized any great responsibility to protect them.

Some may read in the present unsatisfactory state of affairs, as revealed by this investigation and the conditions which brought it on, the failure of co-operatives to measure up to their aims and fulfil the objectives set for them a long time ago. If this interpretation is correct—and we must admit that, to some extent at least, it is—then we can only say that there are many reasons for this, but none to be found in the co-operative idea itself. Instead, they will be found elsewhere, and this brief will attempt to point out where the trouble lies and how the present situation might be remedied or improved from the viewpoint of co-operatives.

The Co-operative Union of Canada:

We should first explain that the Co-operative Union of Canada is not an association of consumers' co-operatives alone, but of all types of co-operatives (English) in this country: agricultural, fisheries, credit, insurance, housing, etc., including consumers' co-ops too. It is a relatively old organization, begun in 1909, at a time when the scattered pioneer co-operatives were seeking legislative recognition, which, by the way, they did not get then and have never been able to get at the federal level.

A parallel organization, Le Conseil Canadien de la Cooperation, serves French-language co-operatives in this country, and the two, CUC and CCC, are the Canadian members of the International Co-operative Alliance, the world federation of co-operatives with member organizations in some 55 countries and total membership of about 215,000,000 people in affiliated co-operatives of different kinds.

The two bodies, CUC and CCC, work closely together and in complete harmony. Usually they make joint presentations at inquiries like this, but unfortunately it was not possible on this occasion because of lack of time, and so the CCC will appear separately.

Nature of presentation:

This presentation will be fairly general in nature, mainly because our member organizations, which will present briefs and give evidence at the regional hearings to be held across the country, are better able to explain detailed figures, comparative prices and business operations.

The aim here will be to describe the general organization and business methods used by co-operatives in Canada and to indicate how they are trying to meet the problems with which the committee is concerned. But knowing that you are not mainly concerned with theory and philosophy but their practical application, we shall provide some specific information on the business of Canadian co-operatives.

2. What Are Co-operatives?

In our day-to-day work we find that there is fairly widespread misunderstanding about co-operatives, their nature and methods of operation. This seems to apply to people at all levels of education and in all walks of life. As with many other institutions, co-operatives have not done a particularly good job of telling the general public what they are all about. This lack of information is compounded, unfortunately, by people and organizations whose main purpose seems to be to misrepresent co-operatives in the eyes of the public.

For example, we find some people believing that co-ops are genuine only as long as they remain small but not if they become large; or that they are good for farmers but not for city dwellers; or that they are kept going largely through government support; or that they don't pay taxes; or that most of them fail; or that they were suitable for an age that is part but not relevant to modern times; or that democratic control by members is incompatible with business efficiency. And so it goes—the erroneous views about co-operatives seem endless.

The easiest way to explain a co-operative is to say that it is a business owned by people who need and use its services, not by investors. People organize a co-operative or become members of a co-operative because they want to provide themselves with a service that is essential or very important in their lives. So co-operatives may be described as "users organized". Consequently, agricultural co-operatives are owned by farmers, fisheries co-operatives by fishermen, co-operatives for savings and credit by those who want to save and borrow money, housing co-operatives by those who live in the houses, students co-operatives by students, and of course consumers' co-ops by consumers. Needless to say, capital in some form and in varying amounts is required in co-ops, at least generally, but members subscribe capital to provide themselves with services, not to earn a return (dividend) on investment.

Certain fundamental rules have long been recognized by co-operatives all over the world: open and voluntary membership; democratic control through "one member, one vote"; limited interest, if any, on capital; and surplus earnings (savings) distributed according to each member's use of the service.

In practice, co-operatives have a dual role: to operate an efficient business, and to function as a democratic popular movement. The link between co-operative organizations and education is longstanding and strong, so much so that a co-operative which does not function in an educational way is regarded as fulfilling only part of its complete role.

In earlier days there was a tendency for co-operatives to isolate themselves from other economic institutions and to concentrate on the sole objective of running a successful business for the benefit of the members, but nowadays co-operators are inclined to think of their organizations as part of a democratically-organized society and to judge their co-operatives in terms of the common good and their value to the community and the economy as a whole.

As evidence of this broader outlook, we are filing with this brief a copy of "Statement on Social and Public Issues," an official policy statement of the Co-operative Union of Canada, passed at its 1966 Congress. As you will see, it deals with such vital public matters as welfare, education, social development, health, human rights and international aid.

So, co-operatives are not merely a way to get goods cheaper, or a device for dividing profits in another way. Rather, they represent a philosophy directed towards a more just and rational social order and a better way of life for all. Admittedly, some co-operatives or groups of co-operatives fall short of this ideal, but in this respect they are no different from other democratic institutions.

3. The Sector Concept:

In over a century of growth and development certain changes have taken place in the thinking and outlook of co-op leaders. (People inside the co-operative movement who believe that co-ops don't have to change, and those outside the movement who imagine that they have not changed, are both mistaken).

In the context of this inquiry, a very important change is the development of the sector concept of co-operatives in the overall scheme of things. Co-operatives today do not wish to be regarded as simply an antagonistic form of business, but as a vital part of an industrial democracy with interdependent sectors: (a) public enterprise, operated by government or by crown corporations for government on behalf of all the people; (b) private-profit business, owned by investors and oriented to their aims and purposes; and (c) co-operative enterprise, belonging to the users of goods and services and oriented to their basic needs.

Each of these sectors has its advantages and limitations; each has a special contribution to make to the whole; the three should work together, in harmony as far as possible, supplementing and fortifying one another. Interdependence is a vital element of modern living and this is as true of business as of other social relationships and activities.

So, the good society as we see it is a mixed society, with public, private-profit and co-operative elements carrying out the functions which each can do best in the interest of the nation and the total economy. Co-operatives recognize the growing necessity for public ownership in some aspects of modern life; they recognize the achievements and possibilities of business owned by investors and operated mainly for profit; but they also insist on the special values and benefits in business owned and controlled co-operatively by people who are not organized to make money on investments but to provide themselves with essential goods and services.

4. The Achievements of Co-operatives:

We are well aware that the members of the committee are dealing with the harsh realities of a vexing problem for which they are seeking workable solutions. Housewives are not looking for far-fetched theories and philosophy but rather practical answers to the question of how to put food on the table and make ends meet in the family budget.

So, we wish to emphasize the fact that co-ops are not just abstract philosophy but a thoroughly practical economic system that people have been utilizing for well over a century in meeting the everyday problems of life. It is true that co-operatives rest upon a body of principles and philosophy, providing the discipline and intellectual foundation necessary for the system, but they are at the same time very sensible and down-to-earth business enterprise.

It seems necessary to emphasize this point here because some observers may have a certain amount of skepticism about consumer co-operatives being able to make an impact on the colossal problems of distribution of goods, as already described by various groups before the committee. But co-operatives have a long record of achievement in a great variety of situations calling for the highest level of industrial organization and managerial competence.

For example: In several countries of Europe, co-operatives are amongst the largest business organizations in retailing, wholesaling and manufacture of consumer goods, and in some, e.g. Denmark, Sweden and Japan, co-operatives are by far the largest commercial organizations in the marketing of food products. I might explain here that we use the term "marketing" to describe the process from the producer to the processor—not at the retail level.

In Britain, the annual business of consumers' co-ops exceeds $3 billion, and last year more than $150,000,000 was returned to British housewives in co-op

patronage refunds. It was with good reason that Prime Minister Gladstone called the co-operative method of business "the greatest economic invention of the nineteenth century.

In many countries, consumer co-operative services are diversified in a great many fields—for instance, the Scottish Co-operative Wholesale Society operates what is probably the largest funeral service in the world, handling one-third of the total business of the country.

In some countries, co-operatives provide as much as 30 per cent of all urban housing; and it is worth noting that the largest single housing project under construction in the world today is a housing co-operative in New York City, which, by the way, when completed will house about 55,000 people.

It was by means of electric supply co-ops that the rural parts of the United States were virtually lighted up, to the extent of well over 90 per cent of total coverage—and this was done after the private-profit power companies had failed to extend service to the rural areas.

From Canada we select just one example: well over half the wheat grown in this country is handled by farmers' grain-marketing co-operatives—and it should be noted that wheat is Canada's largest export product and certainly one of the most important factors in the national economy at present.

These are a few cases selected at random to show that co-operatives are much more than ideals and theory, that they are engaged in the practical economic problems which concern the Committee, and that they have considerable achievement to their credit.

To quote a world authority, Margaret Digby, Secretary of the Plunkett Foundation for Co-operative Studies, London:

> Co-operation has built a system of production, distribution, banking, insurance and sundry services which is directed solely to the benefit of the community and includes no element of individual profit. Within that system there is complete personal equality. It is a voluntary system, created by personal effort, freely given. It is a free system giving scope to the group and the individual to do everything except exploit their fellows. It leaves wide areas of free choice within a planned framework.
>
> The system has proved technically efficient and has beaten private enterprise on its own ground, without the intervention of political power. It is flexible and can interlock with economic life organized on other bases. But, since it is an organic growth, it tends to wilt if it is either rigidly confined or artificially extended. It has proved to be applicable to people of many ways of life and at all stages of economic and educational development. It provides an unique education in democracy, responsibility and toleration.
>
> The World Co-operative Movement,
> by Margaret Digby, 1960.

5. Co-operatives in Canada:

In order to assess consumer co-ops as a means of controlling consumer prices, it is necessary to have a general picture of co-operatives in this country. This will be brief and limited to essential points.

General description: Co-operatives in Canada are, to a great extent, rural and agricultural. By far the largest and most successful co-operatives are farmers' marketing co-operatives, but co-operatives for purchasing goods and supplies needed by farmers are also quite important. One is struck by the remarkable variety of co-operatives developed by Canadian farmers—there is hardly a service of any kind needed by rural people that has not been developed somewhere or other on a co-operative basis by Canadian farmers. It is noteworthy

that the Prairie Provinces have an organization, Canadian Co-operative Implements Limited, which is, as far as we know, the world's only farmers' co-operative for the manufacture and distribution of farm machinery.

The most numerous co-operatives in Canada are credit co-operatives (caisses populaires and credit unions) and these are the only kind strongly organized in many urban centres. They number about 4900, with total membership of about 3,800,000. Over half the members and assets are in the province of Quebec, where the first credit co-operatives in North America were organized under the influence of Alphonse Desjardins just after the turn of the century.

Co-operatives are found in all provinces and in all parts, even in the far north beyond the Arctic circle, but, apart from credit co-operatives, the greatest concentration is found in the Prairie Provinces.

In some places and at certain times in the past co-operatives received valuable assistance from governments, both provincial and federal, but by and large they have grown under their own power and out of the resources of the members themselves.

In the Canadian economy co-operatives play a significant role in the employment of labour, in the use of capital for resource development, in the accumulation of savings in Canadian hands, and in the support of essential public services. They are subject to the same Income Tax Act as other business, and in many communities throughout Canada they are among the largest payers of property tax.

Canadian co-operatives are non-partisan in politics, but this rule is not intended to prevent individual members from taking an active part in political affairs as long as they do not involve their organizations in party politics.

Legislation: Legislation has been a crucial matter in the development of Canadian co-operatives. From the beginning they have been struggling for legislative recognition and for legislation appropriate to their purposes and methods of operation. The federal legislation sought some sixty years ago failed to pass the Senate after it had been unanimously endorsed by the Commons, and thereafter co-operatives retreated into a provincial shell. Ever since they have been without the legislative machinery so necessary for interprovincial organization.

It would be difficult to exaggerate the effect which lack of federal legislation has had on co-operative development in Canada. Briefly, it has cast co-operatives in a provincial mold—and for this we have to blame successive federal administrations over more than fifty years. A few co-operatives in Canada have taken out federal incorporation, either by incorporating under legislation not appropriate for co-operatives or by the costly process of a special Act of Parliament.

To estimate the restrictive influence which this has had on the co-operative movement, we ask you to imagine what air travel in Canada would be like if plane service in the country were controlled by provincial companies.

Restrictions on co-operatives: A great deal is heard on all sides today about the power and rights of consumers, but it is not generally appreciated how many restrictions are put on consumers when they undertake to organize to serve themselves co-operatively. In some provinces consumers cannot own a drug store or pharmacy; in some they cannot operate a funeral service. In some cases co-operative stores have been denied supplies by manufacturers unless they undertook not to pay patronage refunds that would have the effect of lowering prices.

A few years ago, one of the well-established consumers' co-ops in Canada was involved in a costly legal process to gain the right to pay a rebate to members on gasoline. Even now, co-ops in one province are denied a licence for the distribution of gasoline to members, even though they hold charters under the Co-operative Association Act of the province to provide members with goods

and supplies, and even though, I might add, the Provincial Government collects the wholesale gasoline tax from the wholesale organization.

In another province, citizens are prevented by law from employing medical doctors in co-operative clinics. No, consumers are really not as free as they may sometimes imagine.

We do not intend to go into the controversial issue of income tax on co-operatives here, although we are quite prepared to discuss the question if members of the Committee wish to; but we do want to point out that the Income Tax Act itself puts this restriction on co-ops—a restriction aimed purposely at co-operatives: they are not permitted to distribute to members all the savings made in their dealings with the members, but must pay a tax based on capital employed. We refer to Section 75(3) of the Income Tax Act, a section to which co-ops have been objecting over the past twenty years.

Canadian ownership: In the context of this inquiry, another feature of co-operatives is of particular relevance and interest; Canadian co-operatives mean Canadian ownership in the hands of as many Canadians as possible, in the hands of all Canadians if they so wish. Moreover, it is Canadian ownership in no danger of foreign control or takeover.

A good case in point is found in the petroleum industry, a segment of the economy that is notoriously un-Canadian in its ownership and control. But one small oasis in the desert of foreign holdings is in Saskatchewan, where in the midst of the depression thirty years ago farmers set up the first co-operatively-owned oil refinery in the world. Its very nature as a co-operative means that it remains in Canadian hands, because it was organized on the basis of production for use, not for profit on investment.

6. Consumers' Co-operatives.

The organization of consumers: Many of the leaders and writers in the co-operative movement over the past century have looked upon consumers' co-operatives as the highest and even the ultimate form of co-operative organization. Certainly it is about the most difficult type to develop on a substantial and effective scale.

The reason for this is obvious. The very concept of man as consumer is of rather recent origin, and the thought of people standing together as organized consumers seems difficult to comprehend. It is much easier for people to see themselves grouped together as farmers, or fishermen, or workers, or producers, or members of some occupation or profession; but it is difficult to grasp the concept of people in their role as consumers and that is why effective organization of consumers is not easy to achieve.

But now at last, it seems, many people are beginning to recognize the wisdom of John Ruskin, when he wrote in *Unto This Last*:

> Consumption absolute is the end, crown, and perfection of production; and wise consumption is a far more difficult art than wise production...The final object of political economy, therefore, is to get good method of consumption, and great quantity of consumption: in other words, to use everything, and to use it nobly; whether it be substance, service, or service perfecting substance.

From the viewpoint of co-operatives, the case for consumers and organization of consumers is well put by the British writer, J. M. Wood, in *Protecting the consumer*.

> Consumers, that is people who purchase goods or services for private consumption or use, by definition, include us all. They are the largest economic group in the country, affecting and affected by almost every private and public economic decision. Although nearly two-thirds of all

the spending in the economy is by consumers, they are the only important group whose views are disregarded when important decisions are being made.

If consumers are offered shoddy goods, if prices are exorbitant, if weights and measures are inaccurate, if relevant information is not available to facilitate choice then their money is wasted, their health and safety may be threatened, and the national interest suffers. On the other hand, increased efforts to make the best possible use of their incomes may contribute more to the well-being of many families than equivalent efforts to raise their incomes.

The Rochdale story: The present system of consumer co-operation is traced to the social and economic unrest associated with the Industrial Revolution of the late 18th and early 19th century, particularly in Great Britain. Rochdale the English industrial town, is regarded as the birthpace of consumers' co-ops, and the year was 1844—though Scotsmen dispute this claim and point to some Scottish co-operatives that have been in continuous operation since around 1800.

What the Men of Rochdale, as the 28 pioneers of the famous co-operative society are called, actually did was to sift out the best ideas and practices from many earlier attempts, most of them unsuccessful, and formulate them into a practical system that actually worked well year in and year out.

(By the way, Alphonse Desjardins did exactly the same thing, founding the first caisse populaire at Levis in 1900 from a combination of the best ideas he gathered from countries all over the world, chiefly European.)

The Rochdale experiment succeeded and spread. In the centry following 1844 it developed into the largest commercial enterprise in Britain, and today the co-operative societies taken together are second only to government itself in the size and complexity of business operations.

The message and principles of Rochdale were adopted in one country after another, and in some countries, e.g. the Scandinavian, consumer co-ops are commonly regarded as having passed the British in the application of modern business practices and in influence over consumer affairs. The Swedish co-ops are known all over the world, especially for their success in counteracting powerful monopolies and cartels operating to the detriment of consumers, to such an extent that in Sweden consumer protection and consumer co-ops are synonymous. Judged from their place in the market, the Finnish consumer co-ops are even more successful, for they handle about 4 per cent of all the retail trade of Finland.

For this inquiry it is especially noteworthy that the Rochdale co-operative society and its successors regarded consumer protection as one of their main purposes and wrote rules to this end in their operating practices. Honest weights and measures and the handling of unadulterated products—these were cardinal rules of the co-ops at a time when there was little or no government regulation in this field; and the main reason the co-ops of the 19th century first caught on and later flourished was that for the first time working people could be assured they were buying high quality goods—and if there was any surplus or profit in the end they got it back.

But there was more to it than just eliminating the bad practices of dishonest traders and diverting their profits to consumers. The early co-ops introduced education so that the consumer would have the facts behind business transactions, and they also introduced the very necessary element of self-discipline, for example in the rule of "cash trading". This matter of self-discipline is an important factor in the distribution of consumer goods. All the fault does not lie with manufacturers and retailers, but a great deal of it with consumers them-

selves. One writer (Maurice Colombain) commenting on this matter has stated: "The co-operative movement frees its members not only from usurers and profiteers, but also from themselves and their bad habits."

Consumers' co-ops in Canada. Although consumers' co-operatives were about the first type of co-operative to be organized in Canada (the earliest was begun in Stellarton, Nova Scotia, in 1861), they are not a strong part of the Canadian co-operative movement today and they account for a very small percentage of the total retail trade. At various times in the past a considerable number of consumer co-ops were set up, and many of them flourished for a while but then ran into difficulties of one kind or another. The most serious gap in the Canadian co-operative movement today is caused by the lack of consumer co-ops in the metropolitan and larger urban centres, particularly in the populous provinces of Ontario and Quebec.

The committee might be interested in examining the reasons why, when some other types of co-operatives seem to be doing well, the consumer co-ops have such a spotty record and remain relatively weak, except in a few areas. We suggest these are the main reasons:

(1) Because rural people have been preoccupied with co-operatives for marketing and production supplies. In Ontario and Quebec especially they have not got around to consumer co-ops.

(2) Because workers in cities and towns have had their attention focused mostly on labour unions, and their energy and leadership have been absorbed in this phase of their livelihood.

(3) Because the co-operative movement generally, preoccupied with agriculture and rural affairs, has not faced up to the implications of very rapid urbanizations in Canada in the last 25 years.

(4) Because Canadian women are only now beginning to realize their power as organized consumers. (In some European countries over half the members of consumer co-ops are women, but in Canada co-operatives are still very much "for men only".)

(5) Because the structure of consumer co-ops in Canada has been on the "federated" basis—in sharp contrast to marketing co-operatives, which are mostly on the "centralized" pattern.

(6) Because many consumer co-ops, when organized, have been too traditional and imitative—other co-operatives have sought to break away from the practices and methods of other business, but too often consumer co-ops simply follow the lead given by other business and have thus lost the consumer viewpoint.

(7) Because, generally speaking, governments in Canada have not recognized the potentiality of co-operatives in protecting consumers and have not provided the legislation and encouragement that would have greatly assisted citizens in their efforts to organize as consumers. (The Royal Commission on Price Spreads of Food Products, 1959, stated in its report: "We recommend a federal statute providing for the incorporation of co-operatives"—but there is still no such statute.)

Now, having said this, let us make it clear that there *are* successful and excellent consumer co-ops in every province in Canada, especially in the Prairies, co-operatives that have a long record of service to their communities and substantial savings to their members. The trouble is that there needs to be many more of them, and their operations must be better integrated before they make a strong impact on the retail market and the conditions under which Canadians buy their everyday consumer needs.

I am going to ask the President of the Co-operative Union of Canada, Mr. Staples, to continue from this point.

MR. R. S. STAPLES, President, Co-operative Union of Canada:

The crucial questions which we should be trying to answer for the Committee would seem to fall into four areas:

7. The Crucial Questions:

(a) Reducing the cost to consumers—
To what extent can co-operatives reduce the cost of goods (a) to members, (b) to consumers generally?

(b) Protecting the consumer—
What arguments can be put forward in favour of co-ops as defenders of the consumer interest? What are co-ops in Canada doing to make consumers better informed? What methods do co-ops use to provide facts and information to consumers which other business does not ordinarily use?

(c) The price spread—
How do co-operatives (all types) tend to narrow the spread between producers and consumers, especially in the distribution of food?

(d) Control of monopolies—
To what extent do co-operatives provide protection against the growing trend to monopoly, especially in the food industry?

We shall take these four in turn.

8. Reducing the Cost to Consumers:

The question of savings and financial benefits to members in a co-operative can be explained simply by saying that its primary economic function is to provide merchandise or services to the members, charging a competitive price or rate, deducting the expenses incurred, usually setting aside a modest reserve, and returning to the members whatever is left over, so that in the end the merchandise or service is provided at cost.

Canadian co-ops of various types have a long record of savings made on behalf of members. We can take here only a few examples:

In 42 years of operation, 1924-66, Canada's largest co-operative, Saskatchewan Wheat Pool, has made savings of $121,000,000 for farmer-members, $77,300,000 paid in cash and $43,700,000 credited to them or paid on their behalf.

Caisses populaires and credit unions have saved their members countless millions in interest charges for consumer credit. For example, the B.C. Credit Union League estimates that the credit unions of that province save members as much as $10 million annually in interest charges. Here in the City of Ottawa, the Civil Service Co-operative Credit Society charges a straight 7.2 per cent simple interest on personal loans—compare this with about 10 per cent and over charged by chartered banks for personal loans, and with 24 per cent by small loan companies for amounts up to $300.

Various forms of co-operative (or mutual) insurance were among the earliest co-operatives in Canada. In former days it was not uncommon for farmers' mutual fire insurance companies to cut the rate on farm properties by as much as half below the "going rate". In British Columbia, fishermen paying insurance rates of 9 per cent on diesel and 12 per cent on gasoline boats before 1945 found that they could provide comparable coverage themselves through a mutual marine insurance company at a rate of 6 per cent for both types, less credits and rebates which further reduced the rate, sometimes to as low as 3 per cent.

We have records to show that, when Federated Co-operatives entered the field of fertilizer distribution in 1955-56, a certain fertilizer was being sold to farmers at prices varying all the way from $115 to $145 per ton. Through collective purchasing the co-operatives were able to set the price at $111.45, and when the rebate was calculated the final cost to co-op members turned out to be $99.45 a ton.

It seems unnecessary to go on citing examples like this—and anyway, the Committee will hear many comparisons of this kind at regional hearings across the country. We give these few merely to emphasize the fact that saving money for members is part of the stock in trade of a co-operative. Furthermore, once a co-operative has demonstrated that savings like these can be made for members, the influence on price is felt throughout the industry or in the general trading area, and the benefit redounds to the advantage of all purchasers or users of a service.

Of course, we are not suggesting that a co-operative can always sell at a cheaper rate, or always make savings for members, or always operate at a lower net price. We merely say that (a) if there is a saving at the end of the transaction, it belongs to the member, and (b) if there is an unwarranted margin in the handling of a product, the co-operative form of enterprise has a built-in mechanism to make it available to the members or the customers.

Now, these few examples are taken from fields which are not your most immediate concern and they are given by way of analogy: if co-operatives can make savings of this order in fields where they are well established, it is not unreasonable to argue that they can also make savings in the field of consumer goods when they become better established there and have a bigger share of the market, at least big enough to make their influence felt. This is argument by analogy.

But even with the small share of the market which consumer co-ops in Canada now enjoy, there is evidence enough of savings being made, and larger savings to be made as consumer co-ops grow and develop. Again, we select a few examples at random, leaving further and more detailed figures for the regional hearings:

The pioneer of consumer co-ops in Canada, the British-Canadian Co-operative Society, Sydney Mines, N.S., started in 1906 with only 38 members, mostly coal miners, paid to members in the years 1906-1965 the sum of $6,203,000 in patronage savings.

In its 28 years of operation, 1938-1966, the Corner Brook Co-operative Society (Nfld.) has paid back almost a million dollars to members in patronage refunds. This co-operative estimates that its refunds and extra services are the equivalent of 25 days of free groceries and food supplies a year.

In only 10 years of operation, 1956-66, the Calgary Co-operative Association, has shown total savings of $1,500,000 for members.

At the wholesale level, Federated Co-operatives Limited (head office in Saskatoon), the largest consumer co-operative wholesale in Canada, is able to pass on savings of the order of $5,000,000 a year to consumer co-ops of the western provinces.

Maritime Co-operative Services, a central organization of farm supply and consumer co-operatives, reports that in 1966 it was able to return $17.49 in savings for every $100 invested in it by local co-operatives.

The Economics Branch, Canada Department of Agriculture, provides the following figures for 1965 covering two types of consumers' co-ops: Type I, with food sales 60 per cent or more of total sales; and Type II, with food and other household goods 50 per cent or more of total sales:

	Type I	Type II	Total
Number	236	189	425
Sales (million)	$ 84.9	$ 97.7	$182.6
Net savings (million)	2.1	3.6	5.7

These examples are given to show that consumer co-ops in Canada, even at this stage of development, do not have to fall back entirely on argument by analogy—they have proof of savings being made for members over a long period of years.

Newer Methods:

Co-operatives in Canada have generally followed the Rochdale rule of "Sale at current market prices". Following this rule, co-operatives simply charge what comparable business firms are charging and hold out for the prospect that there will be a refund or return when the transaction is completed.

It is not hard to understand why the Rochdale Pioneers adopted this rule. They were pitifully small and weak alongside well established business firms and they thought it would be risky to undercut prices. So they played it safe.

It should be noted that this Rochdale rule of pricing is not considered a basic principle of co-operatives, of the same order as the four principles already mentioned above, but rather a secondary rule or operating practice applicable to some co-operatives and a very wise one in many circumstances.

But co-operatives in some countries, expecially in recent years, have felt themselves in strong enough position to adopt an agressive pricing policy and thus influence the whole level of prices. Swedish co-ops are recognized as price-setters in the retail market; and they can do this because they own a great variety of processing plants and factories to support such a policy, in such fields as baking, vegetable oils, rubber footwear, bathroom equipment, electric lamps, plastics and appliances—and it should be noted that they went into these fields of manufacturing only after careful research and when they found that unwarranted profits were being made at the expense of consumers, often by international concerns operating under cartels.

Even in Britain, the home of Rochdale, co-ops are showing signs of abandoning "sale at current market prices," in some cases cutting prices considerably in order to give members an "instant divi".

In Canada too, farmers' co-operatives have not always gone along with current prices, especially when they found them far out of line, as for example in the case of fertilizers in Saskatchewan which was quoted above. And the co-operative buying clubs, which were so common in many parts of Canada about thirty years ago, usually disregarded the Rochdale rule from the start and sold goods and supplies to members without the customary mark-up of the retail trade.

In the past four or so years a completely new departure from "sale at current market prices" is being followed by citizens in Ottawa organized in Co-operative Supplies Depot of Ottawa, Ltd., incorporated in 1964. The essential difference between this and an orthodox co-operative is that CSD turns goods over to members at actual cost, while the members undertake to share operating expenses in a separate accounting. Some would consider this as simply a refinement of the buying club idea, but it is much more than this. It is actually an arrangement which breaks completely with the traditional techniques of mark-up and profit. It is still in the experimental stage and requires further elabora-

tion, but we think that it merits study and the most careful consideration by consumers everywhere. (See article "How we beat today's high food costs," by Joan Lingard, in *Chatelaine,* February 1967).

9. Protecting the Consumer:

Protecting the consumer was, from the very beginning, accepted as one of the principal functions of consumers' co-operatives; and long before either government or non-commercial associations of consumers were in the field, co-ops were doing battle to protect consumers from the wily ways of traders and from their own folly.

We have already commented on the difficulties of protecting the consumer, often because the consumer, from very perversity, it would seem, is not easy to protect. All too often he or she bases purchasing decisions on points that are irrational and bear little resemblance to real values and common-sense. Writing about this, J. M. Wood, already quoted earlier, says:

> No system of consumer protection can avert all the consequences of folly or eliminate every possibility of hardship. The law cannot protect the consumer against every wile of the trader or producer, or adjust every trifling injustice. The consumer must exercise due diligence in purchasing goods to reach a reasonable assessment of their fitness for purpose and true worth, but he can be helped to develop a critical and responsible approach to his problems. The provision of specific information about merchandise by labelling, and the prevention of misdescription, are designed to assist him with particular purchases, but he may still find his vision clouded by the abundance of free choice offered to him. He may be distracted by advertising which concentrates on superficial attraction or invests an article with irrelevant fantasies. He may be misled by deceptive packaging, or beguiled by skilled but not over-scrupulous salesmanship which may lead him to ignore his real needs or forget his existing commitments.

Co-operatives in Canada try to fulfil this role of consumer protection in a variety of ways, the more important being these:

> A co-operative operates under the stringent rule of "full information to members"—another motto often quoted is "no trade secrets". This means that members, normally in annual meeting, have access to all the pertinent information they need or may want.
>
> In addition to the annual business report and financial statement, many bulletins and newsletters are published in order to keep members informed Federated Co-operatives Limited publishes *Co-operative Consumer*, with circulation about 205,000, focused mainly on consumer co-ops and consumer affairs.
>
> Interprovincial Co-operatives Limited, Winnipeg, the national supplier to co-operative wholesale organizations in Canada, maintains a research and testing service for quality control of goods and products, especially those distributed under the CO-OP label and its other private label brands.
>
> Women's co-operative guilds, particularly in Saskatchewan, are active in various programs aimed at consumer information and protection.
>
> Co-operatives in Canada have taken a strong stand against trading stamps and other gimmicks which, we are convinced, militate against the best interests of the consumer.
>
> Co-operatives in Canada have worked together over many years to develop a code of ethics for advertising, in keeping with the basic aims

and purposes of the co-operative movement. The code that has been generally adopted across Canada reads as follows:

(1) All advertising caims and statements shall be honest and factual.
(2) All claims and statements shall disclose such information as may be necessary to enable consumers to form an adequate and true judgment of the merits and quality of the product and of the Co-op.
(3) Exaggerated and/or extravagant claims shall not be made.
(4) All advertising shall be in good taste.
(5) All advertising should reflect the fact that co-operatives are the members serving themselves through their own mutual self-help organization.

When account is take of the all-pervasive influence of advertising in modern merchandising, to the extent, for example, that it represents as high as 20 per cent of the consumer's dollar in breakfast cereals, there should be no need to stress the importance of some form of regulation and self-discipline in this field.

A general Code of Ethical Standards, touching upon other areas as well as advertising, has been adopted by the main body of consumer co-operatives operating in Western Canada. It is included in the appendices here, as published in the 1965 annual report of Federated Co-operatives Limited.

10. The Price Spread:

Canadians are today aware of an ever-widening gap between the prices which farmers receive for agricultural products at the farm gate and the prices paid by consumers for food in the retail market. An article entitled "Marketing Cost of Food in Canada, 1949-1964" in *Canadian Farm Economics,* for October 1966, published by the Canada Department of Agriculture, summarizes the situation thus: From 1949 to 1964—the volume of food has risen 60 per cent—and the costs of marketing an equivalent quantity of food by an estimated 113 per cent. The farmer's share of the retail value has fallen from 58 per cent in 1949 to 41 per cent in 1964.

The whole question of price spreads in food products in Canada was examined and diagnosed by a royal commission just eight years ago, and the views of the co-operative movement on this complex problem were presented by a number of co-operative organizations at that time, including the Co-operative Union of Canada.

The first point we would make here is that we are convinced the answer for the consumer's shopping bill will not be found in getting cheap food from farmers—indeed, in the long run depressed agricultural prices will only result in higher food prices; for as more and more farmers are forced off the land, the control of agricultural commodities will tend to fall under integrating influences, in position to corner the market and dictate prices, and the end result may well be complete domination of the food industry by monopolistic concerns.

Our solution for the price spread in food products can be briefly stated: let organized producers (farmers and fishermen) meet with organized consumers, with government sometimes playing an intermediary role, and let them bargain together and work out realistic prices that will give the producer a fair return; and let all three—producers, consumers and government—work to eliminate the extraneous costs and superficial services which are largely to blame for the price spread, so that the housewife especially will know when she is buying food and when she is paying for a singing commercial on T.V. And speaking of singing commercials, it is particularly important to note that the most costly advertising for which consumers pay dearly today does not sell more farm products, but only rearranges the trade in different hands; nor does it add food value to what the housewife takes from the market, but merely leaves less in the basket she takes home.

11. Control of Monopolies:

Startling evidence has been placed before the Committee showing the strong trend towards monopoly control of the food industry in Canada. This sort of evidence is nothing new. The Royal Commission on Price Spreads of Food Products, 1959, expressed its fears on this point in its report (Vol. I, page 57); "...the evidence we have studied leads to the conclusion that, with the existing structure of the food industries, the welfare of the consumer cannot be assumed to be secured by the decisions of large industrial organizations."

What we should like to stress here is that a large-scale development of co-operatives would end the danger of monopoly control. Consumers' co-operatives are open to all who buy family and household supplies; so, Canadians who today live under the sinister influence of a few giant chains, dominating their very lives down to the food placed on the family table, should at least know that they have one final recourse: to organize for co-operative ownership and control.

Here we recall the advice to British workers and consumers generally given by Dr. William King, one of the pioneer founders of consumer co-ops in Britain well over a hundred years ago: "Your strongest weapon is your purchasing power, provided it is organized; unorganized, it is a weapon that is used to keep you in subjection."

Some people might have thought the word "subjection" out of place or a little too strong in the Canadian setting, but surely the charts recently placed before the Committee, showing the complex organization of food distribution in Canada under concentrated international domination, prove that a form of economic subjection is indeed a reality and not a far-off phantom.

12. Government and Co-operatives:

Since the Committee represents a parliamentary inquiry, it seems appropriate to say something about the relationship between government and co-operatives and the extent to which government might give encouragement and support to the co-operative idea.

We have already made it clear that Canadian co-operatives represent the voluntary efforts of people acting on their own determination—we are not interested in developing organizations that must be kept alive by government.

But this does not mean that we want government to be indifferent to co-operatives, as governments, by and large, are today in Canada. We believe that government would be well advised to seek new ways to encourage co-operatives of all kinds and to ensure that nothing stands in the way of co-operatives making their full contribution to the economy and to the social development of the nation. What we are especially opposed to is the assumption that the private-profit, investor-dominated business sector is the only legitimate mode of commerce and must therefore receive prior consideration in legislation and government policy.

To summarize: we believe that government should help co-operatives in a constructive as well as sympathetic way, mainly by seeking to create the social and political climate in which they can grow unrestricted and naturally; and also by giving special assistance to various groups in the population who are handicapped in one way or another and tend to be pushed outside the mainstream of an affluent society, so that they too may have the benefits and protection which co-operatives can provide.

13. Recommendations and Conclusion:

We recommend:

1. That the Government enact federal legislation for the incorporation of co-operatives—the report of the Special Committee appointed by the Secretary of State in 1965 to study such legislation is now in the hands of the Government and should be transposed into legislative action.

2. That the Government establish a department of consumer affairs to carry out various functions in the area of information and protection for consumers.

3. That a broad and well developed program of consumer education be undertaken, along the lines which the Co-operative Union of Canada recommended to the Royal Commission on Price Spreads of Food Products, using especially the mass media of television and radio to keep consumers alert, informed and knowledgeable.

4. That serious consideration be given to ways by which misleading, unethical, harmful and socially undesirable advertising can be banned, particularly in television broadcasting.

5. That the Government, in its official policy, in its legislation, in its research programs, in its information services and in its fiscal policies, give unmistakeable evidence that it recognizes the primacy of the consumer and the great potential value in organization of Canadians as consumers.

We conclude with a brief quotation from *Economics for Consumers*, by Leland J. Gordon (American Book Company, 1961):

> Economically, the cooperative movement is sound. Experience has proved its practicability. It alone makes consumer control of economic activity a reality. It eliminates competitive evils, is évolutionnary and democratic, and builds on an abundance of wealth rather than on scarcity.

I AM A CONSUMER

I am a consumer. I must have goods and services in order to live. I pay for these with my dollars. I alone decide where and how I shall do my spending.

To myself, I owe the duty of spending my dollars wisely, for I can spend away my freedom. I can be a servant or a master of my own destiny according to my own acts.

I live in a world where most men are divided against one another in a struggle for profits. If I spend my money in a business place operated for profit, am but a part of a system for building profits for others—a mere servant of the business.

And it is the spending of servants that builds giants and leads to monopoly—concentrations of wealth, power and control in the hands of a few to be used to draw greater yields from the servants.

When man is a servant of business, he has no dignity except that granted by his master for no servant is really free.

My other choice is to clasp hands with my neighbors so that we, together, might own and control our own business which shall be our servant and we its masters.

This shall make us men who are truly free, and we shall not be divided against one another, but shall share a more abundant life in harmony.

These are my two choices. I can be a master, or I can be a servant. I am a consumer and have helped to build all business, but only through CO-OPERATION am I the master of what I have helped to build.

THE CODE OF ETHICAL STANDARDS FOR CO-OPERATIVES

1. *Purpose*

We co-operators recognize that the consumer has certain Rights, and that these Rights should not be violated by the organization. Among these Rights are:

(i) The Right to Safety

(ii) The Right to be Informed
(iii) The Right to Choose
(vi) The Right to be Heard

2. *Code of Ethical Standards*

In recognition of the fact that it is a duty of this consumer-owned organization to respect and protect these Rights, the following Code of Ethical Standards shall apply to all activities of the organization:

(a) All claims, statements, information, advice, and proposals shall be honest and factual.
(b) Sufficient disclosure of pertinent facts and information shall be made as may be necessary to enable one to make a fair appraisal of the proposal as related to the requirements to be fulfilled.
(c) Public decency and good taste shall be duly regarded.
(d) Unfair exploitation in any form shall be avoided.
(e) Comparisons of co-operative merchandising, products, service, philosophy, principles, and practices, to those of others shall only be made honestly and fairly. Unfair disparaging comparisons shall be avoided.
(f) Interests of the membership as a whole shall be paramount to the interests of the institution.
(g) Equitable treatment of all members shall be diligantly pursued.
(h) Knowingly persuading or advising an individual into action which may not be in his best interests shall be avoided.

3. *Applying the Code to Practices*

Because we agree that the consumer has certain Rights and that we aim to conduct our activities in the interests of the consumer, we shall, therefore, in any or all interpretations or applications of this Code, concern ourselves with human values and not with legalisms.

The test as to whether an action adequately conforms to these standards lies in the answer to the question: What is the effect on the ordinary or trusting mind? It is not enough that the discerning, knowledgeable and/or analytical person can make a fair assessment if the ordinary or trusting individual would be misled.

From 1965 Annual Report, Federated Co-operatives Limited

STATEMENT ON SOCIAL AND PUBLIC ISSUES

A co-operative is an organization owned and controlled democratically by the users of a service which they consider good and necessary for their economic well-being. Co-operatives are groups of people organized voluntarily to provide themselves with goods and services in the most desirable and effective way. The co-operative movement rests primarily on its own human resources, drawing its strength from the spirit of mutuality in its membership.

Yet, because of its very nature, deriving from its genesis in democracy and social justice and from the basic principle of open and voluntary membership, the co-operative movement can never be indifferent to the broader social concerns and the wider community of men beyond its membership.

Co-operatives have a social conscience as well as an economic mission. The members of co-operatives do not seek for themselves any benefit or advantage in

society which they do not wish for others. The co-operative movement can never be a selfish or exclusive sect unconcerned with the problems which plague the population at large and humanity itself.

Acting on this premise, the Co-operative Union of Canada deems it advisable and desirable to make a statement on a number of social and public issues which are of urgent concern to the people of Canada—issues which are so obviously linked with democratic rights, social justice and human welfare that they cannot be treated with unconcern or viewed with indifference by the members of co-operatives.

The more important of these issues are:

(A) GENERAL

1. *Human Rights*

We subscribe to the Universal Declaration of Human Rights, proclaimed by the United Nations in 1948 and we urge upon our member organizations to make known and support the articles of this Declaration.

2. *Social Interdependence*

We recognize and fully subscribe to the concept of social interdependence—the concept that every person lives in the community of human beings, that we depend on one another for our existence and enjoyment of life, and that the good of the individual can be best secured in the welfare of humanity itself.

(B) SOCIAL

1. *Discrimination*

We condemn all forms of discrimination based on race, colour, religion, politics, sex, national origin or social status as contrary to co-operative ideals, and therefore urge that all member organizations seek to eradicate such discrimination when they encounter it.

2. *Political Affairs*

The co-operative movement as represented by the CUC is strictly non-partisan. We believe that the democratic system of government needs the active participation of the largest possible number of citizens, and therefore no obstacle should be placed in the way of members, officers or personnel of co-operatives preventing them from taking part fully in political and civic affairs, provided they do so without, in the opinion of the directors, involving the co-operative in party politics.

3. *Right of Association*

We believe in the fundamental right of association, including the right of association of workers, of producers, and of consumers, provided that the exercise of such rights does not contravene the rights of others, or endanger the common good.

(C) SOCIAL AND ECONOMIC

1. *Minority Groups*

We are confident that co-operatives have special value and significance for minority groups in Canada, and that the co-operative movement has clear responsibility for promoting and assisting co-operative development among these Canadians, generally in collaboration with government but in certain cases on its own.

2. *Rural Development*

We recognize the radical changes taking place today in the rural areas of Canada, involving a decline of farm population and often resulting in great hardship and economic maladjustment. We believe that special attention must

be given to the social and economic problems of farmers and fishermen who are classified as "small or marginal producers"; we urge that exceptional effort be directed to the organization of new forms of co-operatives to serve rural people; we recognize the necessity of marketing boards in some situations; we give full support to the ARDA program now being developed by governments to cope with rural poverty and depressed rural conditions; and we strongly recommend that, in extending credit and other forms of assistance to rural people, governments give special consideration to operating through co-operative organizations.

3. *Urban Community Development*

Recognizing the fact of rapid urban growth in modern society and the great economic and social problems resulting from it, we wish to put ourselves on record as supporting programs of urban planning and urban renewal, and various plans of urban development that seek to provide for the social and economic needs of citizens in large cities and metropolitan areas, especially in the eradication of urban poverty and the fields of consumer affairs and recreation.

4. *Health and Medical Care*

We believe in the principle of adequate health services and medical care for all. We support the objective of universal medical and hospital insurance for all Canadians and we support the organization of consumer-controlled community clinics and co-operative health services.

5. *Housing*

Recognizing the fact that, as one authority put it, "at least one quarter of our (Canadian) families are poorly housed and pay dearly for what housing they have", we urge that government—federal, provincial and municipal—undertake greatly expanded programs of public housing. The co-operative movement should assume responsibility for initiating and promoting co-operative and non-profit forms of housing, soliciting government assistance and financial support whenever feasible.

(D) EDUCATIONAL

1. *General Education*

We believe that educational opportunities at all levels should be made available to the largest possible number of Canadians and that barriers which today stand in the way of full education to the extent of one's ability to learn should be removed.

2. *Youth and Adult Education*

We are convinced that continuous learning for all is one of the supporting pillars of a democratic society. We therefore associate ourselves with various youth and adult education programs at all levels—local, regional, national and international—both within and outside the co-operative movement.

3. *Consumer Education*

We are also convinced that there is special need for programs of consumer education and we recommend that the federal government, in conjunction with voluntary organizations of consumers, set up an information service using all available media of communication for the benefit and enlightenment of the public at large.

4. *Broadcasting*

We support the concept of a single Canadian broadcasting system under public control to serve the public interest, composed of two complementary sectors, one public, in a central and national role, and the other private, repre-

sented by private stations, in a supporting and local role. We support the Canadian Broadcasting League in its effort to promote higher-quality broadcasting in Canada and to protect the public interest in radio and TV broadcasting.

(E) ECONOMIC

1. *Concept of Plenty*

We believe in the concept of plenty—the idea of abundance—and we believe that the intelligent use of science and technology can make this abundance available to all. We believe it is in harmony with co-operative philosophy that, as economics based on scarcity gradually give way to economics based on plenty, humanity should turn towards a co-operative economic system based on human needs to replace competitive systems based on acquisitiveness.

2. *The Mixed Economy*

We support the concept of "the mixed economy" for Canada—a combination of private, co-operative and public enterprise—and we reject the assumption that the Canadian economy must be primarily oriented to, and first serve the interests of, investor-oriented profit business.

3. *Public Controls*

We believe that government has not only a right but a duty to protect all citizens through certain controls over trade and commerce, especially in matters affecting nutrition, health, housing and human safety. We also believe in government control over finance and credit institutions serving the public and we support the principle of legislation designed for the protection of borrowers and those obtaining consumer credit, for example "truth-in-lending" legislation.

4. *Taxation*

We believe that public institutions and services should be adequately financed through a rational, co-ordinated and economical system of taxation based on the principle of ability to pay, and we believe taxation through the graduated personal income tax to be the fairest and most equitable yet devised.

5. *Fair Trade Practices*

We are opposed to all forms of monopoly pricing, restrictive trade practices, deceptive selling practices, price fixing, retail price maintenance, the use of trading stamps and all such practices that militate against the best interests of the consumer.

(F) INTERNATIONAL

1. *United Nations*

It is our firm belief that peace and international understanding in the world can best be promoted through the United Nations and its specialized agencies—International Labour Organization, Food and Agriculture Organization, World Health Organization, United Nations Educational, Scientilc and Cultural Organization, and the rest—and we believe that the Government of Canada and Canadian institutions should participate to the full in the various programs of these agencies. We further believe that membership in the U.N. should be extended as widely as possible to include nations of all ideologies throughout the world.

2. *World Food*

We wish to register strong approval and support for all international programs of food distribution designed to relieve hunger and allocate surplus food supplies where they are most needed. We subscribe especially to the Freedom from Hunger Campaign sponsored by FAO and the proposal for an Expanding World Food Programme submitted jointly by the International

Co-operative Alliance (ICA), the International Confederation of Free Trade Unions (ICFTU) and the International Federation of Agricultural Producers (IFAP).

3. *World Trade*

We believe that the greatest economic good to the greatest number of people can be best secured by the progressive and reciprocal removal of artificial trade barriers, and we support all efforts to extend trade between Canada and other countries of the world.

4. *Disarmament*

We support a planned and orderly reduction of arms. We believe that true and lasting peace among nations can be found only in international organization and mutual trust.

5. *International Development*

We are firmly convinced that the best guarantee of human progress lies in various forms of international development, the wealthier and more advanced nations of the world assisting the developing regions with technical and educational assistance, and financial help of every kind that will assist them to develop and control their own economies. We believe that Canada's External Aid programs should be enlarged and extended as rapidly as possible until at least one per cent of the national income is devoted to aid for other lands and peoples.

Co-Chairman Mr. BASFORD: Thank you, gentlemen.

Mr. O'KEEFE: Dr. Laidlaw, this is certainly an excellent brief, interesting, informative and in many ways challenging.

At the outset, I would like to tell you that I am in complete agreement with the co-operative concept of self-help. I agree, with some reservations, that this probably was the greatest economic invention of the last century. My reservations—and these could be through lack of knowledge—begin when the co-operatives become multi-million outfits or when these huge co-operatives co-operate with other co-operatives. How many Canadian members of co-operatives do you represent this morning?

Dr. LAIDLAW: This is a difficult figure to give, Mr. O'Keefe.

Mr. O'KEEFE: To make it more simple, can you tell me how many Canadians belong to co-operatives in Canada?

Dr. LAIDLAW: We can give you the total membership of co-operatives in Canada but it is difficult to say how many persons it represents, as very often a member belongs to two or more co-operatives.

Mr. O'KEEFE: I understand that.

Dr. LAIDLAW: In 1964, as shown by the Economics Branch of the Department of Agriculture, there were in co-operatives, apart from credit unions and caisses populaires and insurance—this is just marketing and production, fisheries, and service co-operatives—1,596,000 memberships.

Mr. O'KEEFE: So it represents a very large portion of the Canadian population?

Dr. LAIDLAW: How many individual persons that represents is difficult to say.

There is another way of calculating it, of course, to which we do not often resort, that is, by multiplying by the average number in the family. For example, if a co-operative has a membership of 1,000, some people say this represents 4,000 Canadians, counting the family, the wife and children. We do not do that. This figure is just straight membership. If you take the second method, it would represent a very large number.

Mr. O'KEEFE: Could you give me that number, approximately?

Dr. LAIDLAW: The number of memberships is 1,596,000.

Mr. O'KEEFE: So that would mean roughly 4 million or 5 million Canadians.

Dr. LAIDLAW: It is a very vague figure and I would not lean on it too heavily.

Mr. O'KEEFE: It is pretty impressive.

Dr. LAIDLAW: Yes, it is impressive, taken in that way.

Mr. O'KEEFE: Dr. Laidlaw, do you agree with the principles which underline the free competitive enterprise economy that Canada is supposed to have?

Dr. LAIDLAW: We said in our brief that, number one, we represent or we stand for the mixed society. We want to see our economy a good mixture of public, private and co-operative ownership.

The word "free," as it is commonly used in the pharse "free enterprise" and so on, is a very vague word and you would have to define it. For example, when we say "free enterprise" what do we mean by that? For example, in this country co-operatives cannot go into certain businesses. There are certain businesses that are solely the prerogative of the Government. In some cases, co-operatives have been pushed out of a business by the Government.

Mr. O'KEEFE: Can you give me one case?

Dr. LAIDLAW: For example, just as recent as a few years ago a very large portion of the rural population of Ontario was covered by hospital insurance co-operatives. The provincial government in Ontario took over the whole hospital services field, and co-operatives simply withdrew from the field. So what do we mean by "a free economy"?

Mr. O'KEEFE: Yes, I can understand the difficulty in getting a definition. Now, on page 15 of your brief, Dr. Laidlaw, there is the heading, "Restrictions on Co-operatives."

Mr. LAIDLAW: Yes.

Dr. O'KEEFE: Near the end of the paragraph you say that "in some cases cooperative stores have been denied supplies by manufacturers unless they undertook not to pay partonage refunds that would have the effect of lowering prices."

Can you tell me in what province this happened?

Dr. LAIDLAW: I remember my own experience a few years ago, when the co-operatives in the Maritimes were not given the privilege, or whatever you want to call it, of handling the products of the largest tobacco distributors. Although some of our supply co-operatives have been in the field since the middle of the thirties, some of them got on to the tobacco list only in the last five years.

Mr. O'KEEFE: May I ask the name of that firm, Mr. Chairman? I would like to have the name of that manufacturer who denied them that privilege.

Co-Chairman Mr. BASFORD: You can ask the question, but it is up to the witness whether he answers or not.

Dr. LAIDLAW: I am not close to the business operations, but my understanding 20 years ago when this was brought to our attention, was that it was the Imperial Tobacco Company.

Mr. O'KEEFE: The Imperial Tobacco Company?

Dr. LAIDLAW: Yes.

Mr. O'KEEFE: Does that apply to Newfoundland as well as to the Maritime provinces? You did mention the Maritime provinces.

Dr. LAIDLAW: I do not know; this is only in the Maritimes, I think. It is only in the last five years that the largest co-operative wholesale has got on to the distribution list of tobacco companies in the East. Long ago they said that,

frankly, their main objection to having co-operatives on their lists was the payment of patronage dividends.

Mr. O'KEEFE: The reason being that you intended to give patronage refunds.

Dr. LAIDLAW: Yes, that is it.

Mr. O'KEEFE: I have just one or two questions left. On page 5 of your brief you say that the "easiest way to explain a co-operative is to say that it is a business owned by people who need and use its services."

Now I find it a little difficult to understand the difference, semantics aside, between the position of a shareholder in a co-operative and the shareholders of the Bell Telephone Company. That example comes to my mind as I look around here, because I imagine there are some shareholders of Bell Telephone Company in this room.

Co-Chairman Mr. BASFORD: We are a pretty poor lot, Mr. O'Keefe. I would not make that assumption at all.

Mr. O'KEEFE: Well, perhaps I should not, Mr. Chairman but I will use that example because it is an essential service in which shareholders are hoping to receive a return on the money invested; but they both need and use its services. Is the only difference between the two that the profits instead of being distributed to patrons are allocated to patrons; or what is the real difference?

Dr. LAIDLAW: The real difference, first of all, is that I join a co-operative because I am going to use the services of the co-operative. I buy Bell Telephone stock—to use the example you brought up—not because I want to use the telephone.—

Mr. O'KEEFE: Why not? You must use the telephone.

Dr. LAIDLAW: I can use the telephone without buying Bell Telephone stock. There are many millions of people who use telephones every day but who do not own Bell Telephone stock; there may be people who own Bell Telephone stock who do not use the telephone, although that is unlikely. But the main point is that I buy Bell Telephone stock in order to get a return on my investment, whereas I join a co-operative in order to get the services of that co-operative. The two things are completely different.

Many people buy the stock of firms in whose services they are not even interested. They do not anticipate ever using the services and, as a matter of fact, are so far removed from the services geographically that it is impossible for them to use them; and yet they hope to get a return on their investments. This is the essential difference.

Senator CARTER: I would like to ask a supplementary.

Co-Chairman Mr. BASFORD: Yes, Senator Carter.

Senator CARTER: Is the distinction you just made not one between motivations? Whereas what Mr. O'Keefe was asking was what is the real difference between two enterprises, a co-operative enterprise and a utility enterprise such as Bell Telephone?

Mr. O'KEEFE: Yes, that is the point.

Senator CARTER: What you have just described is actually the difference in motivation between a person taking part in a co-operative and a person buying Bell Telephone stock. You described the different motivations but you did not describe the real difference between the two enterprises.

Dr. LAIDLAW: All right. Let me take it another way. A co-operative is essentially an organization of people, a a union of people grouped together to provide a service. An ordinary company is a union of capital.

Mr. O'KEEFE: I do not see the distinction there. You must have people in order to have capital. People own capital.

Dr. LAIDLAW: Yes, but the organization of an ordinary joint stock company is grouped around the accumulation of capital, whereas the co-operative is grouped around the people who are going to use its services.

Mr. O'KEEFE: But in both cases is the accumulation not realized for distribution to the people?

Dr. LAIDLAW: No, it is not.

Mr. STAPLES: Mr. Chairman, Mr. O'Keefe used a good example in order to try to make his point, because both the ownership and use of telephone services are very widespread. Thus, it is good ground for discussion. However, the Bell Telephone Company exists mainly for the purpose of showing a return on investments. If the Bell Telephone Company fails to show a satisfactory return on investments, the person running that company will lose his job and somebody else will be put in there to run the business better. Moreover, if over a long period of years the Bell Telephone Company were to fail to show a satisfactory return, that company would disappear.

Mr. O'KEEFE: The same thing would happen to a co-operative.

Mr. STAPLES: The Bell Telephone would disappear because investors would become interested in something else. The main purpose is a financial one. On the other hand, to stretch our imaginations a little, if the Bell Telephone Company's services were owned and operated by a co-operative, that is, by the users, and those users were determined that they were going to have a telephone service, then the company would not disappear because the users would provide the company with whatever money was needed in order to keep it going; the motivation would be the desire for the service. In other words, they would want telephones.

Mr. O'KEEFE: To me the distinction is still pretty fine, but perhaps I do not have enough knowledge. I will leave the question to others. I have one other question to ask, though, so that we know what we are talking about; what is the difference between the taxation on an ordinary company and that on a co-operative?

Co-Chairman Mr. BASFORD: Your one question has introduced a three-hour subject, but go ahead, Dr. Laidlaw.

Dr. LAIDLAW: I will take the essential points. First of all, both co-operatives and other businesses in Canada are under the same Icnome Tax Act. This is the first point. Co-operatives in Canada have one slight advantage which is very minor today, in that a new co-operative as it is formed in the beginning is free of income tax for its first three years. This is an exemption granted to co-operatives as a recognition of the difficulty people very often have in organizing and getting them started. Today, however, it is a minor consideration because there are very few new co-operatives starting. That is the second point.

The third point is that, if a co-operative pays a return on investors' capital in the same way as another business, it pays income tax on it the same as other businesses do. If a co-operative sets up a general reserve, in the same way as other businesses do, it pays income tax on that reserve the same way as other businesses. When a co-operative does business with non-members and such business becomes income to the co-operative, it pays income tax on that, the same as any other business would.

However, if a co-operative takes the earnings or the savings and pays them back to the members so that the savings become, in effect, a discount to the members, then the co-operative does not pay income tax on that, up to this other point that we mentioned in the brief. It does not pay income tax on that, provided it is allocated back to the members. Then it becomes income in the hands of the members and they pay income tax on it themselves.

That is all there is to it, It is the same as if you go down to Sparks Street today and buy an article. The merchant can say to you, "I will give you a discount of $2." I do not imagine you would expect to pay income tax on that $2. I do not think you could expect the merchant to pay income tax on that $2 either.

That is the position in a cooperative, and that is essentially the position we are in today. Other businesses can reduce their taxable income in the same way as a co-operative simply by reducing their income. The essential word is "income." As we often say, if you don't have a dog, you don't have to pay a dog tax. Similarly if you don't have income, you don't have to pay income tax.

Mrs. RIDEOUT: Mr. Chairman, I would like to have one point clarified, if I may. I want to be clear in my own mind about what Dr. Laidlaw has said. Dr. Laidlaw, your refund at the end of the year—if a person belonging to a co-operative runs a grocery store, and at the end of the year you refund to the member a certain portion of what has been paid during the year for their groceries, do they have to pay income tax on that?

Dr. LAIDLAW: The computation of a person's income tax—if it is either a return on marketing, for example, in a farmers' cooperative, or if it is a return on goods that are used for production they do but not if it is for every day consumer goods—not for groceries.

Mrs. RIDEOUT: The consumer would not have to declare this as income?

Dr. LAIDLAW: No, it is not taxable income, it is simply a discount. However, if you are a farmer and you get a return of $100 additional on your wheat or your potatoes or milk or whatever you deliver to the co-operative obviously it is an increase in your income.

Mr. SMITH: Or to the net cost of your fertilizer.

Dr. LAIDLAW: Yes, and obviously if there is $100 rebate on the fertilizer it means a lower cost of production.

Mr. O'KEEFE: Dr. Laidlaw, I do not want you to take my questions as being critical.

Dr. LAIDLAW: We appreciate that.

Senator MCDONALD: A moment ago you told us that when a cooperative declared a dividend it was income in the hands of the member, but from your brief and from my personal knowledge I know that in many, many cases this dividend is not a dividend in cash; it is a dividend on a piece of paper which is not negotiable. In other words, you send me a piece of paper which tells me my dividend is $198.50. But you keep the money, and I pay tax on it. This is not income in my hand, and in many cases the only way I can get the income is to die or to become 70 years of age or to move out of the particular area. Is not this an advantage to the cooperative movement?

Dr. LAIDLAW: First of all, from the description you give, you are describing the operation of the wheat pools.

Senator MCDONALD: Yes.

Dr. LAIDLAW: First of all, membership in wheat pools is voluntary. You do not have to belong unless you decide you want to. However, if a farmer joins a wheat pool he has the same right as any other member to express his views, and the wheat pool through its annual meeting and through its regional meetings and through majority decisions of its members decides that the earnings are going to be retained over a certain period. Now, if the member does not like that, and if he does not want that, he can leave. The fact that these are real earnings in the hands of the farmer is recognized by the Income Tax Act and is recognized by the wheat pools because they pay the cash to the farmers so that they can pay the income tax.

Senator McDONALD: They pay the cash to the farmers?

Dr. LAIDLAW: Yes.

Senator McDONALD: They do no such thing.

Dr. LAIDLAW: Well, the Alberta Wheat Pool does.

Senator McDONALD: No, they don't. And when you say that I as a member of the pool have the same rights as other members, this is not quite according to the facts. At the annual meetings of the Saskatchewan Wheat Pool, I, as a member, cannot attend.

Dr. LAIDLAW: But you can attend the regional meetings where the delegates are selected.

Senator McDONALD: But it is a delegate meeting.

Dr. LAIDLAW: Yes, and this is the kind of structure which the members themselves have decided upon.

Senator McDONALD: I am not sure of that; I think it is more a structure that management has decided upon.

Dr. LAIDLAW: Let us look at the figures. The Saskatchewan Wheat Pool represents something like 60,000 farmers. On the books they have many more, perhaps 80,000. First of all, not all of them could get to the meetings; only a small portion could get there. If they could all get there or if you do not have a delegate system, you could not get them into any hall in Saskatchewan or in Canada, for that matter. The only thing workable in the circumstances is the delegate system. Therefore the farmers or everybody who delivers wheat through the Saskatchewan Wheat Pool has the right to select delegates at the local meetings who in turn can go to the annual meetings and decide policy. As to the right of the organization as such to maintain such a system, let us take a simple example of the city of Ottawa and its library service. The citizens of Ottawa have decided that they want library service and we have libraries all over the city. If three per cent of the citizens of Ottawa decide they do not want libraries, this does not mean that we are going to get rid of them. The vast majority of the citizens, we can presume, want libraries, and so we are not going to have a referendum every year to find out if we want libraries. In the same way the members of the Saskatchewan Wheat Pool and other large organizations have worked out, very often by trial and error over many years, what works best to provide service and to develop a good organization, and this is the result. The fact that the Saskatchewan Wheat Pool handles well over half of the wheat in Saskatchewan is proof enough that it is very well supported by the members.

Senator McDONALD: Could I just say this; I think the main reason the Saskatchewan Wheat Pool handles about 54 to 56 per cent—I think that is the figure—of the wheat in Saskatchewan is because of the service they give their customers in competition with anybody else in the grain handling business. It is a well run country elevator system, probably the best, in my opinion. But your arguments about attending the annual meeting, as far as I am concerned, don't hold water. I happen to be a stockholder in Bell Telephone. I don't know how many thousands of shareholders they have, but if I want to go to the annual meeting I can go. But I cannot go to the annual meeting of the Saskatchewan Wheat Pool, and I object to that. I do not think for one moment that if you allow all the members to attend, they would be there. But all holders of Bell Telepone stock, whether they hold one share or a thousand shares, can attend the annual meeting and those vitally interested do attend. I think the Saskatchewan Wheat Pool should make some changes in its regulations.

Co-Chairman Mr. BASFORD: Senator, until you became a senator you could not attend a Liberal convention unless you were a delegate.

Dr. LAIDLAW: May I just make one reply in regard to this matter of delegate representation. We have been through this matter for years in another field, namely the field of insurance. You and I know that mutual insurance, giving every policyholder the right to attend the annual meeting, simply does not work. What happens to a mutual insurance company? We are sure of one thing, that a mutual insurance company is not run by the policy holders. Who runs it?—

Senator MCDONALD: Management.

Dr. LAIDLAW: Yes—management. The delegate system, as established by wheat pools, is to get away from the very trap into which mutual insurance companies have fallen. The delegate system ensures that there will be farmers at meetings of the Saskatchewan Wheat Pool. They will be there; they will make decisions; and they will have effectice control over management. It has taken a long time to work that out. That is why in the big organizations, Senator McDonald, experience has shown that the right of every member to attend does not work out.

Senator MCDONALD: You and I will agree to differ, Dr. Laidlaw.

Mr. STAPLES: This is misleading on one point. Not only is the membership free and open—that is, the Saskatchewan farmer can join a pool or not—but even when he is a member he does not have to patronize it, but can resign or say anything to anybody. He can take his patronage somewhere else. This puts the Saskatchewan Wheat Pool and other co-operatives in a very vulnerable position from the standpoint of acceptability. This factor should not be overlooked.

Senator MCDONALD: This is one long fight in Saskatchewan after the efforts to enforce compulsory pools, you must remember that.

Mr. MCCUTCHEON: Mr. Chairman, there are two things I would like to mention before I ask my question, if I might.

Number one is the reference to mutual insurance, and I would like to call to the witnesses' attention that today is the annual meeting of the largest mutual life insurance company in Canada. It is a co-op, and every policy holder of that company is welcome in Waterloo today.

Mr. ALLMAND: What company is that?

Mr. MCCUTCHEON: Mutual Life.

Dr. LAIDLAW: How many attend?

Mr. MCCUTCHEON: In the neighbourhood of 1,000 or 1,500.

Dr. LAIDLAW: Out of how many policy holders?

Mr. MCCUTCHEON: I do not think that is relevant.

Mr. OLSON: I am wondering whether any of this discussion is relevant.

Co-Chairman Mr. BASFORD: I was beginning to wonder that myself. I wonder if we could have questions rather than statements, Mr. McCutcheon.

Mr. MCCUTCHEON: Yes, this is going to be a question. In your statement you infer that the prime purpose of Bell Telephone was to make money. I happen to be naive enough to think that the company was started on the proposition of providing a service. Therefore, will you tell me why the Province of Ontario was filled with co-op telephone systems, and why they are disappearing and are being taken over?

Dr. LAIDLAW: Well, first of all, Mr. McCutcheon, it was probably unfortunate we singled out Bell Telephone. It was Mr. O'Keefe who singled out Bell Telephone.

Mr. O'KEEFE: I happen to like Bell Telephone.

Dr. LAIDLAW: As far as I personally am concerned, I believe that such an essential public service as the telephone system should be publicly owned.

Mr. McCUTCHEON: I did not ask you that. I asked you why the co-ops were disappearing. That was my question. I wish you would stick to that, please.

Dr. LAIDLAW: The answer is that the small, local telephone companies, whether they are co-operative or non-cooperative, are disappearing for the simple reason that the very nature of a telephone service means it must cover a very wide geographical area and not just a small county or something such. We have exactly the same thing in the electrical system, bus transportation, and all these things. They disappeared, Mr. McCutcheon, not because they were co-operatives, but simply because they were small, local units.

Mr. SMITH: Was not a large contributing factor the fact that many kept their rates at an unrealistically low level so long that they were not able to replace or keep equipment up?

Dr. LAIDLAW: I am sure that did happen in many cases, yes.

Mr. McCUTCHEON: You mentioned one other thing, where there are co-ops pushed out by Government, and you referred to the Province of Ontario, with co-op insurance being taken over by Government insurance. Why was that?

Dr. LAIDLAW: That is hospital insurance, and the reason, again, is that hospital insurance is such an essential public service that we do not think it should be confined just to members of co-ops, but that it should be a universal coverage. We agree, and the co-ops did not fight this in Ontario. The co-ops went along with it because we believe it is the right system; it gives universal coverage.

Mr. McCUTCHEON: The question I started out to ask—and I promise only to ask one—is based on the statement on page 30 relative to the development of co-ops in other countries, which, apparently, is much greater than it is in Canada.

My question is this: Do the co-ops in these other countries operate with a different view in mind? In other words, to boil the question down very simply, do co-ops here, by and large, follow the market, or do they ever try, except in rare cases, to lead it?

Dr. LAIDLAW: It is very hard to answer that question but, in a general way, I would say that co-operatives in Canada, once they get well established in a certain field, almost naturally become the price-setters and the pace-setters; but that has not happened in many fields.

Mr. McCUTCHEON: Give me a "for instance" on one or two.

Dr. LAIDLAW: The fertilizer business is a good example.

Mr. McCUTCHEON: Do you mean they actually set the price in that field?

Dr. LAIDLAW: In fertilizers?

Mr. McCUTCHEON: Yes.

Dr. LAIDLAW: In some parts of Canada the co-operatives are really the price-setters. We gave one example from Saskatchewan.

Mr. McCUTCHEON: Thank you very much. I would like to make one more observation, if I may and if time permits, and that is the fact that I do not own any Bell stock, as much as I wish I could.

Senator CARTER: I would like to follow up Mr. McCutcheon's last question about co-ops. Some time ago we had Professor Kragh as a witness, and he told us that Swedish co-ops had departed from the Rochdale procedures of competitive pricing because they felt that the English or the Rochdale principles were not really tough enough in their operation to protect the consumer.

In your own brief I notice you make several references to it—on pages 10, 20 and 25. There is a trend in your own thinking now away from competitive pricing, is that correct?

Dr. LAIDLAW: Yes, that is true. In some places, and in many fields, this is now very evident. Obviously, a small co-op starting which is surrounded, as the Rochdale pioneers were, by very powerful business, is not going to start a price war. But once the co-operatives feel themselves to be in a strong enough position they do become aggressive in the field of pricing. This has happened in Sweden, and it is beginning to happen in Britain too, as we mention in our brief.

Senator CARTER: But you cited only one example in Canada, and that was of some co-op here in Ottawa, I think.

Dr. LAIDLAW: Yes.

Senator CARTER: Well, is it because we have reached the stage now where co-operatives in Canada are strong enough to do this sort of thing?

Dr. LAIDLAW: No.

Senator CARTER: Is this just in the nature of an experiment?

Dr. LAIDLAW: Yes, this is largely an experiment.

Senator CARTER: To see what would happen?

Dr. LAIDLAW: Yes.

Senator CARTER: Now, you have mentioned—and other questions have referred to this—restrictions imposed upon co-operatives by the provinces, and you have also made reference to the need for federal legislation. These restrictions that you have mentioned in your brief are all within the jurisdiction of provincial governments, and there is nothing that federal legislation can do about them—or, do you think that that is not so?

Dr. LAIDLAW: The cases we mention are within the area of provincial jurisdiction.

Senator CARTER: So there is nothing that federal legislation can do about that.

Dr. LAIDLAW: The restrictions we mention are on page 15. Yes, the only cases—of course, the matter of retail price maintenance and that sort of thing does come within the Combines Investigation Act, but the other cases—for example, in the matter of pharmacies—

Senator CARTER: But you are protected now under the anti-combines legislation in that case that you cited where the supplier would not supply you with tobacco. That would be taken care of under the present anti-combines legislation, would it not?

Dr. LAIDLAW: That is right.

Senator CARTER: So there is still no change there?

Dr. LAIDLAW: No.

Senator CARTER: What I would like to know is just what you want the federal Government to do for you in the legislation you propose, and what benefit you would get from it. I want to know just how it would benefit your co-operative movement.

Mr. STAPLES: There are, obviously, two things that are emphasized in the brief. One is the question of income taxation—we want section 75(3) of the Income Tax Act repealed—and, secondly, we want a federal co-operatives act. These two points are very clear in the brief.

Senator CARTER: Yes, but how would this federal co-operatives act benefit you—what would it do—as compared with your present position? What benefit would you get from it that you do not have now?

Dr. LAIDLAW: There are two ways of looking at federal legislation. One is the long-term historical effect which I need not go into now—the fact that insistence on provincial legislation is casting co-operatives in a provincial mould, but I will keep away from that for the moment and come down to the specific

points of what we want or hope to have from federal legislation which is different from what we have under the Canada Corporations Act.

At present, for example, we have a number of co-operatives in Canada which operate interprovincially and which, in order to do so, must be incorporated under the Canada Corporations Act. Now, the act as presently set up is inappropriate for co-operatives, and I will give just a few examples.

First of all, we want the word "Co-op" or "Co-operative" protected under federal legislation right across Canada. As far as I know the word "Co-operative" is protected by provincial legislation, but when you come to the federal level it is not similarly protected. That is one thing.

Senator CARTER: The word "Co-operative"?

Dr. LAIDLAW: Yes.

Senator CARTER: How are you handicapped by that?

Dr. LAIDLAW: For example, a company that is not a true co-operative at all can come under the Canada Corporations Act and get a charter, or be incorporated under it, and use the word "Co-operative", when we know that it is not a co-operative.

Mr. SMITH: Is it done?

Dr. LAIDLAW: The last case we had on the record, about which we protested very strongly, was back in 1958 or 1959. As far as we know there have been no federal incorporations since then.

Mr. SMITH: What was the name of that company? Do you remember?

Dr. LAIDLAW: It was a petroleum organization, but we can get the name of it. From the viewpoint of the co-operative movement obviously it was not a co-operative.

Senator CARTER: But there is no such organization today pretending to be a co-op when it is not?

Dr. LAIDLAW: This organization was incorporated.

Senator CARTER: That is the only one?

Dr. LAIDLAW: Well, I do not know how many there are, but we want that word "Co-operative" protected as it is provincially.

Let us take another example. Here is an essential problem. If I own shares in a company I can, under the Canada Corporations Act, sell them to somebody else. We want the shares in a co-operative to be traded through the board of directors to make sure that the shares in the co-operative are available only to the people who are going to use the services or who want these services. Also, we want the right under an act so that these shares can be re-purchased by the co-operative itself, which cannot be done by an ordinary company.

Senator CARTER: You want to prevent somebody from buying you out? Is that it?

Co-Chairman Mr.BASFORD: Dr. Laidlaw is explaining why the Co-operative Union wants a federal act, and I think he should be allowed to set out his reasons for that without interruption.

Dr. LAIDLAW: Transfer of shares should be with the approval of the board, and the co-operative should have the right to buy back these shares. Here is the reason for that: Let us suppose 25 years ago 500 farmers got together to organize a milk co-operative. We know that under the circumstances of today there are not 500 farmers milking cows, or shipping milk. The number of producers is going down steadily. In order to keep the control of the company firmly in the hands of the producers, the people who are using the services, there must be some way of buying back those shares.

In an ordinary company under the Canada Corporations Act by-laws are amended by the board of directors, but in a co-operative the only people competent to amend the by-laws are the members in annual meeting.

The whole principle of one member, one vote is a very important thing. Under ordinary corporation law a shareholder votes according to the number of shares he holds. That is an anathema to a co-operative. We want the control to be by persons—one person, one vote.

These are some of the reasons why we find the Canada Corporations Act inappropriate for co-operatives, and why we continue to insist that it is. That is why we want a separate co-operatives—

Senator McDONALD: Could I ask one supplementary question?

Co-Chairman Mr. BASFORD: I am just wondering if that completes your answer, Dr. Laidlaw.

Dr. LAIDLAW: Yes.

Co-Chairman Mr. BASFORD: I am just trying to proceed in an orderly fashion.

Dr. LAIDLAW: Yes. We have a long list of points but I think that will be sufficient.

Senator McDONALD: Can a federally incorporated co-operative not buy its shares from deceased members, or members who have gone out of the milking business, for instance?

Co-Chairman Senator CROLL: Provincially incorporated.

Co-Chairman Mr. BASFORD: He is asking about one co-operative that was incorporated under the Dominion act.

Senator McDONALD: I am asking with respect to both. Can you not do that?

Dr. LAIDLAW: Under provincial incorporation it can be done because it operates under the Co-operatives Act, but for example, we have an organization like the Maritime Co-operative Services, which is incorporated under the Canada Corporation Act or, as it used to be called, the Dominion Companies Act, and you cannot enforce that you see.

Senator McDONALD: Are there any questions of where somebody has tried to buy up these shares in order to get control of the co-operative?

Dr. LAIDLAW: Let me give you the story. For instance, in Nova Scotia, if we go far enough back in history, we would find that practically, all the dairies at one time or another, were owned by farmers. If we come down to about the year 1920 or 1925 we would find that the farmers did not own them any more. What happened in the meantime? In the beginning 500 farmers would get together and organize a co-operative. At that time there was no co-operative legislation. So one farmer would buy five shares, another ten, and so on. All right. One farmer dies and his wife moves to California. Another man gets into trouble and a merchant takes the shares. After a while, the dairy inspector, in going around the country, notices the co-op is getting into trouble and begins to buy the shares, and one day the farmers wake up and find they do not own the dairy at all because the shares have been scattered around and are in other hands, and they do not own them any more.

This is one example, Senator McDonald, to show that co-operatives have learned from bitter experience over many years that unless they have proper legislation to keep the co-operative firmly in the hands of the people as users of the service, then there is no guarantee of the continuity of the organization.

Senator CARTER: I want to refer to page 40 of the brief, which states:

> To summarize: we believe that government should help co-operatives in a constructive as well as sympathetic way, mainly by seeking to create

the social and political climate in which they can grow unrestricted and naturally;

I suppose you mean that you want a federal act? Is there something else you want the Government to do besides bringing in a federal act, to create this social and political climate?

Mr. STAPLES: A federal act would help; and more than that would certainly be welcome. Let us contrast the attitudes of the Government of Canada toward say agricultural co-operatives, with that of the United States, the country which is closest to us, where at the top level, from the Secretary of Agriculture all the way down the line, almost week after week they are urging on farmers the necessity and value of doing their business co-operatively. In Canada we do not see any of that happening on the part of the government officials here. Now, we appreciate what has been done by the Department of Agriculture, the statistical and research service, small as it is, and we would like to see it extended. But if top-level policy were more positive on the part of the Government in Canada, more firmly established, and better known, the deputy ministers, the civil servants, all down through the tremendous organization of government, would be in a position to do far more than they are doing now, because the farmers do not know what Government policy really is.

Senator CARTER: What you have said, as I interpret it, is that farmers need more encouragement and more education. But is that not more properly the function of the provincial government rather than the federal Government?

Dr. LAIDLAW: We could give you many examples at the federal level of this sort of thing. Let me take a couple of examples. About three years ago the federal Government introduced a system of machinery loans to farmers through the Farm Credit Corporation. Now, the cooperative method of organization, collective responsibility and so on, in a cooperative is well recognized and well established, and yet when writing the legislation for the farm machinery loans they specifically wrote out cooperatives. So ten farmers, or three farmers, whatever it may be, who today want to borrow under the Farm Credit Corporation for a farm machinery loan must form what they call a syndicate in which they have joint and individual responsibility, in spite of all the experience of cooperatives in this field. That is one example.

Another example is that a couple of years ago the federal Government introduced student loans. When the legislation was first introduced, if I remember rightly, the loans were going to be made available mainly through the banks. In spite of the long success and experience of caisse populaires and the credit unions in this country, nobody apparently even thought that student loans would be or could be made through the credit unions. It is true the regulations were amended and they can be made now.

We went through the same thing with fisheries plans. About ten years ago the federal Government introduced fisheries loans, and although many credit unions were there working right on the spot with fishermen, making credit available to them, nobody thought of making the legislation applicable to credit unions or caisse populaires.

What we are saying, senator, is that there is a great deal to be desired in creating the proper attitude and the proper climate in which the cooperative idea can flourish. We are not asking that the Government pap feed cooperatives; we are simply asking that they give them the same kind of a chance they give other business.

Senator CARTER: If I may conclude with this one question. In that same paragraph I just read on page 40, it goes on to say:

> ....and also by giving special assistance to various groups of the population who are handicapped in one way or another and tend to be pushed outside the mainstream of an affluent society,....

Just what groups do you have in mind there, and what kind of assistance?

Mr. STAPLES: The quick example that comes to us would be the Indian and Eskimo communities in Canada—the poor.

Co-Chairman Mr. BASFORD: In fairness, perhaps I should point out that the Government is actively trying to promote cooperatives among the Eskimos.

Mr. STAPLES: That is right. I want to give the Government full credit for that, and this is an exception to some of the things we have been asking, and we are helping all we can. However, this is something relatively new—only five years or so, whereas experience with Indians in Canada goes back for a hundred years or more, and there has been very little recongnition of cooperative action on the part of many of us, including the cooperative movement along with the rest, as well as the Government; yet there is a tremendous potential in a selfhelp approach to some of the problems these people have.

Dr. LAIDLAW: I have a good example in housing. We have a lot of poor people in this country who cannot afford a decent home. Under the National Housing Act we have limited dividend housing for low-income people. If you and two or three friends want to get together and organize a company with which you will borrow money to provide limited divident housing for 50 poor families, you can do that under the National Housing Act, but if 50 poor families themselves want to organize a cooperative and get the same kind of help they cannot.

Senator CARTER: What prevents them, because they are poor?

Dr. LAIDLAW: No, because this possibility at present is ruled out under the National Housing Act. This is the sort of thing, for example, the cooperative movement has been working at for a long time, trying to get certain features under the National Housing Act to make it easier to promote the cooperative idea in housing.

Senator CARTER: Is there no cooperative housing?

Dr. LAIDLAW: Yes, there is cooperative housing, but the point we are making here in answer to your question about special groups of the population, is that the poor themselves, if they were to be organized as a housing cooperative, they themselves cannot get the same concessions or the same arrangements under the National Housing Act that you as an entrepreneur would have if you organized a housing project for them. We are referring to section 16 of the National Housing Act.

Mr. ALLMAND: The cooperative idea is a very good one. If more people accepted it in Canada, prices would be lower at the consumer level and also there would be greater control over their economic destiny. However, in Canada the people have not really on a broad scale accepted the co-operative idea in the cities. I think the reason is that the cooperatives have never really adapted themselves to modern city life. The city people are those who need it most.

Nearly all the price protestors in the recent movement which started last September were from the cities. Very few groups were organized in the country or in small town areas. I put to you some reasons why I think this has not been accepted in the cities. The Rochdale cooperative principles were established in an era when people lived, worked and shopped in one community, when communities were small and there was very little transportation to get around cities and towns. In Montreal today, for example, people may work in one part of the city,

live in another part and shop in a third part. When cooperatives were proposed to them, as we tried to do during the inflationary period last fall, they were difficult to accept. If the people had one cooperative store in the whole west end of Montreal, it could prove more profitable to go to the local Steinberg's or A & P than to travel to that cooperative store.

As you mentioned in the brief—and there were similar criticisms in this committee—co-operatives in Canada have been too rurally-orientated and have not been aggressive like those in Sweden. They have kept with the Rochdale principle of selling at competitive prices, rather than by competing as they did in Sweden.

Co-Chairman Mr. BASFORD: I am having difficulty in detecting the question.

Mr. ALLMAND: I am interested in seeing this co-operative idea put into effect in cities and I am trying to give my view. I may be wrong in my view and I would like to be corrected and then have the ideas of Dr. Laidlaw as to why they have not gone into cities. The biggest number of consumers are in the cities and the people there could obtain much help from co-operatives if the co-operatives were not so conservative and would adapt themselves to the cities.

Co-Chairman Mr. BASFORD: I appreciate all that, but would you follow the procedure generally on cross-examination, of question and answer.

Mr. ALLMAND: I would like Dr. Laidlaw to tell us does he not think that cooperatives in cities would work better if they were citywide, if I could go to a cooperative and shop in many stores across the city, instead of sticking to one store or one co-op, or even if they were provincialwide, because many people work now in different parts of a province. I might work in Montreal and then move to Sherbrooke. Would you comment on this question of urban cooperatives?

Co-Chairman Mr. BASFORD: Now we have a question, thank you, Mr. Allmand.

Mr. ALLMAND: They are the people who really need help—the consumers in the cities.

Dr. LAIDLAW: I would like to reassure you, Mr. Allmand, that this is a problem which is bothering us a great deal and on which much research has been directed. For example, we are holding a major conference in the City of Winnipeg next March to discuss this whole question of how to develop consumer cooperatives in the big cities of Canada.

One of the questions to be discussed is that which is bothering you, the whole question of membership and the relation between the member and the co-op. I might tell you that the cooperative movement—and I am speaking now strictly of consumers' cooperatives—all over the world, but particularly in Europe in the last five or six years, has been struggling with this problem very energetically. In some countries they are achieving a new kind of integration, very much along the lines you picture.

The best example is Denmark. The Danish co-operatives are among the most highly developed in the world. It may come as a surprise to you to know that consumer cooperatives are very highly developed in Demark. To take one example, the Scandinavian furniture which is so admired and which is quite the thing today, was first developed by the cooperatives in Denmark.

At the present time, one-half the members of all the consumer cooperatives of Denmark belong to one single cooperative society. It is anticipated that within five years they will have integrated the whole consumer cooperative movement in such a way that a citizen living anywhere in Denmark can join one single overall cooperative society, through which he can do his business in any part of the country.

Senator MCDONALD: Big business, big cooperatives.

Dr. LAIDLAW: To be efficient sometimes the cooperatives have to be big. This is one of the dilemmas the cooperative movement is faced with. People say: "Here is a problem, why do you people not get together and organize a cooperative? Fine. The people do get together and organize a cooperative, they find that to be efficient they must become a large organization, so they become a large organization, and then everybody turns around and says: "You must stop this, because it is not what we had in mind at all."

Mr. ALLMAND: I am glad to see that the cooperatives are working on it. Would the federal legislation that you suggest help this large cooperative organization?

Dr LAIDLAW: We would hope that eventually it would. Incidentally, the thing that you described in consumer cooperatives as applying to Montreal, has applied for 40 years in the case of the Sakatchewan Wheat Pool—it is a centralized organization.

Senator MCDONALD: To a lesser extent.

Mr. OLSON: On advertising, I have noted that many witnesses before us indicated they believe that excessive advertising contributed largely to price increases and the overall high prices referred to, particularly in retail groceries. I wonder if cooperatives have seriously tried to do anything about this, to cut down on advertising and give some substitute service that is attractive to customers. For example, in my home town and other places, when the newspaper comes out, the cooperatives have as much large advertising as any of the other stores. Whether it is Safeways, or O.K. Economy or Loblaw's or the co-op they have advertising in the paper in relationship to their share of the business—they have a half page, a full page or two pages.

Is this something you do in self-defence, that if you do not advertise in this way you would lose the market? Or why do you do it?

Dr. LAIDLAW: I shall start the answer and say the practice varies widely from one cooperative to another. The cooperatives are autonomous and make their own decisions. Some cooperatives in Canada advertise like other businesses, but other cooperatives use little and some use practically none.

With the chairman's permission, I will turn over this question to a man who wrestles with it every day, Mr. D. F. MacDonald, one of the directors, who is also the general manager of a large and successful cooperative serving both rural people and urban people in the City of Moncton.

Mr. D. F. MacDonald, Director, Co-operative Union of Canada and General Manager Co-operative Farm Services, Moncton, N.B.: Mr. Chairman, that is a very good question and one which we have been wrestling with in our organization. We are relatively small, of course, but we do advertise in the newspapers periodically in self-defence. That would be about four times a year. We do send a flyer to our members once a week, which costs us much less money, of course. However, I think you are right. It is done in self-defence in a lot of cases.

Mr. SMITH: It depends on competition, does it not?

Mr. D. F. MACDONALD: To a certain extent.

Mr. SMITH: Our co-operative advertises very widely at home, and I have always presumed that it did so because it is in a very competitive market.

Mr. D. F. MACDONALD: That is right.

Mr. OLSON: The point I am trying to get at is whether this emphasis on the cost of advertising, as a contributing factor in high prices, is as valid as some people try to tell us. For example, if you are in a competitive market and you co-operative is trying to expand its business, but does not do these things, will you get the response from the customers so that you can keep your business

growing; or is it something essential to keep volume moving and thereby keep prices down? Is it in fact a contributor to moving prices up or not? This is the point I am trying to get at.

Mr. D. F. MACDONALD: Mr. Chairman, I do not think there is any doubt about the argument that the advertising must cost the consumer finally. We think of these expensive ads in colour; we think of the games that are played, and all the gimmicks. In the final analysis the consumer is going to pay for these things. That is the best way to look at it.

Mr. OLSON: I will accept that. I am not naïve enough to suggest that all of the costs, whether for advertising or any other part of the businesss, finally get into the price of the goods they sell, but the point I am trying to get at is whether or not something can be done. I am asking you people if you have tried to do anything in order to get customer response to purchasing without advertising. If you just lower your volume, then, obviously, the cost unit goes up.

Mr. D. F. MACDONALD: There again it is self-defence. We certainly like to think that our members would patronize a cooperative without any incentive advertising, but, unfortunately, in order to create business and traffic you need to do some of it. In our organization we have a newsletter which we send out to our members every six weeks. These are things we are trying to point out constantly, in trying to educate people to get away from unnecessary costs.

Loss leaders is one, for instance, which we do not have in our organization. We do not sell below cost. Several of our competitors do and they also advertise that they do, which is a cost again. I grant you that this levels out in the overall price in an order of food.

Mr. OLSON: On page 41 of your brief one of the recommendations that you make is that there should be a broad, well developed program of consumer education. In the fourth paragraph you go on to suggest that there is undesirable advertising which should be banned, particularly television broadcasting. Now, we could discuss a lot of other products, but I am talking particularly about food. I would like to know from you whether any co-operatives have tried to do this and have been successful in meeting competition from other stores?

Co-Chairman Senator CROLL: Do what?

Dr. LAIDLAW: Tried to do what?

Mr. OLSON: Tried to do exactly what you say here about developing a program of consumer education and doing away with expensive advertising. Have any of the cooperatives done it successfully, where the consumers have responded to it so that they could lower their costs by cutting out so-called expensive advertising.

Dr. LAIDLAW: First of all there are many cooperatives—how many I would not want to venture, but there are many successful cooperatives right across Canada—I am referring to consumers' cooperatives. I have here, for example, the financial statement of the one which we quoted in our brief, The Corner Brook Cooperative. For the size of the community of Corner Brook it is an excellent cooperative. There are many cases of this across the country.

Now, so far as advertising is concerned, I would say that the vast majority of our consumer cooperatives do follow the code of advertising that is quoted in the brief. There are quite a number of cooperatives that never use any television advertising as referred to here.

Finally, there is a large number of consumer cooperatives in Canada that have demonstrated that they can show savings and patronage refunds for the members years in and year out. We gave a few examples there.

Mr. OLSON: Mr. Chairman, I do not want to belabour the point, but what I am trying to get at is whether this is just a lot of wishful thinking, or does it in

fact work; because we have heard from other witnesses about the enormous cost of advertising that finally gets into the price structure. What I am wondering is whether there have been any successful experiments made in a highly competitive market, one in which there were a lot of supermarkets other than co-operatives? Have they been able to hold up their volume of sales and attract customers without advertising on essentially the same level that the other stores advertise?

Dr. LAIDLAW: All I can do is repeat that there are cooperatives in Canada that do not use this kind of advertising. Mr. MacDonald's cooperative is one of them. You do not use television advertising, do you?

Mr. D. F. MACDONALD: No.

Dr. LAIDLAW: And it is a successful business which shows savings.

Mr. SMITH: Is there any conclusive evidence, in your field, though, that advertising is the villain it has been made to appear?

Mr. OLSON: This is what I am getting at.

Mr. SMITH: That it has been made to appear by some of the witnesses, or at least that it has been alleged to be by some of the previous witnesses.

Dr. LAIDLAW: It is not the villain; it is one of the villains.

Co-Chairman Mr. BASFORD: I think the other Mr. MacDonald wanted to supplement the answer.

Mr. Jim MacDonald, Executive Secretary, National Labour-Cooperative Committee: I just wanted to say that one of the important things is consumer education. When the consumers read the ads, this is as near as they get to consumer education. But I have come across something pretty striking in consumer education, and that is an arrangement in a high school in Yonkers, New York.

What they have done there is unique. They do not add courses to an already over-crowded curriculum; they simply use examples in the course in economics, showing how to work out the actual, true and annual interest rates; how to work out household budgeting; how to read ads for loaded words, and things of that nature. So I think it relates, Mr. Olson, to your question in that if you follow the newspaper ads and those on television closely you will notice—and I think you will probably agree with me—that there are key words that are equivocal, suggesting one meaning upon a cursory glance and another meaning when analyzed. Courses of this kind in our school systems might be one way to help people read ads more carefully. Perhaps then ads would diminish in their effect.

Co-Chairman Senator CROLL: May I say, Mr. MacDonald, that that is part of the course system in Toronto, and I think every member on this committee received a booklet indicating so some time ago. I do not know how much good it does, but it is there.

Mr. OLSON: Most of the cooperative supermarket advertising that I have seen has been of exactly the same type of price special advertising that the other merchandisers do. I still get back to the same point. Is this the only kind of advertising that you get response to in order to keep up your volume of sales; or is there something else that works in consumer advertising so that you do not have to advertise all the time and pay a lot of money for specials all the time?

Dr. LAIDLAW: We just want to repeat that there are successful cooperatives which never use it, proving that this kind of advertising is not essential to membership support.

Co-Chairman Mr. BASFORD: We seem, at this point, Mr. Olson, to be repeating both the questions and the answers.

Co-Chairman Senator CROLL: It is like a Mexican stand-off, as far as you are concerned.

Co-Chairman Mr. BASFORD: We seem at this point to be repeating the questions and repeating the answers.

Mr. OLSON: All right, Mr. Chairman, but the last answer said it gives services to the members. But does this other kind of so-called consumer education expand cooperative activities? I am talking of retail sales now.

Dr. LAIDLAW: Fortunately we do have a number of cooperatives in Canada that are growing and are doing well and without benefit of television. I am not writing off television, of course, but what we are saying is that a great deal of television advertising connected with the food industry today is not the kind we want to have in cooperatives.

Mr. SMITH: Does not the Saskatchewan Wheat Pool sponsor the television news?

Dr. LAIDLAW: Yes, that is right.

Mr. SMITH: And it is a very successful cooperative and yet it is doing this modern type of advertising.

Dr. LAIDLAW: Well, there is advertising and advertising, and sponsoring the news, as the Saskatchewan Wheat Pool does, is more of a public service. But when a company uses advertising in an unethical way—and here I am going to give my own personal views—the advertising appearing on all our television screens every night advertising cigarettes is harmful, unethical and contrary to the best findings of science.

Mr. OLSON: What about advertising for breakfast foods, tea, bacon and so on? This is not unethical?

Dr. LAIDLAW: I would say some of the advertisements for breakfast foods are unethical.

Co-Chairman Senator CROLL: I like the beer advertisements that bring the

Mr. BOULANGER: May I give one example? This is the one we have heard a lot about. As you know you can get soap, packages of soap with a towel in them so you have a choice between buying the soap without the gimmick and the soap with the towel. You were offered the same opportunity a number of years ago. You had the opportunity to buy the soap straight by the pound and without anything in the box except soap, or to buy it with the gimmick in the box.

Dr. LAIDLAW: Mr. MacDonald has been struggling with this problem and is doing so every day. He might like to answer this.

Mr. D. F. MACDONALD: I think this is a pretty good example. Let us say there is a new soap called "Gleam" coming on the market. The traveller goes to a sales convention and comes back all enthused about the new product. He goes to all the stores to sell it. Meanwhile they have hit television, radio, newspapers everything with this. Now our grocery men will say "No, we won't handle this because we have 25 different lines already." And a salesman will say "You will have to have it because the people will want it." And he is right, because as soon as it hits the street the customers will come in and say "Where is the 'Gleam' soap? We want it."

Co-Chairman Mr. BASFORD: I think Mr. Staples wants to say a word here.

Mr. STAPLES: I would like to come back to Mr. Olson's central question. Do the cooperatives go on doing the same as other stores are doing? The cooperative movement is struggling with this, and the leadership is struggling with it and the conference Dr. Laidlaw referred to—and Mr. Allmand's question refers to this because it is pertinent here—there is a need to find a stronger relationship

between the cooperative and the member. This is the weak link in the structure, not only in Canada but in other countries as well. The manager and the board of directors and a few others worry about the cooperative, but the ordinary member acts as though he didn't consider it very important. So the manager feels forced to carry on with the advertising programs and with the loss leaders and the like to attract customers in off the street, as it were. However, in this connection there are things happening like the educational program of the Red River Co-Operative in Winnipeg. They call it a cooperatives' parliament and through it they endeavour to reach the public. The March conference mentioned by Dr. Laidlaw is an example. Another which I think is worthy of mention is referred to on page 31 of our brief where we refer to the Co-Operative Supplies Depot of Ottawa, Limited. This is not a large operation but it is a very dynamic one and it is operated on a different basis. One could say, I think, that it is fundamentally different in some respects. C.S.D. is not only pricing literally at cost, but the thing that is unique about this organization is the fact that each member individually, morally and legally, undertakes to pay his share of the cost of operating the business, as long as he is a member. This is a new principle and it is working extremely well.

At this stage if I may be permitted, Mr. Chairman, I would like to register a protest on behalf of Co-Operative Supplies Depot and its board of directors which met the night before last in receiving a negative answer to its request to appear before the committee. I am speaking now for the Co-Operative. However, the Board decided to go ahead and finish the brief which was already half prepared, and perhaps we will mail it to all members and senators so that everybody will get a copy. We feel that since C.S.D. is a new approach to consumer purchasing and does head right into the kind of question that some of the members of the committee have been raising the request for the chance to appear is justified and if this negative answer which we have received from Dr. James could be reconsidered, we would appreciate it, but if not, we will accept the decision.

Senator McDONALD: Where are they located?

Mr. STAPLES: At 834 Clyde Avenue.

Senator Carter: How are the expenses shared? Are they shared equally or pro rata?

Mr. STAPLES: They are divided equally among the members.

Senator CARTER: Regardless of purchases?

Mr. STAPLES: That is right.

Mr. OLSON: Up to this my time has been mostly taken with supplementaries. Mr. Chairman, I would like to refer to one other matter which concerns me greatly. I refer to what might be called collusion—which is a severe word to use—on the part of retailers, including cooperatives. For example, in my community, before Christmas, turkeys over 40 pounds were 43 cents a pound, ham was 59 cents a pound and mandarin oranges were 39 cents a pound and it did not matter which store you went to, the prices were all the same. Do the managers of the cooperatives make a deal with these other stores that this is the price at which they are going to sell? Surely all these prices on the most attractive items before Christmas cannot be a coincidence. Surely it is more than coincidence that they all set the same price down to the last cent.

Mr. D. F. MACDONALD: There is no collusion so far as our experience is concerned. Of course there is no trouble in finding out what price the other store is selling at. You can walk into the store and see what their prices are or you can telephone them. Of course you would not tell them who was calling. There is certainly no collusion between the stores, at least not in our experience.

Dr. LAIDLAW: Perhaps the cooperative waited until the price was set and then followed the principle of the current market price.

Mr. OLSON: Current market pricing looks to me rather like fixed pricing because they were all the same during the entire period. I am not condemning the co-op any more than the other stores, because we have had these denials there was any attempt at all to get together to set the prices. It is pretty hard for me to accept there was not some kind of an agreement made because all the stores come out with exactly the same prices.

Co-Chairman Senator CROLL: Perhaps there was a consensus.

Mr. OLSON: How do we get to this consensus?

Co-Chairman Senator CROLL: You must remember that they all do comparative shopping, one with the other, and it is normal for them to send out someone and to ask, "What are the others charging on this?" They all do it; they all look, and charge the same.

Mr. OLSON: Who leads, senator?

Mr. BOULANGER: That is the 64,000-dollar question.

Mr. OLSON: Who leads and who follows?—because I do not know whether or not these were fair prices. Let us assume Safeway or I.G.A. were in fact taking a little more than they should on some of these prices in relation to their costs, should a co-op be justified in doing so too, or would not they be justified in doing so?

Dr. LAIDLAW: I think there are two answers to the question, Mr. Olson.

First of all, if the other three companies have priced their items out of line and are making an undue profit, there is one thing sure, that the cooperative has a built-in mechanism to get that profit back to the member.

The second point is—and I do not know the situation in Medicine Hat—

Mr. OLSON: I just took that as an example, because I know the situation there. I have looked at the papers from Calgary, Lethbridge, and many other places, and I notice exactly the same pattern on the high-selling feature items on the Christmas shopping list.

Dr. LAIDLAW: The only thing is, in most of these places, I think you will agree, the cooperative is in a vulnerable position. In most of these cases the cooperative, by and large, in Canada and in the setting we have in Canada, is vulnerable, and many managers of cooperatives are reluctant to start a price war.

Mr. OLSON: Why do you say the co-op is vulnerable in this situation?

Dr. LAIDLAW: For the simple reason the other stores, perhaps the next week, will just start under-cutting so severely on some other things they will simply damage the whole structure.

Mr. OLSON: But this would be good for the consumer, would it not?

Dr. LAIDLAW: But in the long run no business can survive by selling below cost.

Mr. OLSON: I agree. Thank you, Mr. Chairman.

I would just like to finish by saying that I hope the co-operatives—as an alternative to some of the monopolies that are or appear to be building up in the food industry—flourish.

The reason I asked the questions is because I am interested in whether or not these factors are important, and if you have found any way around them, to see whether or not there is any validity to these arguments with respect to advertising and what appears to be collusion of some kind in the setting of prices and particularly in the setting of prices on seasonal items.

Mrs. RIDEOUT: Mr. Olson asked the question I had in mind, and I do not want to dwell on it.

With regard to your code of ethics for advertising mentioned on page 34, I was just wondering whether you would be in a position to say that the cooperatives who use this code of ethics have been able to keep prices lower, or has it made prices higher?

Dr. LAIDLAW: Well, the code of ethics mentioned on page 35, Mrs. Rideout, refers not to the question of pricing but to ethics and good taste.

Mrs. RIDEOUT: So it is in effect in your organization?

Dr. LAIDLAW: Yes, it is widely accepted across Canada, and to what extent it builds up loyalty or support or understanding of cooperatives, it is difficult to say, but as far as we can see cooperatives which try to follow this code of ethics do not seem to suffer.

Senator VAILLANCOURT: I have been connected with the cooperative movement for the last 50 years—only! In Quebec it is not possible for a new cooperative organization to fight against these big corporations—A&P, Dominion Stores, and so on and so on—especially if we try to cut prices. We sell at the same price as the others. At the end of the year we return to our members 5, 6, 7 or 10 per cent, and it is more profitable to our own members to receive at the end of the year $50 or $60 or $100 than to receive a few cents every week. That is our experience over 50 years.

Dr. LAIDLAW: That is the experience too of the British housewife over more than 125 years. This is almost built into family budgeting, for example, in the United Kingdom, where before Christmas the payment of the patronage refund in the co-op is the housewife's Christmas money. This is a very common thing, and it has wide appeal to working-class people in Britain, but they are finding it does not have the same appeal to the middle-class and more affluent in the population.

Senator MCGRAND: I have two questions, one for Mr. MacDonald.

The Maritime Co-Operative has a retail store in Moncton, and I think it compares in size and volume of business with your competitors in Moncton—is that right?

Mr. D. F. MACDONALD: Pretty well, sir.

Senator MCGRAND: Will you compare the prices you sell at with the prices of your competitors? Are your prices lower, or not?

Mr. MACDONALD: From surveys we conduct, which we do quite frequently, usually we take about 30 to 35 items across the board, and our competitors were usually from 15 to 20 to 50 cents above.

Senator MCGRAND: You are a little lower?

Mr. MACDONALD: Yes.

Senator MCGRAND: Then your profits at the end of the year are smaller compared to the profits of your competitors, is that right?

Mr. MACDONALD: Well, probably they are a much larger organization than we are and they are probably buying at better rates, and so forth.

Senator MCGRAND: I want to know whether Steinberg's and these chain stores are really gypping the public. In the co-operative stores you have no gimmicks and you do not even have a rocking horse in a corner of the store for the youngsters to ride on, and for which the mother puts 10 cents in the slot. You have none of these gimmicks and you are not imposing on the public. I want to know whether your co-operative store, in profits and in prices, is evidence that these other stores are gypping the public. I do not expect you to say they are!

Mr. BOULANGER: Then I do not think you are ever going to get an answer.

Senator McGRAND: I think it is a fair way to use the co-operative as a measuring stick, to find out whether these other stores, these big chain stores, are actually imposing on the public in charging prices that they should not be compelled to pay. That is one reason why I would like to have the co-operative give their evidence.

Co-Chairman Mr. BASFORD: Mr. Staples, do you want to comment?

Mr. D. F. MACDONALD: I would make one comment, Mr. Chairman.

Co-Chairman Mr. BASFORD: Fine, Mr. MacDonald.

Mr. D. F. MACDONALD: In comparison of prices, our selling prices are just a little below the average in the city. We are running an operation where we are handling more than just food. We have several different items and some items have a greater overhead than others. But, over the years we have paid dividends back to our members on the basis of from 3 per cent to 4½ per cent—the average would probably be about 3½ per cent.

Senator McDONALD: In cash?

Mr. D. F. MACDONALD: Not in cash. It is deferred.

Senator McDONALD: It is a dividend?

Co-Chairman Senator CROLL: A credit.

Senator McGRAND: I have one other question to put to Dr. Laidlaw. At page 38 you mention Canadians who today live under the sinister influence of a few giant chains. Now, it is only a short time ago that an economist was here, and he told us that these large monopolies were not necessarily dangerous, because it was often cheaper to buy goods that were processed and handled by one large company than goods that were handled by ten different companies. I can think of the example of the telephone—a large private monopoly operating the telephone service as compared to a number of little telephone companies scattered around the province is good evidence that a monopoly can be more efficient. I would like to have you go into a little bit of detail on the danger that can come from a monopoly, such as we seem to have in Canada, and compare the danger of that monopoly to the efficiency of that monopoly in the distribution of goods.

Dr. LAIDLAW: Let us look for a moment to a field which is in the realm of consumer affairs, but not in food. I think we have all had our eyes opened in North America in the last year or two with regard to automobiles. We know what has been happening in the automobile industry over the past twenty years. The smaller companies have been weeded out, and we have got down to a few very, very large companies. The presumption is that they are getting more and more efficient all the time, and that they are producing a better product and giving us more value for our money, and so on.

We are beginning to learn now that this is not the case. The revelations that have been made show that the consumers can be victimized, they can be milked, and they can be misled in many ways by a few large companies.

We have further learned that these large and powerful companies—all-powerful in many respects—will go to any lengths, as they have in the automobile industry in the United States, to stop the revelation of the facts behind the situation. We all know that this has come out in the hearings on the automobile industry.

I think that example is a lesson enough for us consumers that there is great danger in essential goods and services getting into the hands of companies that live very largely outside the realm of government control.

Now, the telephone business is not a very good example for the simple reason that telephone services are pretty rigidly controlled by utility boards and that sort of thing. I think most people would be reluctant to bring the food industry under the same kind of government surveillance or the same kind of

government regulation as we have with respect to telephones, transport, and so on. What we are saying here in our presentation is that, assuming that government is not prepared to regulate the food industry in the same way as they do telephones, then the only recourse that we can see is for consumers to organize as strongly as possible, and for the government to help them do so.

Senator McGRAND: Then, you think that there is the possibility of monopoly in the food industry being just as dangerous as it is in the automobile industry?

Dr. LAIDLAW: Yes.

Senator McGRAND: Very well; you have answered my question.

Dr. LAIDLAW: Yes, I am convinced that view is correct. There is the situation, for example, with regard to breakfast cereals. There is the cost of advertising, and the cost of distribution, and then there are the profits made, as revealed in the report of the Royal Commission on Price Spreads of Food Products in 1959. It has been shown that this is not far-fetched, and that it can be a very real thing.

Senator O'LEARY (*Antigonish-Guysborough*): Dr. Laidlaw, I know you will pardon a few of my questions, having regard to the fact that although I have had some little experience with co-operatives in the past I am a bit rusty now. I am the first to admit that. First of all, how is your organization, the Co-operative Union of Canada, financed?

Dr. LAIDLAW: It is financed by the member co-operatives, again voluntarily. Everything is voluntary. We are a voluntary movement. They join voluntarily, and they subscribe to the budget of the Co-operative Union of Canada. In other words, our funds come from the commercial co-operatives.

Senator O'LEARY (*Antigonish-Guysborough*): Is there a direct assessment at a certain rate depending on the volume and size?

Dr. LAIDLAW: That is right.

Senator O'LEARY (*Antigonish-Guysborough*): On the second page of your brief I think there is something significant. It is certainly timely with respect to the consumer protests. As you are aware we had the Canadian Consumer Protest Association before us, and among the questions asked the witnesses was one with respect to their interest in the co-operatives. They indicated to us that they knew little or nothing about co-operatives. I believe the president said she was unable to get any information from the government sources. I wonder if to your knowledge this association, or any branch of it—perhaps the Ottawa branch— has made any effort to get any information from your organization or from the C.S.D. with respect to co-operatives. Have you any knowledge of this?

Dr. LAIDLAW: The knowledge of co-operatives varies widely from one part of Canada to another. If you are living in Montreal or, perhaps Toronto, or in other cities in Central Canada, and you are asking about consumer co-operatives, people will say: "Well, we don't know about them", but if you are living in Saskatoon or Calgary or some of our cities where consumer co-operatives are pretty well developed, you would find people not so ignorant of them. So, the situation varies widely across the country.

As to getting information from governments, again the situation varies a great deal across Canada. Some provincial governments in Canada do maintain a pretty good service for co-operatives. Some provincial governments do little or nothing. So, it varies widely.

Senator O'LEARY (*Antigonish-Guysborough*): You can understand the situation about which she spoke?

Dr. LAIDLAW: Indeed.

Senator O'LEARY (*Antigonish-Guysborough*): On the other hand, they said they attempted to seek information from you, or from C.S.D.

Mr. STAPLES: In Ottawa, senator, there would have been a number of contacts between the Co-operative Supply Depot, or C.S.D. as you call it, and the women's protest group. We have had at least three joint meetings at the executive level, and we have kept in very close association with them to the point where, apparently, there is going to be only one co-operative program in Ottawa with the support of both groups. There has not been a lack of communication.

Senator O'LEARY (*Antigonish-Guysborough*): I am glad to hear that, but this apparently had not taken place prior to their appearance before this committee. I forget just how long ago that was. They appeared to be very much in the dark at that time.

Mr. STAPLES: The contacts at the Ottawa level took place before then.

Senator O'LEARY (*Antigonish-Guysborough*): This was an Ottawa lady who said that, but I am glad to hear what you have said. In the case of Interprovincial Co-operatives, in the distribution of co-op labelled products—I am speaking of food items—does private industry still process a number of these for cooperatives?

Dr. LAIDLAW: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): About what percentage would you say is produced by your own organization?

Dr. LAIDLAW: We would not have the figure here. It would vary a great deal on certain types of products. For example, if we have milk—the dairy industry, we would find that a very large proportion of the products are packed under the co-op label.

If you take certain other products, for example, canned salmon, that would be packed by a cooperative. Vegetable oils would be packed by a co-operative. Flour: the Saskatchewan Wheat Pool owns a flour mill and an interprovincial co-operative distributes the flour; so it is co-op all the way.

When you get into certain other products, obviously the cooperative has to go to manufacturers, processors and various firms and work out a deal, just the same as some of the other distributing firms, and they lay down certain specifications for quality, cost, and so on, based on the volume of business, and it is packed under either the co-op label or a supplementary label. Interprovincial has other labels, private labels, beside co-op. The word "co-op" is reserved for only the highest quality product, the No. 1.

If for some reason there is justification for carrying another grade that is not inferior but a different kind of grade, such as peas, which are good in quality but small in size, the co-op will have them canned under another label.

Senator O'LEARY (*Antigonish-Guysborough*): What is the relative size of Canadian Cooperative Implements Limited?

Dr. LAIDLAW: I think the Canadian Cooperative Implements Limited does a business of something like $30 million a year. In the total farm machinery industry Canadian Cooperative Implements Limited would be small, but for the farmers of the prairie provinces who are members of C.C.I.L., it is a very important organization with very important savings. Probably Senator McDonald could tell us more about it.

Incidentally, may I point out one item about C.C.I.L. that I think will be of interest to you and to Canadians generally in the operation of our economy. Once upon a time C.C.I.L. could buy its tractors from a Canadian firm operating in Canada, manufacturing in Canada and employing Canadian labour; but the day came when its control passed over to the United States, and they were notified

they could no longer get supplies. So the cooperative had to leave a Canadian plant and leave Canadian labour and everything else, and buy their supplies in West Germany, Belgium, or elsewhere in Europe.

This is an example where Canadian ownership is a very significant thing. The new company that took over the Cockshutt plant simply cancelled the arrangement or ended the arrangement. Senator McDonald would likely know about that. So today C.C.I.L. are manufacturing what they can in Winnipeg; they design quite a number of their own machines to the specifications and needs and conditions of harvesting on the prairies, and then they go outside Canada, and are forced to go outside today, as I understand, to buy their tractors and combines.

Senator O'LEARY (*Antigonish-Guysborough*): You would say then that they do exercise some real impact on the place of farm machinery, particularly from the viewpoint of savings.

Dr. LAIDLAW: Oh, I am sure they do.

Senator O'LEARY (*Antigonish-Guysborough*): I would also like you to tell us in a few words about the petroleum company—what is the correct name?

Dr. LAIDLAW: Cooperative Refineries Limited, I think that is the official name. It is now a part of the structure of Federated Cooperatives Limited.

Senator O'LEARY (*Antigonish-Guysborough*): How would this company compare in size to its neighbours?

Dr. LAIDLAW: In the total picture of Canada it is just a little drop in the bucket.

Senator O'LEARY (*Antigonish-Guysborough*): But by comparison with its neighbours.

Dr. LAIDLAW: In Saskatchewan it would represent probably 25 per cent of the light oils refined in Saskatchewan. I think that is about the percentage.

Co-Chairman Senator CROLL: Today?

Dr. LAIDLAW: Yes.

Senator McDONALD: It is the largest single refinery in Saskatchewan, is it not?

Dr. LAIDLAW: The last time I heard the percentage, I think it was just edging up to No. 1, but I think it was still No. 2.

Senator O'LEARY (*Antigonish-Guysborough*): Two more brief questions. This one is for Mr. MacDonald. In an earlier answer you indicated that in last year's operations dividends were deferred and credited to the members. In what way were they credted?

Mr. D. F. MacDONALD: On a five-year basis—loan capital. Dividends declared say in 1966 will be paid in 1971, those in 1967 will be paid in 1972.

Senator O'LEARY (*Antigonish-Guysborough*): In the meantime, do these deferred dividends bear interest?

Mr. D. F. MacDONALD: Oh, yes.

Senator O'LEARY (*Antigonish-Guysborough*): To the members?

Mr. D. F. MacDONALD: That is how we compile it.

Senator O'LEARY (*Antigonish-Guysborough*): And of course it is fixed for the five-year period?

Mr. D. F. MacDONALD: It is fixed for the five-year period; it is fixed by a bylaw.

Senator O'LEARY (*Antigonish-Guysborough*): And of course you pay income tax on this?

Mr. D. F. MacDONALD: On the interest on the share capital, yes.

Senator O'LEARY (*Antigonish-Guysborough*): I refer my final question to Dr. Laidlaw, and he can deal with it as he wishes. I think the figure on page 29 for Maritime Co-operative Services is a very significant one. Perhaps this is an argument by analogy. It is stated on page 29:

> Maritime Co-operative Services, a central organization of farm supply and consumer cooperatives, reports that in 1966 it was able to return $17.49 in savings for every $100 in it by local cooperatives.

Would it take too long to tell me how that is arrived at?

Dr. LAIDLAW: We took that statement out of the year-end report of the president, and it was arrived at very simply by taking the amount of capital invested by the local cooperatives and comparing it with the return in dividends they had declared to their members. We put this comparison in simply to show that there are savings to be made at various levels.

This is one thing we would like to emphasize, that the cooperative is not just a store. The cooperative, as we see it, is a total system, and if there are savings to be made at the wholesale level or at another level, by the manufacturing level, then the cooperative believes that it should enter that level for the benefit of consumers; and this is what happens. So I just want to show that there is this kind of a saving to be made. If we go back into the history of Maritime Co-operative Services we shall find it was built up by people who had little or no money to invest back in the depression. However, savings could be made for them on the basis of a very small potential of investment capital.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you. I believe your brief is an excellent one and we all appreciate it.

Senator MCDONALD: I have read you code of ethics and I hope you follow it closer than at least one other organization which presented a brief here. I think it was the Canadian Advertising Association. They had a code of ethics on advertising which was very impressive but since that hearing I have been watching some advertising on television and I think they must have stretched the rules. I hope you have not done that.

On page 10, you note that in Great Britain more than $150 million was returned to the British housewife in co-operative patronage refunds. Was this in cash or in deferred payments?

Dr. LAIDLAW: In the case of the British co-operatives it is quite a sight on what they call the "divi" day, to see the lineup. In Britain they pay in cash. That is not unknown in Canada. We have one large and successful consumer co-operative in Canada, the fastest-growing and with very fine stores, in the City of Calgary and they pay dividends in cash.

Senator MCDONALD: On the question of income tax, you said that for the co-operative return on invested capital, they pay interest on it.

Dr. LAIDLAW: On share capital, the equity voting capital, so to speak.

Senator MCDONALD: This is a smaller portion in dividends, is it not, as a general rule?

Dr. LAIDLAW: As a general rule, it is. A farmer may have a few hundred dollars invested in a co-operative. If the co-operative pays a dividend on invested capital, his return on that would be small. But if he buys $10,000 worth of fertilizer, on which they pay a dividend of 3 per cent, this is a big return. Some of the larger and more important co-operatives in Canada do not pay an interest on share capital, or on capital at all.

Senator MCDONALD: This is the information I wanted. In Britain, where they pay this out in cash, how do they raise the money for expansion and growth?

Dr. LAIDLAW: The British co-operatives are very highly developed. They have their own factories and the members subscribe shares. It is the same as in

the Calgary co-operative at the present time. If the members there want a branch in a certain part of the city and need $1 million to establish it, they simply go out and the members put up a great deal of the money. They are doing that now right in Calgary.

Senator McDONALD: Has not the growth of the Calgary co-operative been phenomenal?

Dr. LAIDLAW: Quite so.

Senator McDONALD: It has exceeded the growth in most other areas?

Dr. LAIDLAW: That is right.

Senator McDONALD: It seems to me that your co-operative movement would be a far greater success if you paid dividends out in cash and raised you money for growth and expansion in a similar fashion to what Calgary and the British co-operatives are doing. There seems to be a resentment to holding these dividends until a future date.

Dr. LAIDLAW: That is fine, if you are dealing with people who can afford to invest, if you are dealing with affluent people who can invest money. But in the middle of the depression, when the farmers were trying to raise $30,000 to start a small oil refinery in Regina, the raising of that capital was pretty painful, because it was done in the middle of the depression when no one had money.

In the case of working people who have no savings, no money to invest, all they can give by way of capital is indirectly through their purchasing power.

Senator McDONALD: I realize that this is a great problem, but the people who need it most today are the low income group, the aged and the young people. You try to get them to purchase through the co-operative and you tell them there is a dividend but they say they will not get it until age 70 and that will not help them to meet bills at the end of the month or the end of the year. One may cancel out the other. The fact that it is difficult to raise capital, I admit, but I think you can buy more patronage by distributing dividends in cash than by your present method.

Dr. LAIDLAW: Yes, I think it should be made clear that this matter of paying dividends or of letting the savings of members accumulate to age 70, is only in one type of co-operative in Canada, and for a very good reason.

Senator McDONALD: Even where they are deferred for three or four years, the individual says he needs the help now. I think you are hurting yourself by that policy. However, there may be no other way round it.

Dr. LAIDLAW: Co-operatives today are exploring every possible way to get through this block. The great handicap in the past was that they did not have capital, and this was a means by which not only the Rochdale pioneers financed their organization but co-operatives almost from coast to coast started with no money, and this is the only way they had to do it.

Senator McDONALD: On page 29 you refer to the $5 million dividend paid by Federated Co-operatives Limited. That was paid by Federated to the member co-operatives, not to the individual?

Dr. LAIDLAW: That goes to the member co-operatives, that is right.

Senator McDONALD: When the local co-operative becomes a member of Federated Co-operatives, are there not many instances where managers are supplied by Federated and conferences are held for them?

Dr. LAIDLAW: Yes, that is correct. In Ontario in the farmers' co-operatives now they are going further. There is a very strong move on to make the local co-operatives, on their own decision and voluntarily, branches. We have here at the table a man, Mr. Keith McCleary, who is the regional manager of that kind of system. In other words, the local ceases to be an autonomous local and becomes a

branch of central. Then this $5 million does not have an intermediate autonomous step to go through before it gets to the member, so to speak. It is part of the whole structure.

Senator McDONALD: I do not know as much about co-operatives across Canada but I know a little about them in Saskatchewan. It seems to me that the small co-operatives have had the same difficulties facing them as the small businessman, being gobbled up by pressure from big business, whether big co-operatives or private enterprise. In order to survive, many of your local co-operatives had to get into Federated, whether they liked it or not. In many instances, when the management comes down from the big organization to the local organization, I am wondering if you still have the same control that you had when they were independent co-operatives?

Dr. LAIDLAW: We should always keep in mind that the local co-operatives, in the case of Federated, existed first. It was not a case of Federated setting up locals: it was a case of the local setting up Federated. The whole situation is reversed. If a local today decides it wants to be more closely integrated with Federated, that is its own decision. If they consider the advantages, very often they enter into management agreement, which is under contract and can be cancelled by either party.

Senator McDONALD: All I am getting at is that later on in your brief you refer to monopolies, and I am wondering if this pattern of growth continues in large co-operative organizations, are you not going to end up with another monopoly.

Dr. LAIDLAW: Yes, you might, but it will be another kind of monopoly. It is one that is owned by all the consumers, but it is not a monopoly in the true sense, because everybody can join it. I would not be afraid of a monopoly—if you want to call it that—of all the consumers in Saskatchewan owning their own stores, but I would be very much afraid of a monopoly owned by interests in New York or London.

Senator McDONALD: I agree with you. I hope we can keep such monopolies out.

Mr. BOULANGER: That answer you just gave is one on which we can talk for a couple of hours.

Co-Chairman Mr. BASFORD: And it is already a quarter to one.

Senator McDONALD: I would like to see as much local control of the co-operatives as possible and still have them compete as well as humanly possible.

Dr. LAIDLAW: This is a most important question, senator. I may point out that our largest co-operative in Canada, which is the one you mentioned, the Saskatchewan Wheat Pool, is a centralized integrated structure. They have over the years demonstrated—in spite of some of the exchanges we have had today—that it is possible to have this participation. The Saskatchewan Wheat Pool had the honour of being awarded the Henry Marshall Tory Award for Adult Education, because of its magnificent program of education and instruction, and everything else that is designed to get full participation on the part of the members.

Senator McDONALD: Do not misinterpret my remarks. I am a member of the Saskatchewan Wheat Pool and I have been a delegate to it, but I do not agree 100 per cent with all its policies.

Co-Chairman Mr. BASFORD: I take it that is all, Senator McDonald? I am in trouble with my Co-Chairman who was on the list but who did not get a chance to ask his questions.

Co-Chairman Senator CROLL: Forget it.

Some hon. MEMBER: He has just missed his chance.

Co-Chairman Mr. BASFORD: I have the instructions of the committee to forget you, Senator.

May I, on behalf of the committee, Dr. Laidlaw, express to you and the officers of the Co-Operative Union and related or affiliated bodies who have come today, our very deep appreciation for your excellent brief and the presentation you have made to the committee today. I think we have all found it a very, very useful discussion this morning and one that will be very helpful to us.

Dr. LAIDLAW: On behalf of the delegation I want to thank all the members of the committee for this opportunity. I want to assure you that we believe that you are engaged in a study that can have great importance for the people of Canada and for the economy of the nation.

Thank you very much.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966-1967

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 34

TUESDAY, FEBRUARY 7, 1967

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Mark Rose Basford, M.P.

WITNESSES:

National Home Builders Association: Mr. W. G. Connelly, President; Mr. W. M. McCrossin, Director of Research; Mr. L. C. Gusby, Chairman, Economic Research Committee. Mr. W. A. Beckett, President, W. A. Beckett Associates.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

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ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25659—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,
Andras,
Basford,
Boulanger,
Choquette,
Clancy,
Code,
Crossman,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
MacInnis, Mrs.
Mandziuk,
McCutcheon,
McLelland,
O'Keefe,
Olson,
Otto,
Rideout, Mrs.
Ryan,
Saltsman,
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months:

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract from the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

25659—1½

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(For text see Interim Report in Committee Proceedings No. 27.)

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their Second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benedickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll moved, seconded by the Honourable Senator Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honorable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(For text see Interim Report in Committee Proceedings No. 27.)

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, February 7, 1967.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate:* The Honourable Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*) and Urquhart.—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, Irvine, Mandziuk, McCutcheon, O'Keefe, (*Mrs.*) Rideout and Saltsman.—9.

In attendance: Dr. R. Warren James, Special Assistant.

The following were heard:

National House Builders Association:

Mr. W. G. Connelly,
President.

Mr. W. M. McCance,
Director of Research.

Mr. L. C. Gunby,
Chairman,
Economic Research Committee.

At 12.00 o'clock noon the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), McGrand and O'Leary (*Antigonish-Guysborough*). —4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Leblanc (*Laurier*), McCutcheon, Saltsman and Smith.—6.

In attendance: Dr. R. Warren James, Special Assistant.

Mr. W. A. Beckett, President, W. A. Beckett Associates, was heard.

At 5.50 p.m. the Committee adjourned until Thursday, February 9th, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, February 7, 1967.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Order! This morning we have before us the National House Builders Association.

On my immediate left is Mr. W. G. Connelly, the President of the National House Builders Association. He has just been elected president after many years' service.

Next to him is Mr. L. C. Gunby, chairman, Economic Research Committee, National House Builders Association; and Director of Merchandising, G. S. Shipp and Son Limited, a very well-known firm in Toronto.

Next to him is Mr. B. J. Bernard, Executive Vice-President, National House Builders Association.

And at the far end is Mr. W. M. McCance, Director of Research, National House Builders Association. As to his distinction, he is a former Windsorite.

Senator O'LEARY (*Antigonish-Guysborough*): Is that Windsor, Nova Scotia, or Windsor, Ontario?

Co-Chairman Senator CROLL: Windsor, Ontario.

Mr. W. G. Connelly, President, National House Builders Association: Thank you, Mr. Chairman. Good morning, ladies and gentlemen.

Mr. Chairman, we have prepared a fairly comprehensive brief. It is a rather long one, but we have attempted to cover what we feel are the pertinent facts in connection with the housebuilding industry as it concerns the consumer in Canada. I will read it through, and after I have completed it, if there are any points anyone wishes further clarification on, we will do everything we can to clarify it.

The National House Builders Association, whom I represent here today, is a non-profit organization consisting of over 50 affiliated local house builders' associations and individual members located from St. John's in Newfoundland, to Victoria in British Columbia. This Association represents the residential segment of the construction industry through its membership of more than 3,000 home and apartment builders, building contractors, sub-contractors, material suppliers, mortgage lenders, realtors, architects, and building material manufacturers. Our industry has a major involvement in consumer credit and due to the almost universal practice of using mortgage finance in home purchasing the activities of the home building industry naturally are of particular interest to your Committee.

To the home purchaser, the availability of adequate financing, at the right terms, and under the most favourable conditions, is of course also of particular concern since a house is probably the largest single purchase a man makes during his life-time.

During the period following the second World War, the Canadian housing industry has been subjected to many unusual strains and stresses which have resulted in alternate periods of high production, followed by periods of very low production. The inability of the industry to maintain a relatively steady annual rate of housing starts has been due largely to the fluctuations in the supply of mortgage finance. The situation which has prevailed in the past and the recommendations put forth to rectify these unfavourable elements, are set forth very clearly and in some detail in the Third Annual Review of the Economic Council of Canada. I may say that the Economic Council has done a masterful job in assessing the Canadian housing situation and we are in full agreement with their conclusions. Very briefly, the feasts and famines of mortgage finance which have caused the industry to operate on a stop and start basis for so many years have prevented the highest rate of productivity and economy, with resulting increased costs to home purchasers.

The annual rate of housing starts in 1966 was considerably below starts in 1965, despite the fact that demand for housing was simultaneously rising at a very rapid rate. The present scarcity of available new housing units has caused, and will continue to cause, in the immediate future, a sharp increase in house prices, and rents. Dr. John J. Deutsch, Chairman of the Economic Council, appeared before this Committee last November and pointed these things out very clearly. More recently, and on another occasion, Dr. Deutsch made this statement with which we also agree:

> "Expenditures for new housing over the post-war period have frequently been partially influenced by government policies which have curtailed housing outlays during expansions and have encouraged house-building activity in recessions. Sharp fluctuations in the demand for housing tend to have the effect of thwarting the growth of efficiency in this sector of the industry, and thus of increasing housing costs and prices over the longer run. Moreover, in the short run, higher financing costs and restraints on the supply of dwellings tend to exert an upward pressure on rents; and to the extent that this results in increases in consumer prices, there may be indirect pressures exerted on wages and costs in other parts of the economy.
>
> "If, through better long-range planning of government programs and through the appropriate use of the basic monetary and fiscal policies, it were possible to bring about a more stable pattern of government and private business investments, it would greatly reduce the need to lean on housing so drastically as an economic stabilizer. A smoother growth in housing expenditures would tend, in turn, to allow for the development of increased efficiency in this important sector and so bring about some easing of the upward pressures on housing costs."

Recognizing the necessity of identifying the various factors which have contributed in the past to this unsatisfactory climate in the housing industry, the National House Builders Association last year established the NHBA Residential Research Council. For the past ten years, the Association has maintained an active Technical Research Committee, which has, along with governmental and other industry representatives, contributed a great deal to the improvement of building regulations and to the development of new building materials and building techniques.

Under the Residential Research Council, a newly formed NHBA Economic Research Committee has also been established to look into the financial aspects relating to housing. This Committee has already established as its goals:

(1) An investigation of the long-term desirable production level for housing in Canada.

(2) An investigation into the present sources of residential mortgage finance, with the aim of developing possible additional sources and/or increased supplies of money to meet the greater demands for housing in the years ahead.

(3) A study to assess the factors which contribute to the fluctuations which occur in the supply of residential mortgage funds, that periodically disrupt the housing industry, prevent full productivity, and thus increase the cost of housing.

(4) A study of existing mortgage practices, including maximum loans, loan-to-value ratios, amortization periods, interest rates, mortgage insurance, repayment privileges, and other financing conditions relating to housing.

(5) An investigation of the problem of relieving housing of the undue burden of taxation at the homeowners' level, especially education taxes.

(6) A study aimed at streamlining the mortgage document itself, removing some of the rigidities inherent in it, which restrict its liquidity in the mortgage market.

With the rapidly rising rate of new family formations, indicating a total housing demand of some 160,000 units as opposed to the actual housing starts of 134,474 units in 1966, in 1967, we should be producing no less than 170,000 units annually. If the Federal Government decides to act on the advice of the Economic Council of Canada's Third Annual Review, it will stop using housing as an anti-cyclical economic regulator, which should bring an element of stability to the industry, which it has never before enjoyed. The stability will permit it to plan its production more efficiently and more economically over a longer time without undue concern for sudden cutbacks or for periodic mortgage droughts.

We look to the revision of the Bank Act as a means towards increasing the base for mortgage funds, as a return of the Chartered Banks to the mortgage field will be of immense assistance in increasing the supply of money on both N.H.A. and conventional account, to every part of the country, via the vast network of branch banks.

The more promising field for new mortgage funds would appear to lie in the resources becoming available to the various pension funds. Pension funds now amount to some seven billion dollars in Canada, and so far, corporation pension funds to the extent of only 4% have been invested in residential mortgages. As high-yield long-term investments, these mortgages should eventually prove to be of considerable interest to the administrators of these funds.

In the latter part of January, Mr. H. W. Hignett, President of Central Mortgage and Housing Corporation appeared before your Committee and pointed out that, despite the difficulties with which the residential construction industry has been faced in the past, housing construction costs per square foot, excluding land costs, increased by less than did the Consumer Price Index. Mr. Hignett said, for instance, that the price of NHA bungalows had increased by only 13.7 per cent from 1956 to 1965 while the Consumer Price Index went up by 17.4 per cent in this period.

The Composite D.B.S. Index of material and labour costs rose 33.2 per cent during this time, which would indicate that the housing industry did, in fact, increase its productivity, despite its financial difficulties.

During this same period, however, you may recall, Mr. Hignett pointed out that land costs for NHA financed bungalows rose 41.3 per cent, partly because of the demand for raw land, but mostly because of the demand by municipalities for an increased degree of municipal services to be paid for by the land developer as opposed to the former practice of having them paid through local taxes over a period of years.

The growing shortage of serviced land has been apparent to builders since 1950 when most of the stock of municipally serviced land in urban centres had been absorbed during the immediate post-war boom. Many builders turned to land development of necessity, in order to stay in business and so a new industry was created. The builders bought and serviced land for their own use and to sell to other builders. They had to acquire raw land adjacent to existing main trunk sewers and water services and in many cases were obliged by the municipalities to instal external trunk services to the property itself in order to obtain permission to sub-divide. Land, capable of being serviced, therefore became a desirable commodity and began to change hands as speculators were quick to see its potential. Few builder-developers had the resources to acquire large tracts of land in order to hedge against this inflationary activity. They had to be content to buy in at the market price when their inventory of raw land became depleted. The end result was that in many large urban centres, particularly in metropolitan areas such as Toronto, prices for raw land reached the point where high-cost housing only could be built on it if developer and builder were to make a profit. This type of operation is traditionally the field for the custom-builder and not suited to the production-merchant builder. Many have been forced to leave the field and developers too, faced with inflated asking prices for raw land, have cut back their land acquisition programs or are purchasing five, ten and even fifteen year futures. Serviceable land has appreciated in price from $700 per acre in 1951 to $20,000 per acre in 1967. I am using Metropolitan Toronto as the example here.

Servicing costs too have reflected the heavy demand for the relatively few contractors available to bid on this class of engineering work, when, at the same time, industrial, commercial and institutional building contracts are competing for their services.

The land developer has gradually assumed the position formerly occupied by the municipality and, I may say, not by choice, but by necessity. Our municipalities now find that they are unable to raise the funds required to extend municipal services, to build schools, and to provide the other amenities and hence it is now up to the land developer to relieve them of this onerous responsibility. Once having realized that there was someone else available to assume the burden of providing municipal services, the same municipalities acquired a taste for more elaborate installations. Whereas in the years immediately following the war, our local governments were, in many cases, installing no more than a gravel road and a 6-inch water main, today, it is not uncommon for the developer to bear the costs of full services including the sanitary and storm sewers, sewer laterals, catch basins, man-holes, paved roads with curbs and gutters, sidewalks on both sides of the road, watermains with lot connections, street lighting, pedestrian walkways, sodded lots, both front and back and in some cases, he is even required to plant a certain number of trees on every lot. In addition to services, he must set aside in his sub-division a proportion of land for parks, and occasionally conservation areas as well. These are all costs over which he has little or no control but which must be passed on to the home purchaser in the price of the lot.

Higher raw land cost, higher development cost, longer elapsed processing time through municipal and provincial offices—and I might add that in the Province of Ontario this takes from two and a half to three years from the time the land is acquired until it has been dealt with in the various offices and put into use—have increased the development cost of a serviced lot by about 77 per cent in the Toronto area since 1964, while the developer has had to hold his overhead and profit before taxes at the same level to achieve lot sales at prices only 40 per cent higher (refer to the Comparative Lot Schedule on page 2587).

In addition to the direct cost outlined above, some of our local municipalities are adding on municipal imposts which they collect from the developer—in some cases as much as $1000 per lot, which goes into the municipal treasury, ostensibly to help finance the costs of new schools. Thus, education becomes an undue burden on the homeowner as the land developer must pass this cost along as well. The homeowner, at the same time, bears a large proportion of the cost of education in his municipal taxes, which represent about one-third of his gross debt service. NHBA has long advocated that there should be relief from municipal taxes and mortgage interest for homeowners as exemptions on their income tax.

As an example, Toronto Township has budgeted 14 million dollars for school construction this year alone, and is considering slowing down the processing of sub-division plans until this amount of capital funds for new schools is obtained. Metro Toronto's budget is 150 million—double any previous budget for new school plant and equipment. This problem will have to be solved before local municipalities will look with favour on low-cost housing, which produces an education tax short-fall.

The popular town-house type of rental accommodations for families has also fallen into deep municipal disfavour, because such high density zoning creates a large school population with attendant demand for school facilities.

Town-houses are currently assessed at $3,500 per unit, average 1-1½ children each, costing about $500 a piece to educate, yet produce only $200 in tax revenue. Industrial and commercial assessment is not meeting the 8-9 per cent population growth rate in the Township, which in turn is currently producing a 10-15 per cent growth in the school children population.

Our industry is just as concerned as we know that you are with the cost of serviced land. We regard the proposal of the Ontario Government to acquire land, service it, and sellor lease it over a long period, as an imaginative, and we hope, practical solution to the provision of lots at a cost which falls within the range of the middle to lower income groups. Provided the proper arrangements accompany this Ontario Legislation, we believe that it could fill a great need in controlling land costs.

Of course, the principal reason why land prices have reached present proportions is because there is a scarcity of trunk sewer and other services, which permits the land to be developed in quantity. Most commodities, when in short supply, demand a premium price and our municipalities, by finding themselves unable financially or otherwise to extend their trunk services at a sufficiently rapid rate, have been responsible for creating this scarcity.

It might be informative to also look at the labour practices in the residential construction industry. The wide fluctuations in housing production, which we mentioned earlier, have increasingly made builders unwilling to maintain their own work crews. It is very difficult to have men fully employed at one season and then to maintain them without work for another season. As a consequence, the widespread practice of sub-contracting has developed. The builders retain their sub-contracting firms to do individual parts of the work because this is possible on a job-to-job basis and is paid for in that manner. the sub-contractor, by the same token, can work for several builders, gauging his activities by the activity in the housing business generally.

The individual tradesman, however, finding himself in an industry which subjects hm to alternate periods of work and idleness, tends to gravitate to more steady employment when the opportunity affords itself. As a consequence, builders and sub-contractors find that it is necessary to pay a premium wage to retain men who know that they will be unemployed for certain periods of every year. This, in turn, adds to the cost of housing and must be passed on to the house purchaser.

Material manufacturers too, find that this same start and stop condition disrupts their industry when it is faced with heavy production requirements, followed by periods during which their products are in low demand. Their cost, too, increases when they are unable to operate on a regular and uniform schedule.

And finally, the house purchaser himself is not entirely without blame for the increased costs which we have noted over the years. The home buyer today is a more sophisticated purchaser than the one we knew ten years ago. The average size of a house, for instance, constructed under the National Housing Act, has increased year by year. Home purchasers are demanding and getting better houses, more and more features than ever before, and perhaps this is not surprising since in the ten years we are talking about, personal disposable income per capita increased by over 40 per cent.

The residential construction industry, we believe, has performed remarkably well in restraining the rising cost of its houses. It has, however, been subjected to a great variety of factors over which it has little or no control, and these, as I have attempted to illustrate to you, have been the ones primarily responsible for the greatly increased cost of a house to a home purchaser today. NHBA stands ready at all times to work in the interests of providing good housing at reasonable cost to the people of Canada and we fully recognize the challenge which this presents to our industry in view of the greatly increased demand for housing which will be experienced in the years which lie ahead.

At the risk of oversimplifying the problems facing the residential construction industry, the Association proposes certain solutions applicable to the short-term and others more particularly applicable to the long-term. Stated briefly they are:

Short-term

1. Increase the base for the supply of mortgage funds:

(a) Revisions to the Bank Act permitting chartered banks to engage in mortgage lending operations, both NHA and conventional. Also to engage in mortgage banking facilities supplementing the CMHC auctions.

(b) Step-up CMHC direct lending activities in urban municipalities where approved lending institution participation in the NHA program is absent or lacking. Such loans should be for both single-family and multi-family development.

(c) Amend NHA to provide high ratio loans (95 per cent of lending value) to a maximum of $22,000 and extend the amortization term to 40 years.

2. Assist municipalities in the financing of extensive main truck servicing programs to permit the rapid and orderly development of both residential and industrial lands.

I would like to interject here that the federal Government, through its municipal loans, has been aiding the provinces in this; and I would suggest that this is, perhaps, more aimed at the provincial level than at the federal level.

3. Promote home-ownership by allowing home owner interest payments on mortgages and municipal taxes on homes in which they reside as allowable deductions against taxable income.

4. Rebate the 11 per cent Sales Tax on materials used in residential construction.

Long-term

1. Establish a five year desirable production level for the industry e.g.: 170,000 annually.

2. Better long term monetary and fiscal government policies which do not employ housing as an economic stabilizer.
3. Amend Federal Provincial Municipal legislation to relieve housing of the undue burden of taxation at the homeowner level especially education taxes.

On the last page of this brief, we have provided a table titled "Comparative Cost of Serviced Lots" for the Township of Toronto.

From this you will see that the raw land costs have increased by about 84 per cent from 1964 to 1967. This is attributable to speculation in the holding of raw land within this urban area.

You will see that planning and engineering costs have increased by 72 per cent. This is basically attributable to the increased level of municipal services being required by the municipalities.

You can see that the movement of lot costs has been from $7,200 in 1964 to roughly $10,000 in 1967, representing an increase of almost 40 per cent. You can see that the average selling price is up 40 per cent in that period and the average increase on a typical house on one of these lots is about 28 to 29 per cent.

COMPARATIVE COST OF SERVICED LOTS 1964-1967

BASED ON TYPICAL REGISTERED PLANS—TOWNSHIP OF TORONTO

		1964	1965	1966	1967	1964 to 1967
		Plan 716	Plan 753	Plan 769	Plan 776	%
No. of Acres		73	28	49	25	
Raw Land		$ 5,149.00	$ 5,025.00	$ 13,452.00	$ 9,493.00	+84.3
Planning and Engineering		8,740.00	12,686.00	12,047.00	15,076.00	+72.4
Serviced land cost per ac.		$ 13,889.00	17,711.00	25,499.00	24,569.00	+76.8
Serviced land cost per lot		$ 3,472.00	4,427.00	6,374.00	6,142.00	
Municipal Imposts and Hydro		980.00	980.00	1,050.00	1,100.00	+12.2
Field Supervision and Labour	200					
Carrying charges:						
Bank Interest	175					
Mortgage Interest	247					
Property Taxes	84					
Promotion and Selling	528					
Administration Overhead	1,514	2,748.00	2,748.00	2,748.00	2,748.00	0
Total Cost Per Lot(2)		$ 7,200.00	8,155.00	10,172.00	9,990.00	+38.7
Average Selling Price		8,400.00	9,000.00	10,900.00	12,000.00	+40.0
Typical House Sale		28,000.00	30,000.00	35,000.00	36,000.00	+28.6

NOTE:

(1) For ease of comparison, lot yields have been based on 4 single family lots per acre and overhead costs on basis of a yearly turnover of 300 lots.

(2) Before Federal and Provincial taxes and developer's profit.

Co-Chairman Senator CROLL: Mr. Connelly is president of the Connelly Development Company of Ottawa. He is not from the Toronto area. You might tell us why you took the Toronto township?

Mr. CONNELLY: The metropolitan area of Toronto is perhaps the most critical point for both land and housing in Canada. It has been used in examples here to indicate what has occurred in that metropolitan area and which we

think, with some justification, will be followed so that one will find a like situation growing in other urban areas throughout Canada. Metropolitan Toronto was the first area to introduce the payment of services by the developer, for example. It was the first to come up with the imposts and it has been in the forefront of this development. This is the reason why we have used Toronto as a dramatic example of what has occurred and what we think is going to occur in other urban centres throught Canada.

Mr. O'KEEFE: I am glad to see St. John's, Newfoundland mentioned in this brief. It is the first time I have noticed it in a brief. On page 6 you say that serviceable land has appreciated in price from $700 per acre in 1951 to $20,000 per acre in 1967. You said this applies to Toronto. Have you any figures for St. John's, Newfoundland?

Mr. CONNELLY: No, we have not, sir. I cannot answer about the St. John's situation, but I suggest it is similar.

Mr. O'KEEFE: Do you think the rate would be the same?

Mr. CONNELLY: Percentagewise it would probably be fairly close to the same. As you know, the St. John's housing authority, through a federal-provincial arrangement, has taken more advantage of legislation which is now on the books. The legislation has been there since 1950 and has not ben fully utilized.

Mr. O'KEEFE: I agree.

Mr. CONNELLY: The intent of that legislation was to prevent this very thing happening.

Mr. O'KEEFE: On another page of your brief, you suggested removing the 11 per cent sales tax from building materials. I am sure you will agree that although we dislike taxation intensely, it is necessary. If you remove the 11 per cent from building materials, what would you put taxes on? You can only tax services or goods. What would you substitute?

Mr. CONNELLY: Perhaps the thing we are pointing out is that this is one area. We are describing a number of areas where we say the home owner can be relieved. He is faced with very high educational costs, he is providing his own municipal services, water, sewer, storm sewers, streets, lighting, and so on. He is paying for it all in the cost of the house.

Mr. O'KEEFE: Would you agree that the home owner who can afford a $36,000 house can also afford those taxes?

Mr. CONNELLY: I quite agree. In the higher price range of houses, where he is able to live in a $36,000 house, he can afford to pay those taxes.

Mr. O'KEEFE: So we will not waste too much time and sympathy on the man who can afford to buy a $36,000 house?

Mr. CONNELLY: That is not intended. When you get to the $10,000 lot it is economically impossible to build a $15,000, $16,000 or even a $20,000 house.

Mr. O'KEEFE: I was told by a fairly prominent businessman a short time ago that the cost of materials in buildings has really depreciated; that five or six years ago prices of materials were lower than they are now, and that what is causing the big increase in the housebuilding costs is the cost of the land, as you pointed out, and to a minor extent the cost of the labour involved. Would you agree with that?

Mr. CONNELLY: Not entirely. I would say that there has been a slight increase in material costs. There has been a movement actually in the housebuilding industry to a less on-site labour content than we knew in the past. The old relationship was about 60 per cent labour and about 40 per cent material. I think we are now closer to the order of 75 per cent material and 25 per cent labour.

Generally speaking, going back to 1956—taking the 10-year period—the cost of materials going into the houses has remained at a fairly stable level.

Mr. O'KEEFE: What is your feeling about prefabricated houses?

Mr. CONNELLY: Prefabricated houses certainly have a role to play, but I think the role they play is in large urban centres where there is a large volume. Johns-Manville did a study on it some years ago, the breaking point of off-site prefabing versus on-site building, and it appeared to be a production of 300 units per annum. Once you got below the 300 per annum you could produce on site with less expense.

One thing against prefabricated housing is this uneven flow. You cannot set up a production, which is a very costly one necessitating an annual production of 300 to 400 houses, for example, and maybe build 300 or 400 one year and 100 the next year. The role of the housebuilder in the industry has tended to change. He is not now a housebuilder in the true sense of the word, but an assembler of people or subtrades, and an assembler of money and land. This is basically what he has been doing. This has been brought about because of the wide fluctuations in production.

Co-Chairman Senator CROLL: Is not the Steel Company of Canada doing something about prefabrication?

Mr. CONNELLY: Yes, and the Aluminum Company of Canada as well have models which they have produced. This is all aimed at a mass market.

We have seen what ALCAN are producing. There are some problems. For example, my good friend Lloyd Gunby, who is operating in the Soo, tells me that his municipality would not accept the ALCAN product because it does not meet their building code—and, perhaps, to some extent it is because it is an aluminum company in a steel town!

Senator CARTER: Mr. Connelly, would you agree that our greatest need at the present time is for low-cost housing?

Mr. CONNELLY: Yes, I am convinced, and our association is on record as saying that it is the low-cost housing, the lower income group which has the greatest need socially. But the problem we are looking at and concerned with is the extension of this low-income group. When we get to the point where a man who is earning $6,000 to $7,000 a year has to be subsidized in public housing, this is getting pretty far up the scale.

We feel that if through unsubsidized, non-public housing, somehow or another we can reach in and get that area of the $5,000 per year man, which we think is possible, we would then relieve a great burden on the public housing sector.

Senator CARTER: I am not sure if I understood you. You would like to see housing subsidized for people up to the $5,000 bracket?

Mr. CONNELLY: I am using that figure for the moment. In urban centres in the Province of Ontario a man with $5,000 per annum cannot either buy a new home or in fact rent a new home or an apartment or a town house.

Senator CARTER: In view of the upward trend in costs, you will want to have a similar trend in income groups. Do you ever foresee the possibility of a $5,000 man being able to own his home?

Mr. CONNELLY: I believe that if long-term amortization, high ratio loans were made available, we could probably serve a much larger segment of our population than we are able to do today.

Senator CARTER: Can you tell me what is the lowest down payment required at the moment for a house under the N.H.A.?

Mr. CONNELLY: Yes. The lowest down payment is 5 per cent of the selling price, and you get a down payment range across this country from as low as

$700 or $800 up to $3,000 and $4,000. The average down payment would seem to be something in the range of $2,500 to $2,600.

Senator CARTER: I am interested in your brief, because it throws some light on a problem that has been bothering me ever since Mr. Hignett was before us. He pointed out in his brief, and I think in his answers to questions, that the N.H.A. has provision now for public housing, but municipalities do not seem to be much interested in it; and I gather from your brief the reason that they are not interested is because they do not contribute a very large proportion to the educational tax.

Mr. CONNELLY: Yes. That, of course, I think, goes back to the manner in which taxes are raised for education. Generally speaking, in your public housing area you have a large population and generally it is high-density housing because of the high land costs and servicing costs and low assessment. So you are really putting a very heavy burden on a municipality for accepting this social responsibility.

Senator CARTER: What solution would you recommend, then, for that? Would you relieve the municipalities altogether?

Mr. CONNELLY: I think in the short term something may have to be done along those lines. I think in the long term our present assessing methods being used across Canada on real estate are antiquated; they are not up to the age of automation.

Co-Chairman Senator CROLL: Manitoba takes what portion of the education tax. I think the largest portion.

Mr. CONNELLY: 65 per cent.

Co-Chairman Senator CROLL: Ontario—60 per cent?

Mr. CONNELLY: About that.

Co-Chairman Senator CROLL: About 60 per cent. New Brunswick has in mind taking 100 per cent.

Mrs. RIDEOUT: 78 per cent, is it not?

Co-Chairman Senator CROLL: Of the education? 100 per cent, as I understand it. Is that correct, Senator Urquhart?

Senator URQUHART: That is right.

Co-Chairman Senator CROLL: What is British Columbia taking?

Co-Chairman Mr. BASFORD: Somewhere around 50 per cent.

Co-Chairman Senator CROLL: And the other provinces are leaving it. Have you any idea?

Mr. CONNELLY: I think, by and large, this comes about as a result of our recent national meeting, wherever we talked with everybody across the whole of Canada, from Newfoundland right through to British Columbia, it was education, education, education—the heavy imposition of education taxes. I am not sure whether it is the Province of Manitoba—I think it is—they have now taken the education levy out of the role of the municipality and they are taxing across the board to avoid the dormitory system. What is happening—and another point which probably could and should be well taken here—is that in Sarnia, for example, there is a plant installed without a building around it. This plant is worth millions of dollars and could provide a very large assessment for the area, and yet it cannot be assessed because there is no building around it.

Mr. SALTSMAN: Can I ask a supplementary question on that?

Co-Chairman Senator CROLL: Yes, Mr. Saltsman?

Mr. SALTSMAN: You are probably aware that some suggestions have been made for changing the basis of assessment by evaluating buildings themselves

and the assessment to be based on land. This would encourage redevelopment, and you might get a more equitable approach, because frequently you get a low cost building, for example, on a valuable piece of land which does not return very much to the municipality. Do you have any thoughts on that proposal to change the basis of assessment from one based on the property on the land to one based on the land only?

Mr. CONNELLY: I have no particular thoughts on it. However I would point out that some municipalities, in fact the majority of them, demand a house of a certain assessable rate in their area. For example to use again Toronto Township, they will not allow a house under, say, 25 to 30 thousand dollars to be built in their township because anything under that amount will not carry itself educationwise. They do not encourage it. That is the problem; the land is there and the land is valuable and a low assessed building could be put on it.

Mr. SALTSMAN: I have just one more question to ask. You have given a survey here of the commission's circumstances in Toronto and you have referred to the scarcity of raw land in different parts of Canada. Has your association made any survey in this regard?

Mr. CONNELLY: We are in the throes of doing that through the Economic Council, but a survey has been made across the country to get an individual picture throughout the provinces and throughout the urban areas.

Mr. SALTSMAN: My last question; you refer on page 5 to Mr. Hignett's statement about the increase in the housing shortage and the consumer price index from 1956 to 1965—it only went up 13.7 per cent. Was the impact of the 11 per cent sales tax reflected in these figures?

Mr. CONNELLY: Part of the impact of the 11 per cent would be felt in 1965. I think the larger impact of the 11 per cent plus the provincial sales tax will be felt in 1966.

Mr. SALTSMAN: You have no figures on this?

Mr. CONNELLY: We have no figures for 1966 as yet.

Co-Chairman Senator CROLL: The 11 per cent tax is imposed at what level?

Mr. CONNELLY: This tax is imposed at the manufacturer's level.

Co-Chairman Senator CROLL: So what you are saying in effect is that by the time the 11 per cent gets down to the retail level, that 11 per cent has a profit added?

Mr. CONNELLY: Yes.

Co-Chairman Senator CROLL: And roughly what do you think that amounts to?

Mr. CONNELLY: Well, it would amount to closer to about 15 or 16 per cent.

Co-Chairman Senator CROLL: On the other hand the sales tax in the province is applied at the retail level?

Mr. CONNELLY: That is correct.

Co-Chairman Senator CROLL: So that a man in business in a province pays a sales tax of five per cent or three per cent?

Mr. CONNELLY: Yes.

Co-Chairman Senator CROLL: Whereas your tax amounts to about 15 per cent?

Mr. CONNELLY: Yes.

Co-Chairman Senator CROLL: Would you like to have it applied at your level?

Mr. CONNELLY: No.

Mr. IRVINE: May I ask a supplementary? On an average home, that is a home that would sell for roughly $20,000—would that be slightly above the average?

Mr. CONNELLY: $20,000 is about the medium class house today.

Mr. IRVINE: Would you say that the taxes, as far as this 11 per cent is concerned, and in Ontario the five per cent sales tax on the final price, would amount to something between $2,000 and $2,500?

Mr. CONNELLY: No, it would not be that high.

Mr. IRVINE: What would it run?

Mr. MCCANCE: It would be about $800 for the federal tax and for the Ontario taxes it would be about $400, because that is a tax on a tax.

Mr. IRVINE: On a $20,000 home.

Mr. ALLMAND: Mr. Connelly, have you found how the demand for rental housing compares with housing for sale? Has it increased in proportion or has it decreased? Is there a greater demand for rental housing today as opposed to housing for purchase?

Mr. CONNELLY: Certainly there is a swing over in the last decade. In 1956 we were producing 10 to 15 per cent for rental and the remainder for home ownership. Today we are producing close to 80 per cent for rental and 20 per cent for home ownership.

Mr. ALLMAND: Why is that?

Mr. CONNELLY: Today family formations are younger and the non-availability of the necessary down payment to buy a house today has excluded a large segment from going into home ownership. To answer your question directly, I think rental is probably filling a greater need today than before.

Mr. ALLMAND: Would it also be due to the greater mobility of the Canadian people and greater urbanization?

Mr. CONNELLY: That certainly is a factor.

Mr. ALLMAND: As far as the builder is concerned, is it more profitable to build housing for rental than for sale?

Mr. CONNELLY: I would say that in the long term it would be more profitable to build for rental. My reason for saying that is that again you have the wide fluctuation from year to year and when a builder has rental accommodation he can spread out his tax.

Co-Chairman Mr. BASFORD: That is not done very often is it?

Mr. CONNELLY: Yes it is being done. I will give a very good example. You have here in the City of Ottawa two of the largest landlords in Canada in Campeau Construction and Minto Construction.

Co-Chairman Senator CROLL: Is not that rather peculiar to Ottawa because of the stability of employment here; you know a man is working in the civil service and he will continue to work there whereas in other parts of the country the situation is not quite as stable for rental purposes.

Mr. CONNELLY: In Ontario generally and certainly in Metro Toronto we have a very large firm, Cadillac Construction which is a very large apartment builder, perhaps the largest in the country. They started off as house builders but now they are builders of apartments and they have become administrators.

Mr. ALLMAND: Is most of this building in the apartment house range for rental?

Mr. CONNELLY: The largest proportion, yes.

Mr. ALLMAND: Is there much building in the Metro areas being done for lower income groups? My observations seem to indicate that most of the

housing built for rental is in the form of highrise apartment buildings which are beyond the range of most people, so most of those in the lower income range are obliged to rent older homes in older parts of the cities. What is your comment on that?

Mr. CONNELLY: That is factual, and this is not only applicable to Montreal and to Ottawa, Toronto, Windsor, Hamilton but generally across the country. High rise building today is generally in the centre core of the city on very expensive land and is tending to attract the upper income bracket and not the lower.

Mr. ALLMAND: Is there any incentive at all for builders to build housing for rental for lower income groups?

Mr. CONNELLY: The only real development in the last decade has been that of the concept of town houses, which is the row housing, sometimes called garden courts, or by a number of other names. It is a concept of high density and low level housing. In other words you are on the ground instead of up in the air. It is coming far closer to serving the needs of the middle income family. Again, not the low income group but the middle income group.

Mr. ALLMAND: Do you think that private builders, such as those you represent, can build housing for low income groups for rental and still make a profit?

Mr. CONNELLY: Yes, it could be done, provided we have the terms which are available under the National Housing Act for public housing, in other words long amortization, low interest rates, high ratio loans; but it cannot be done at 7¼ per cent interest on 25 year amortization. You would have to get 6⅛ per cent, at the moment, with an amortization range up to 50 years.

Co-Chairman Senator CROLL: They told us that the life of a house was 30 to 35 years at the most.

Mr. CONNELLY: I would say the life of a house built today would be more like 40 to 50 years, and some may last a hundred years.

Mr. ALLMAND: You definitely believe that, if the conditions were changed for obtaining money, private builders could build housing for low income groups and still make a profit?

Mr. CONNELLY: Yes. Perhaps a good example is the Ontario Housing Corporation, which has been doing it in Metropolitan Toronto area. They are buying housing units which have been built by private enterprise in a completed stage, rather than attempting to have them built under contract.

Mr. ALLMAND: On page 3 you talk about the residential research council. I wonder if that council, or the technical research committee of that council, is conducting any research into production methods, and technological improvements in methods of house building, through prefabrication or otherwise.

Mr. CONNELLY: This is what our technical research committee is doing. It is working together with government, through the National Housing Act, with the Central Mortgage and Housing Corporation, and with manufacturers, to devise improved methods of building, bringing in new materials. An example of that is what we call "the mark program" which have gone ahead over the last ten years. This has resulted in considerable reduction in cost of houses over the past ten years—such things as wider stud spacing, improved materials etc. It has also resulted in the introduction of new materials. We are using more plastics today. Plastic piping is being used instead of the high cost conventional copper plumbing.

Mr. O'KEEFE: You spoke of houses for low salaried employees, town houses. What would be the approximate rental of those houses, say, in Toronto?

Mr. CONNELLY: In Toronto and Ottawa—they are very close to one another —a town house, unsubsidized, being built by a merchant builder today, with a two-bedroom unit, would be renting in Ottawa at $160 to $165 a month, which includes heat, stove, refrigerator, dryer, and washing machine. A three-bedroom house would range about $195 and a four-bedroom would range about $215.00.

Mr. ALLMAND: None of those houses would do for those with low incomes.

Mr. CONNELLY: That is so.

Mr. O'KEEFE: That is the point I was making.

Mr. CONNELLY: But this is somewhat better than the high-rise, at the moment, and it is family accommodation.

Mr. ALLMAND: Is most of the building material used for housing in Canada produced in Canada?

Mr. CONNELLY: Yes, this is perhaps unique, and I am glad you asked that question. The housing industry is 100 per cent Canadian.

Mr. ALLMAND: Would we lower housing costs if we imported some materials?

Mr. CONNELLY: No.

Co-Chairman Mr. BASFORD: You could, if you used more B.C. lumber.

Mr. L. C. Gunby, Chairman, Economic Research Committee, National House Builders Association: You will be glad to know we do.

Mr. CONNELLY: There is no other country in the world that is able to do this as well as we can because of our available resources.

Mr. ALLMAND: I was thinking of the United States.

Mr. CONNELLY: Their building products generally are higher than ours.

Co-Chairman Senator CROLL: And they get many of them from us.

Mr. CONNELLY: Yes.

Mr. ALLMAND: Have you found zoning regulations interfering with the introduction of newer and cheaper building materials which might allow the building of housing for lower income groups?

Mr. CONNELLY: I would say zoning affects this in the range of density of housing in municipalities; but if you are speaking of new materials, this comes under the building codes.

Mr. ALLMAND: I meant to say building codes.

Mr. CONNELLY: There is an attempt made to standardize across the country, using the National Building Code as a basis. It is still a long way from fruition. We still have areas in Ontario where you cannot build anything except with solid masonry, where it must be all brick, you cannot use veneer, which is the best method known today to build a house.

Mr. ALLMAND: Do these building codes often prevent the builder or the developer from building houses at a cheaper rate than he could, in say the lower income groups. He might have a plan to build a lot of houses and then could make a profit in an area of the city for the low income groups, but the zoning regulations may prevent him.

Mr. CONNELLY: That would prohibit it in a great many cases.

Mr. ALLMAND: Of course, in many cities—confirm or deny this—the zoning code is controlled, and the city councils are controlled by people who own the homes in those municipalities. I know that in Quebec many of the people who vote in municipalities have to be home owners, to begin with.

Mr. CONNELLY: I do not think this deals with the materials that go into a house. This is a case where people would not allow low income housing to come into the area, to make it high density. They want to retain it as it was over

years. I do not think the electorate is really too concerned as to whether plastic piping is used in the plumbing, or dry wall instead of plaster, or asphalt shingles on the roof—I may get chopped for this—as opposed to wood shingles.

Mr. McCUTCHEON: Running through your brief there seems to be a desire for more money to be available. On page 3 in your subsection (2) you talk about investigation into mortgage finance. What have you found out so far?

Mr. CONNELLY: We have found out there is not enough money to go around, to meet the needs for housing in this country. The demands being made by the economy generally preclude the possibility of our having enough money to meet our housing need. I think the biggest source we can look to is probably pension funds, and the amendment of the Bank Act will give us additional sources of funds.

The mortgage itself, as an instrument on the money market, is very unliquid. It has a lot of terms in it which do not make it favourable for long term investment.

Mr. McCUTCHEON: My understanding is that the pension or insurance funds are precluded from actual developments. I have heard it said—and I am sure you have—that fortunes have been made in developing, and yet all the insurance and pension investment people could participate in, up to the present time, has been a 6 per cent mortgage, and the boys who did the developing made all the money. Would you favour reliefs so that these people could participate in this developing, and eventually this would bring more money into the field?

Mr. CONNELLY: We would like it. I want to add that the insurance companies, in a recent amendment to the Insurance Act, are now permitted to take an equity position, and there is an indication from the insurance companies themselves that they are rather anxious to take this equity position because of the low and fluctuating yield on mortgages.

Mr. McCUTCHEON: Do you think that is going to have a beneficial effect?

Mr. CONNELLY: Yes, I believe it will.

Mr. McCUTCHEON: That is most heartening news.

Then on page 4 you state:

> (5) An investigation of the problem of relieving housing of the undue burden of taxation at the homeowners' level, especially education taxes.

What have you found out here?

Mr. CONNELLY: Well, we have found out to this extent, that roughly from one-third to 50 per cent of the present tax being collected through the assessment is going to education, and it is not sufficient to meet the needs of education.

Mr. McCUTCHEON: Have you come up with recommendations?

Mr. CONNELLY: This, sir, is being looked at now by our committee, by our research committee; and, as a matter of fact, we had our initial meeting just prior to our convention, and we established certain guidelines as to what should be pursued immediately on the short-term and as to what should be pursued on the long-term. I am afraid the matter of assessment and relief of education is a long-term one.

Mr. McCUTCHEON: I am afraid it is.

Further on on page 4—and this is just for my own information: Why did the banks leave the mortgage business?

Mr. CONNELLY: Because of the increase in the interest rate on mortgages. They were limited to 6 per cent. They were in at 6 per cent. Then it went up to 6¼ per cent, and they immediately had to step out of the field.

Mr. McCUTCHEON: On page 7 there appears your reference to servicing in subdivisions and the methods by which it is paid for. As the brief states, these services, in many instances, are now paid in a lump sum, if you like to use that description—in other words, it is part of the purchase price of the home. Is this bad?

Mr. CONNELLY: It is bad, to the extent it is paid for either in the down payment or the house mortgage, which is an immediate cash outlay, or an instrument which is amortized for a period of 20 to 25 years, and it is a burden on the homeowner in buying his house. This is at a rate at the moment of, say, 7¼ per cent. Whereas the municipalities, in the past, have provided the municipal services. These were debentured over long terms, as much as 50 years, and had been at a more favourable rate.

Mr. McCUTCHEON: In other words, your reference here is that we are not amortizing this long enough?

Mr. CONNELLY: We are not amortizing it long enough, and we are paying too high for the money that is being used to put these services in.

The other thing I might add is that as a result of the municipality not having to face its existing ratepayers to pay the cost of providing new services, there is an inclination on the part of municipalities to raise the standard of their services—call it "gold plating."

Mr. McCUTCHEON: In other words, what you are saying is that if the reeve of a municipality wants to have the very best, it is to his advantage if he can get it out of the developer and not have to face his ratepayers?

Mr. CONNELLY: That is correct, not realizing—well, perhaps he does realize that in the end it is not the developer who is paying for it but the homeowner. I was looking at the cost the other day of land in Hamilton, and the cost of servicing 50-foot lots, including impostes, was $4,800.

Mr. McCUTCHEON: Would you repeat that?

Mr. CONNELLY: The cost of servicing 50-foot lots, including impostes, was $4,800.

Mr. McCUTCHEON: On page 10 you state:

> (c) Amend N.H.A. to provide high ratio loans (95 per cent of lending value) to a maximum of $22,000 and extend the amortization term to 40 years.

95 per cent of that lending value would be $20,900, or thereabouts.

Mr. CONNELLY: Yes.

Mr. McCUTCHEON: My goodness, would not that man be better off to rent?

Mr. CONNELLY: Well, at the rates I was quoting a little earlier, where you are into a four-bedroom house and renting at $215 a month, it does not look too bad, taking into consideration that part of that monthly payment that he is making, while it is small, nevertheless he is building up a certain amount of equity.

Mr. McCUTCHEON: It will be pretty slow, will it not?

Mr. CONNELLY: Yes, it will be slow.

Mr. McCUTCHEON: In some instances, are we over-emphasizing—and maybe this is an unfair question, but in some instances are we over-emphasizing the great glamour of home ownership for people?

Mr. CONNELLY: No. I feel that this is not glamour in the true sense. I think there is a great deal to be said for home ownership, as far as the community at large is concerned if you look at the interest in the community, you certainly have far more interest in the community and in the life of that community in the case of a person who lives in a home as opposed to a person who lives on

the 15th floor of an apartment building. I think that for good citizenship home ownership does provide a very good base. This is my personal opinion; this is, generally, the opinion, I would say, of our association.

Mr. McCUTCHEON: You could not describe that as home ownership though?

Mr. CONNELLY: No, you cannot describe it as home ownership, really. In fact, you go a step further and the average person only lives in his home for four years. Yet the average person, even though he is only putting $4,000 down on a $20,000 article takes pride in it and says. "This is home."

Mr. McCUTCHEON: Maybe we should be re-examining our—

Senator CARTER: "Philosophy."

Mr. McCUTCHEON: Yes, Senator Carter, that is the word I wanted—our philosophy of housing, and looking at it as we do Ontario Hydro or the gas service, the public utility. It may be a different philosophy on shelter?

Mr. CONNELLY: I think it is awfully difficult to look upon a house as we look on hydro. However, I will latch on to your public utility and say that I think it is essential if we are going to have home ownership, if we are going to have shelter and provide sufficient shelter for our people, then the services for the land have to become a utility.

Mr. McCUTCHEON: My question was prompted by your statement that the average duration is four years in these homes. It looks to me as if that is a pretty temporary arrangement, is it not?

Mr. CONNELLY: Yes, it is.

Senator McGRAND: It is the difference between shelter and home?

Mr. CONNELLY: Yes, you have that shelter and home aspect.

Co-Chairman Senator CROLL: And yet I think Mr. Hignett told us that the trend has been such that half the buildings in this country today are apartments as against homes.

Mr. CONNELLY: Yes.

Co-Chairman Senator CROLL: They have veered away from homes. How do you explain that? It is a surprise to me.

Mr. CONNELLY: I think if we take a look at the age of our family formation, they are coming in at about 50 per cent of our population under age 25. These people are starting off in life without an equity necessary to move into a home of their own. They also want to have a bit of fun; they want to have a new car, a colour television, and they want to take a trip to Europe, and rental accommodation is probably being used as a vehicle for them to enjoy their younger years rather than leaving these things until they are older. You will find, however, that as they stabilize, they begin to say "Well, now it is about time we got a roof over our heads as a home rather than a shelter." There is definitely a movement after a period of about three or four years for the average Canadian to decide he has had enough of rental accommodation and that he wants a home of his own.

Senator CARTER: Would you say that that trend is influenced by the children, because apartments are not conducive to bringing up children?

Mr. CONNELLY: That is right.

Mr. GUNBY: I might refer here to "A Preliminary Study of the Social Implications of High Density Living Conditions" issued by the Social Planning Council of Metropolitan Toronto and refer to an item on Page 28 which reads as follows:

> As most apartments were either not designed for children or not designed for the numbers that they have come to house, the play and regulation of children present serious problems. Families overcome these

problems by strenuous efforts but children remain a source of difficulty and friction for management and tenants.

Men in apartments take on extremely passive roles as most of the masculine tasks are taken over by management. Men appear to have a more active role in other forms of high density development, such as row houses.

I always like to refer to the relationship of children to the ground. I think children have to get near to the ground, and dig in the dirt. I always suggest that the high rise apartment is ideal for raising adults and turkeys on wire, but not children, because you cannot eat them. That is all I want to say.

Mr. McCUTCHEON: I want to thank Mr. Connelly for what he has said. He reminds me very much of an interview I had with a banker 25 years ago who pointed out that if I wanted a new car I should continue to rent.

Mrs. RIDEOUT: It seems to me, Mr. Connelly, as I read your brief that there is always the problem of money, and I am interested in the Maritimes and especially so in New Brunswick. Do you find that this tight money has affected home building in the Maritime area.

Mr. CONNELLY: It has affected it right across the country. I don't think there is any area that can be excluded. Once your source of mortgage funds has dried up as a result of tight money, or the demands on the economy by other segments of the economy, there was not any money available to build houses. Coupled with that was the higher interest rate which made it a heavier burden on the potential home owner, and whereas a few years ago secondary financing, and I am talking of second mortgages, were highly discounted at high interest rates, until we hit this tight money situation we had it stabilized. Generally speaking in the Province of Ontario, and I am sorry to keep referring to Ontario but it is the province in which I live and in which I work, you could get secondary financing through the utility companies such as the gas company or hydro company *et al.* at the same interest rate as the prime mortgage. If your interest on the prime mortgage was 6 per cent, then your second mortgage was also 6 per cent. They were generally amortized over a period of seven to ten years. Today because of the tight money situation we are reverting to a market that is asking 10, 12 or 15 per cent and discounts. This is the other thing that tight money creates.

Mrs. RIDEOUT: The reason I was interested in your comments is that in the Maritime area particularly we do not feel the general rise in the economy as quickly as other parts of Canada, and when we are about to enjoy this we have these restrictions which curtail home building, and in the larger provinces of Canada they take up the slack of commercial building which we do not. So I would like to know what you think of a variegated money policy for Canada?

Mr. CONNELLY: You mean regional money policies?

Mrs. RIDEOUT: Yes.

Mr. CONNELLY: Well, I am not an economist. This is a form of subsidy. One aspect we have to consider is that in the housing industry we are not really looking to government to supply the money for it. We are looking to the lending institutions to provide the money. And if you are talking to a lending institution they are quite frank in saying that they feel they have a social responsibility in providing mortgage money for residential housing, but they are in the business of making money for their people, and when the time comes that the bond is better than the mortgage they have to think of their shareholders and think in terms of bonds.

Mrs. RIDEOUT: You would agree then that it would be difficult to have a lower interest rate in one area than in another?

Mr. CONNELLY: Yes, I think it would be difficult and probably would cause many problems as it has done in the United States. As you probably know they have what is called a point system there where money could cost say eight per cent in Nevada, for example, and six per cent in New York City.

Mrs. RIDEOUT: It would drain the capital from New York City.

Co-Chairman Senator CROLL: During the depression and before that the people in the west and the people in the Maritimes paid a higher rate of interest than people in Ontario and Quebec. That was one of the great complaints, and justifiably so. This applied even to the banks and lending institutions.

Co-Chairman Mr. BASFORD: By and large they had no money on which to pay interest.

Mrs. RIDEOUT: I am concerned because we hear so much in the Maritimes about tight money holding up the economy and holding back the home building program, and I am not at all sure that it has had that great an effect.

Mr. CONNELLY: Well, you see the Central Mortgage and Housing Corporation who administer the National Housing Act make loans available where private funds are not available at the lowest rate, and the NHA is always the lowest in a given area—this is for the home owner—does make available directly to the home purchasers a loan, providing they have had three refusals from lending institutions in the area. One other thing which may aid the situation in the Maritimes is the fact of the banks coming in. Now you are going to have banks again in every town. And this has been one of the biggest problems in the Maritimes; the lending institutions are not as active there. In the areas where they are more active they are getting the money first.

Senator MCGRAND: The problem as I see it is to provide suitable housing for the people in the lower income brackets. Anyone who can afford a $35,000 house can look after his own problem. But our problem is to look after people in the lower income brackets. I don't know at what stage a person would pass from the lower income bracket into the middle income bracket. I don't know what salary you fix as the boundary. But could you compare the percentage of lower income people in search of suitable housing today with, say, ten years ago? In other words, has the percentage of people searching for suitable housing gone up?

Mr. CONNELLY: Yes, it has.

Senator MCGRAND: Faster than the growth in population?

Mr. CONNELLY: Faster than the growth in population generally, and this is because of the movement to urban areas and immigration. There is a larger percentage of people in the urban areas looking for suitable accommodation, and they cannot find it.

Senator MCGRAND: The percentage of low income people has actually gone up. On page 5 of your brief, you quote Mr. Hignett, when you say that building has gone up only 13.7 per cent as compared with the rise in the cost of living index of 17.4 per cent. The dollar does not buy the amount of food it bought ten years ago, but an hour of work buys more food than it bought ten years ago. In spite of that, the lower income people have greater problems today than they had ten years ago. To me, that is the purpose of this work.

Mr. CONNELLY: Yes, I certainly agree with you, sir; it is the purpose.

The point I would like to make here, however, in line with what Mr. Hignett indicated, as the rising cost of housing as a structure, is the relationship of the cost of the land and the services upon which you put that house. By the movement of people to the urban centres, both our existing population, plus immigration, you have created a much heavier demand within the urban area, and you have a dislocation occurring.

In the end, as long as we are working under our present system, the market will determine what the price of this land is going to be.

Senator McGRAND: I think Mr. Hignett gave the figure of the cost of material in building, that it went up 2.2 per cent recently, while the rate of wages went up 12 per cent. Now, in spite of the fact that wages have gone up 12 per cent in that period, you find those same people with that increase in wages still unable to provide themselves with adequate housing. That is the problem. You feel that the percentage of those people has gone up, in spite of the fact that wages have gone up 25 and 30 per cent in lots of cases.

Mr. CONNELLY: It is certainly a true statement.

Senator McGRAND: Have you any idea of the percentage of people who are in the low income bracket today as compared with ten years ago?

Mr. CONNELLY: No, I have not, sir.

Senator McGRAND: You are not the source of the information?

Mr. CONNELLY: No. The only thing I will say is that you come to the point, in different areas, as to what is low income. In metropolitan Toronto, low income is probably as much as $7,000 to $8,000 a year. In Ottawa, you are probably talking of a man who is earning about $6,000 a year. As you move west or east, you have various variations occurring there.

I think that one problem, in trying to tie income to accommodation, is that there are some of our people who are earning $10,000 a year and who are not able to provide, or as well able to provide, accommodation as the man making $7,000, because of large families, sickness, and such things.

Senator McGRAND: And not able to provide these things at a salary of $10,000 a year as well as he could ten years ago when he was earning only $5,000?

Mr. CONNELLY: That is correct.

Senator McGRAND: This is the problem as I see it.

Mr. CONNELLY: This is the problem as we see it, too, sir. We are concerned with this fact, that looking at a man making $8,000 or $7,000 or $10,000 or $12,000 a year, he should not have to be subsidized in any way, shape or form. But the way things are going now, it appears that that man, in certain areas of Canada, is moving into a position where he cannot afford to put a shelter over his head.

Senator McGRAND: It is something more. The problem is not solved just by an increase of wages and salaries.

Mr. CONNELLY: It has to be stabilized. I mentioned earlier that the component of labour versus material going into a house today has changed, and this has been a factor in holding the house itself to the relatively small increase.

Co-Chairman Senator CROLL: Is not much of what you say due to the man's own priorities?

Mr. CONNELLY: Exactly.

Co-Chairman Senator CROLL: What you are talking about is his total wants and requirements and he has a $10,000 salary; but if he makes his priority his home, he could well come within it.

Mr. CONNELLY: Quite.

Mr. SALTSMAN: How much money do you spend on research per year?

Mr. CONNELLY: Our organization has been spending, on an average for the last ten years—together with government, in the neighbourhood of $30,000 to $40,000 a year.

Mr. SALTSMAN: What do you mean by "together with Government"?

Mr. CONNELLY: Together with C.M.H.C. and the Division of Building Research. We make a contribution, through our direct fund, plus people; and under Part V of the National Housing Act, certain grants are being made by C.M.H.C. to work with us on some of those experiments. The Division of Building Research of the National Research Council provides men, and also technical help. This will become enlarged. This year we expect our budget will be up probably as high as $60,000.

Mr. SALTSMAN: Is there a greater need for research in the industry than the amount of research being carried out?

Mr. CONNELLY: I would say that the biggest effort should be made, not on technical research at the moment but rather on economic research. This is the reason for the move into our Economic Research Committee.

If we take a house which sells at $20,000 and take $4,000 off that as representing the land, it leaves a residual of $16,000. The actual bones of the house—the brick, mortar, lumber and labour—probably would not account for more than $9,000. Therefore, you have $7,000 made up of such things as surveys, legal fees, architects, overhead, all of the items that go into it.

Co-Chairman Senator CROLL: Do not forget profit. You have mentioned the legal fees.

Mr. SALTSMAN: Your enumeration of the cost of a house leads me to the next question. Is there anything that can be done or should be done about things like transfer costs and the various other things that come in apart from the actual construction. I am interested in two points of view. First of all these things add to the purchase price of a house; and each time a house is transferred—and you indicated this may occur every four years—these costs are incurred again. Have you made any study in this field, or do you have any suggestions along these lines?

Mr. CONNELLY: Yes. We are looking at the mortgage instrument itself. It must be 100 years old now, at least. Here I am not aiming at the legal profession, sir. A $20,000 house costs the merchant builder, and ultimately the home owner, together with the home owner's legal costs, approximately $700. The reason is that initially the mortgage has to be drawn, there is a tariff, there are searches, there are sub-searches, there are surveys. These would run to the order of $300 or $350 for this particular house. Then some home purchaser comes along and buys that house. Again there has to be an agreement, a sub-search, registration, registration costs, so that there is about, in that $20,000 house, $700 in legal fees.

The same thing occurs with surveying. It has to be surveyed initially, to be sure that the house is on the land where it is supposed to be. This is established, in the first instance, for the merchant builder when he builds a house. Along comes the purchaser and he has to hire a surveyor to do it over again. This is the area where the mortgage instrument demands it, and this is an area we are looking at very closely, to see if it could not be streamlined and so cut off these heavy burdens.

Mr. SALTSMAN: We do not have anything in Canada equivalent to the organization they have in the United States that, in effect, deals in mortgages, where mortgages become almost a transferable instrument?

Mr. CONNELLY: This was Fanny Mae?

Mr. SALTSMAN: Yes.

Mr. CONNELLY: We are not too far away from it in that C.M.H.C. is a seller and an administrator of mortgages, and that is another area we have indicated

we think is worth exploring. We believe the finance and insurance companies, and so on, could take the same role as C.M.H.C. is taking.

Co-Chairman Senator CROLL: In the west, where you have land titles—and we have some introduction of it in Ontario—the rigmarole you have described does not exist because the land title deed, once registered, is title. Some progress is being made in that respect, but it is rather slow.

Mr. SALTSMAN: With the Ontario government going into the land assembly program—it is going to be a 99-year lease, they are suggesting—will not this take care of the difficulty, in that you will not have to search title?

Mr. CONNELLY: No, you have the same thing to do.

Mr. SALTSMAN: Even where the provincial government has established the land and set it all out? Each time a home is transferred you would have to go through that?

Co-Chairman Senator CROLL: You may be buying from the provincial government and your title is good, but what you do to it before you sell it to me may be different, and you have to look at it. I do not think there is any short cut there.

Mr. SALTSMAN: I will leave that to the research division.

Co-Chairman Mr. BASFORD: Are you receiving any co-operation from the Canadian Bar Association in that connection?

Mr. CONNELLY: At the moment, no—we have not really got into that. On the condominium legslation, yes, we are having a great deal of co-operation from the Bar Association of Ontario. Before we get too far into it we have to study it carefully and then come in and ask for more help in more specific areas.

Mr. SALTSMAN: These transfer costs create a serious problem in terms of the single family dwelling or individual home ownership in the east where the population and work force are becoming more and more mobile. We have already had an indication of mobility when house transfers take place on an average every four years. Anything we have been able to see or any study that has been done indicates the population will have to increase the rate at which it moves from job to job and from place to place. Home ownership is one of the rigidities that interferes with mobility, and one of the reasons for that is the cost of transfer on each occasion a move has to take place. This is the kind of situation we do not get into in rental accommodation; a person who rents is more mobile. A person who rents a home, I think, in many instances, it is more desirable for them to own a home, but it creates rigidities and makes it difficult for them to seek better opportunities and for us to deploy our labour force in the best way. What kind of answer do you have to this problem?

Mr. CONNELLY: It has not interfered in the past, and I think in part it is because we are a growing country. Strangely enough, I think still in the mind of a great number of Canadians moving from city to city is the thought that they want a home of their own. Certainly, rental accommodation is available to them, but they are still coming in and buying a home.

I think if you look at a long cycle, there have certainly been areas where there has been a drop in the value of homes or real estate generally, but it comes back again. Generally speaking, your home owner is putting an equity in and generally, because of the rising market, he is taking some equity with him.

Mr. SALTSMAN: The rise in market values sort of covers the transfer cost?

Mr. CONNELLY: Yes.

Mr. SALTSMAN: But the way our system is supposed to work is that if a better opportunity occurs elsewhere the workers should be free to move into those opportunities to allow the best resource use?

Mr. CONNELLY: Yes.

Mr. SALTSMAN: I am suggesting there are problems in this area because of rigidities, and some thought is going to have to be given to that. I hope that some part of the study you will be doing will be along this line.

One other question in relation to prefabrication. We run into situations in Canada continuously where there is tremendous pressure on the construction industry in central Canada at times when there is quite high unemployment in other parts of the country—the northern parts of Ontario and Quebec, and the Maritime provinces. The thought that has occurred to me is: Would it be possible to develop the prefabrication industry in these areas of under-employment to relieve the pressure on the construction industry in central Canada, and to provide for new, sort of industrial opportunities in these other areas, and have some of your production in these areas with surplus available labour for shipping into central Canada. How much of a problem would it be?

Mr. CONNELLY: I think a very large problem. A number of studies have been made of the economic mileage, and I think the economic mileage is probably a periphery of about 150 miles. This would preclude somebody in New Brunswick from setting up and shipping to Ontario, or even to Nova Scotia. I think the other problem is, if you look at the private sector—I am talking about the fellow who wants to buy a home of his own—there would be great difficulty in getting a design which is acceptable, say, to Ontario. Probably something which is acceptable in New Brunswick may not be acceptable in Quebec or British Columbia. You get these great variations. We find in this industry even any inter-city operation is seldom successful—i.e., a builder in Toronto, for example, moving to, say, the City of Ottawa, and bringing the same plan here, would not be successful in selling it until he blends his operation to what the local desires are in Ottawa.

Mr. SALTSMAN: A number of years ago—I presume they are still doing the same thing—C.M.H.C. put out booklets of a number of standard designs. As I moved around the country I could see these designs elsewhere. You could say, "This is No. 4 or No. 5 C.M.H.C." So, apparently, a number of designs have found acceptance in different areas of Canada. It seems that C.M.H.C. did a good job in this particular case, and with minor variations in terms of brick, upper trim or window changes, they are able to get a bigger variety. Is this true today, or is it changing?

Mr. CONNOLLY: I do not think it is as true as perhaps it was 10 years ago. I think that in part the reason for that is that there has been great criticism of C.M.H.C. and the industry in that we were accused of building strawberry boxes across the whole of Canada, and we should do something to improve our environment and have variations locally. I would say that in your non-urban areas, smaller towns and so on, where the merchant builder is not operating, you probably have a greater tendency to use C.M.H.C. designs.

Senator INMAN: Mr. Chairman, I would like to ask Mr. Connelly why he considers 50 years to be the life of a house. You buy a house and expect it to go to pieces in 50 years? I come from Prince Edward Island, and we have loads of houses built in the early 1800's. Our Government House was built in 1832, and it is still a very fine house. I own quite a large house built 75 years ago, and it is one of the newer houses there.

Mr. CONNELLY: As I indicated, fifty years is perhaps a good figure for the life of a house. I was thinking in fact of terms where we are amortizing a house that has a life of fifty years, and with proper maintenance it would probably last 100 years. What we are doing is amortizing or paying out the total cost of this house within a twenty-five year period.

Senator INMAN: I am sure that in the Prairies there are not so many of these. You see, in Prince Edward Island we are not too interested in the $36,000 homes. We have some people who can afford that, but the majority of our

people down there are working people who earn from $3,500 to six or seven thousand dollars a year. Now what kind of home could they have?

Mr. CONNELLY: Well, I think this is a situation I was pointing out earlier. You have got this variation. I would certainly say that in Prince Edward Island, as I know it, and I have not been there for ten or eleven years, a person making a salary in the range of five to six thousand dollars a year could, under the National Housing Act, have adequate and proper housing. First of all you have not got the pressure on the land cost. This, as I see it, is a primary reason why this problem is exerting itself in the urban area.

Senator INMAN: Around our city and in the town of Summerside I believe it can cost up to $15,000 but people raise their eyebrows and think this is pretty expensive. Like everyone else, we are interested in low priced housing, and I don't know how we can get it—interest rates are so high. People say to me "Why can't you do something so that people can have a home at a reasonable price?"

Mr. CONNELLY: I would think from the point of view of interest rates and equity, you can get a mortgage at a level where you can move in—I think those two go together but then the point is to get the amount of money you need to move into the house at an interest rate which will allow you to live in the house once you move in.

Senator O'LEARY (*Antigonish-Guysborough*): You were replying earlier to a question regarding research, and you indicated that perhaps the greatest need was for economic research rather than technical research. Are you satisfied that the house building industry has really made good strides towards developing the best type of material for homes being constructed today? I mention this because of the experience of many people moving into new homes today when, in the first two or three years, they find that the ceiling is cracked and the foundation cracks and you have drafty windows and doors, and the doors warp. This seems to be going on continuously at the present time even in homes costing $25,000 or $30,000. Do you really think we have made strides in testing the materials for the climatic conditions in this country, and meeting a standard that should be met?

Mr. CONNELLY: Yes, I think we have. Let us take into consideration the fact that today we are building a traditional house with the best materials we have available. Now, you have concrete in the foundation and we must remember that this is an inert material. It is subject to the stress of a low temperature outside and a high temperature inside, and when you get a material like that it has to move, and so you get foundation cracks. Plaster also cracks but generally speaking the industry today is not using too much plaster; we are moving into drywall. You also mentioned doors; at one time a door was solid wood and as such was subject to movement. A door soaks up moisture like a blotter and it is subject to heat and cold. But they are not affected nearly as much as they were ten or twelve years ago.

Senator O'LEARY (*Antigonish-Guysborough*): You should see my front door—it is like that.

Mr. CONNELLY: As far as investigations as to what material to use in a house are concerned you have difficulty in finding something that is better and that is still within the reach of the person buying the house. We could probably make use of doors of steel or of aluminum or of plastic or any other material, but then the cost would be getting out of the reach of the individual even in houses costing $25,000 or $30,000.

Senator O'LEARY (*Antigonish-Guysborough*): What you are saying is that while we have these climatic conditions here, as long as we are using wood we are going to have this situation?

Mr. CONNELLY: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): And more research is not needed?

Mr. CONNELLY: Yes, more research is needed, but not in the area of replacing wood with something else. I think it is needed in the methods of treating wood so as to make it more stable. Certainly wood treating today has resulted in windows and doors being far more stable.

Senator O'LEARY (*Antigonish-Guysborough*): I must say that the builders' warranty is very good from the experience I have had. However, the nuisance value and the inconvenience is dreadful.

Mr. GUNBY: We would welcome a stable wood product.

Senator INMAN: Were they not able to cure wood in such a way that it would not warp? I know of houses that were put up ten years ago and not one door has warped.

Mr. CONNELLY: I think part of the problem we are running into today is that in new housing we have made rapid strides in providing a more comfortable shelter than was the case fifty or a hundred years ago, or even twenty-five years ago for that matter. Insulation is now standard in all new houses and fifty years ago this was not the case. Now we have automatic heating and today nobody would buy a house without automatic heating. We are introducing humidity into the houses through furnace installations and cooking, and it is not able to get out of the house in the same manner as it could years ago because we are putting in vapour barriers to prevent it from getting out and blistering paint. I think what you are referring to here is the fact that if you have a house which is not insulated and which allows a greater movement of air, you will not get the warpage you get in today's houses.

Co-Chairman Mr. BASFORD: A short while ago a policy was announced by the Government to grant C.M.H.C. loans on existing houses in order to help increase our existing inventory of housing and to take some of the pressure off new land acquisitions. There is, however, a limit of $10,000 on it. I come from an area where there are many older houses which need upgrading, but I don't know of any available for $10,000. Would you care to comment on this program?

Mr. CONNELLY: Well, we as an association have over the years in briefs presented to the Government requested that the provisions of the National Housing Act be made available for older houses thinking that this would eliminate the high interest rates current from the re-financing of older houses. It would allow a certain segment of the population which cannot be accomodated in new housing to get into an older home. The recent amendment to the National Housing Act, however, in our view is not too operative. It provides that the limits of the loan shall be $10,000 which is a little unrealistic in urban areas. The provision that it has to be owner occupied and he has to spend at least a thousand dollars on repairs and on refurbishing the house makes it a difficult one to work because the man has to move in and there is a holdback retained for the repairs to be done, and it is difficult for him to get any financing on this. I think there have been something of the order of 50 applications to date under this provision of the National Housing Act. However, it is a step and as time goes on this can be improved, and it may become more workable.

Co-Chairman Mr. BASFORD: How should it be improved?

Mr. CONNELLY: By increasing the ratio of the loan to the same ceiling as on a new house.

The provisions of it should be made available also to the merchant builder, as well as to the individual. We have a number of people in a position to step

into our new houses today but who are unable to do so because they cannot get equity out of their old house.

Co-Chairman Mr. BASFORD: When you say "availability to the merchant builder" this would enable you to buy an old house, refinance it and put it back on the market?

Mr. CONNELLY: We would term this as a trade-in. Let us think of the automobile business, where the dealer takes in a car, fixes it up and puts it on the market again, and that serves a number of people who could not afford a new car. This might also aid the transfer problem.

Co-Chairman Senator CROLL: The transfer problem is out.

Co-Chairman Mr. BASFORD: That is a worthwhile suggestion. There has been a good deal of discussion among some people about the establishment of a federal department of housing and urban affairs. What is your view on that?

Mr. CONNELLY: As a former C.M.H.C. person, I should not say this. I worked in the C.M.H.C. for nine years, I left in 1956.

Co-Chairman Mr. BASFORD: I hope you made your fortune since you left.

Mr. CONNELLY: There are many times when I wish I were back there.

Our C.M.H.C. is unique and it has done an excellent job as an administrator of the National Housing Act and in attempting to find solutions to the housing problems. I suppose it would be very nice to have a minister of housing whose only interest would be in housing. Looking back in history, the responsibility for the administration, answering to Parliament for the National Housing Act, has moved from Public Works to Immigration, to Labour.

Co-Chairman Senator CROLL: It has bounced.

Mr. CONNELLY: It has bounced. I am not talking of individuals who answer for it in the house. If there were a department, it would certainly focus the thing and probably provide for more continuity.

Co-Chairman Mr. BASFORD: Is this the position of your association, or is that your personal view?

Mr. CONNELLY: I would say it is the position of the association as well, that we would like to see a department responsible for this area. With the size of the industry and its social implications, it would be a good move.

Co-Chairman Mr. BASFORD: I would hope that your residential research council, or the economic research committee, would examine the question, of the merits and demerits of putting the burden of taxation on land alone, or more on land than on the improvements. A very initial look at the proposition makes it appear to me that this might provide some of the answers to our municipal problems.

Mr. CONNELLY: Yes.

Co-Chairman Mr. BASFORD: In regard to obtaining funds from the private sector, have you any position on this? There is the trend we have seen over the last few years, insurance companies residential mortgages, instead of putting their money into such things as apartment blocks, commercial enterprises, shopping plazas. Do you think there is any merit in amending the British and American Insurance Companies' Acts to put in a requirement that a certain amount of their investment portfolio shall be in residential mortgages?

Mr. CONNELLY: I am against regulations of this nature. If we look at the portfolio of mortgages held by the lending institutions in Canada, it is a very large amount of money that they have invested.

I would rather approach it on the basis of making the mortgage itself a better document in which to deal on the money market. For example, a bond with a yield of 5¾, 6 or 6½ per cent has a locked-in interest over a long term.

A mortgage, after five years, can be repaid at any time, either conventional or the National Housing Act loan.

In the case of conventional mortgages, at the end of five years the interest rate can be, renegotiated either upwards or downwards. This means that anyone, particularly pension funds and other long term investors, are not looking necessarily at high yield, but at the long term yield. They want to know that at the end of 25 years, each month or each year that this money is coming out at a regular pace. I think this is a better way. In other words, let us encourage and not attempt to force by legislation. We are working, in this committee, with the lenders. For the first time they are coming together with the building industry and saying: "Your problems are ours." They are certainly interested in seeing what can be done along those lines.

Co-Chairman Mr. BASFORD: You favour the carrot rather than the stick.

Mr. CONNELLY: I think it is the more workable way.

Mr. ALLMAND: Earlier, you said that the builder is not really a builder today, that he is an assembler of men, materials and land. Do you think that there may be too many people involved in building a house today, too many middlemen, so to speak; and that this would increase the cost of housing?

Mr. CONNELLY: Yes. There is no doubt about it. Traditionally, you always had your subtrades, such as the plumber, the heating man, and the electrician; but you employed your own carpenters, floor layers and others who comprise the trades that you need when building a house.

As mentioned in our brief, because of this fluctuation of feast and famine, economically we were not in a position to retain this working force, because we sould not keep them at work. We had to work them on one job and let them go. Out of that, evolved a subtrade operation, in that the average builder today, the merchant builder, is employing the supervision staff, the on-site labour such as unskilled and clean-up labour; and the carpenters are employed as sub-trades. They come in and build the house and it may be they are building houses for three or four different builders around town.

Mr. ALLMAND: The cure, therefore, is what you recommend—more stabilized industry, so that you can eliminate a lot of these sub-trades?

Mr. CONNELLY: Quite.

Mr. ALLMAND: Would you say that there are any restrictions into entry into the building business in Canada, by those who are already there?

Mr. CONNELLY: Not in our industry. Not in the house building industry, to any great extent. Generally speaking, the house building industry is a non-union. There are no restrictions, such as having to pass apprenticeship tests or carry cards, and so on. I think there are only about 2 or 3 areas in Canada where housebuilding is unionized. Therefore, we do not have the problem of people being restricted in entering into the house construction field.

Mr. ALLMAND: What is the usual profit of builders? Are there any general levels? What is their general percentage profit on investment capital?

Mr. CONNELLY: I would think between 3 and 3½ per cent on invested capital.

Mr. ALLMAND: By the builder?

Mr. CONNELLY: By the builder, yes.

Mr. ALLMAND: Do you find that the system of bidding works in the best interests of consumers, bidding on contracts both by the builders and by the subcontractors?

Mr. CONNELLY: Well, bidding, in the sense that you are thinking of, where you have a tender called and you have a plan and specifications and you get a firm bid, is not followed generally in the housing industry. It is a little freer and easier. You call four or five different contractors in and say, "Here are our

plans; here is what we want done; here are the specifications; give us the price." Because of not having the checks and balances you have to have in Government operations, it works to the good of the end buyer, in that you are able to deal, generally speaking, at better prices than you would if you were subject to public tenders.

Mr. ALLMAND: Would you describe the housebuilding industry as a very competitive one, as compared to other industries; or is there—I do not know if this is a fair question to ask you—any real monopoly or, let us say, control on artificial maintenance of housing costs by the builders and the people in the industry?

Mr. CONNELLY: Oh, I say it is probably the most competitive business we have in Canada today. We would cut each other's throats tomorrow and then, the next day, get together as an industry.

Mr. ALLMAND: Therefore, the consumer should benefit by this?

Mr. CONNELLY: Yes, he does definitely.

Senator CARTER: Mr. Connelly, are there any housing co-operatives affiliated with your association or members of it?

Mr. CONNELLY: No. there are not. As a matter of fact, housing co-operatives, which came out in the late forties and perhaps the early fifties, by and large were not too successful. This was a linking together of individuals not professionally in the business, who were attempting to do their own building contributing sweat equity, and a great many of them fell by the wayside. I can only think of one example in Ottawa where it was successful. It is not the best way, as I see it, of providing accommodation.

Senator CARTER: Do you know of any that are operating now in Canada?

Mr. CONNELLY: I do not know. They are not on a continuing basis. A group of 20 people, say, get together and they say, "We are going to co-operatively buy a piece of land; we are going to co-operatively buy our materials; we are going to co-operatively employ our subtrades; and we are going to co-operatively build these houses." You can see the problems which arise. They draw lots as to who is going to move into the first house, and everybody concentrates on getting his house finished. Then Mr. "X" moves in. By the time you get to the fifteenth house Mr. "X" says, "I do not think I will go out tonight," or, "I do not think I will work on Saturday." It is human nature. This is the problem with that type of co-operative. Once units are built, that is the end of the co-operative.

Senator CARTER: Mainly because they are not big enough, in the first place, and because of the human element?

Mr. CONNELLY: They are not large enough. I believe that in Ottawa St. Pat.'s College or one of the colleges was working it up. They were sort of the focal point of a housing co-operative; but by and large these have not been successful.

Senator CARTER: Would you say that with the advent of prefab houses like the ALCAN house that was exhibited in Montreal, all the co-operatives now have to do is get a piece of land and a basement, which they can contract out, and they can assemble it in four or five days? Would you think that would give a better chance of a co-operative to succeed?

Mr. CONNELLY: I do not think so. I think you are still involved with a lot of sweat work. Take the ALCAN house, for example. You have to prepare your land; you have to prepare your excavation; you have to prepare your foundation; you have to prepare your sewer and water connections; you have to prepare your electrical and gas connections; and put everything else into it.

The proposed method of operation, as I understand it, is that the unit will be delivered to the site, but it is up to you to get it on the foundation and bolt it

together and put it together, and make all your connections. It would ease the amount of labour or sweat equity, but the amount of sweat equity would be so small, probably it could be done on a franchise basis with very little difference in cost by a professional putter-together of this unit.

Senator CARTER: Did you see this ALCAN house?

Mr. CONNELLY: Yes.

Senator CARTER: Did I hear you say earlier this morning that some building codes will not permit it?

Mr. CONNELLY: Yes, that is quite right.

Senator CARTER: But it is accepted by the National Housing Code under the National Housing Act?

Mr. CONNELLY: No, it has not yet been accepted under the provisions of the National Housing Act. It does not meet the minimum standards as we know them.

Senator CARTER: Several years ago there was a sort of trend where the builder built the house and did just enough for the family to move in, and there was a sort of do-it-yourself program which they did in their leisure time. Is that trend disappearing?

Mr. CONNELLY: Completely. Five or six years ago it was quite normal for a man to move into his house without the walls being painted and the woodwork unpainted and without electrical fixtures. He went in and painted the inside in due course. Today that is not done any more.

Senator CARTER: Was there any saving?

Mr. CONNELLY: There is a bit of a saving, but not that much. It will all boil back down to the allowance for sweat equity in his down payment as opposed to an allotment in the mortage, plus the fact the average person today probably has a cottage and other things he prefers to do, like watching television, and all these things come into it.

Co-Chairman Senator CROLL: That is not part of the "affluent society" image.

Mr. CONNELLY: Yes, that is quite right.

Senator CARTER: I have one more question. Earlier this morning I think you said it would be desirable to get the banks back into the mortgage business again. They went out because of the 6 per cent ceiling?

Mr. CONNELLY: Right, sir.

Senator CARTER: The 6 per cent ceiling did not deter them from making loans in other directions?

Mr. CONNELLY: No.

Senator CARTER: What deterred them from making them in mortgages?

Mr. CONNELLY: They were limited. I am not expert in the Bank Act, and I can only go basically by what I am told. I am told that under the Bank Act the maximum interest rate which the bank could charge was 6 per cent.

Senator CARTER: That is in the Bank Act. That applies to other loans, but they found a way of getting around that.

Mr. CONNELLY: Yes, certainly they found ways to do it under the consumer loans. That is closer to 9 or 11 per cent. However, I think the limitations under the National Housing Act certainly would and do preclude any bonuses being paid to the lender on a mortgage. I think this was one deterrent in the National Housing Act. Some provisions, I think, would apply, on general, conventional mortgages as well.

Co-Chairman Mr. BASFORD: I have received a letter from Mr. Hignett, the President of Central Mortgage and Housing Corporation, correcting a statement he made. It reads:

> I am sorry to have to tell you that one of the statistical comparisons in my opening statement to the Committee, on January 26th, was incorrect.
>
> In the first paragraph on page 2 of that statement the third sentence reads:
>
> "Over the same period, average mortgage carrying charges, for principal and interest, went up by 34.8 per cent from $84.54 per month to $113.95 per month".
>
> This sentence should have read:
>
> "Over the same period, average mortgage carrying charges for principal, interest and taxes, went up by 46.4 per cent from $81.00 to $118.58 per month".
>
> I should add that, without taxes, the increase was 43.00 per cent, from $63.18 to $90.36.

The record has not been printed, so I have been able to make these corrections in the record.

Co-Chairman Senator CROLL: There are no further questions.

Mr. Connelly, first I would like to thank you on behalf of the committee for preparing such a well documented brief at such short notice. We appreciate that very much. Furthermore on behalf of the committee I want to state that you did credit to your position as President of the National House Builders Association with your grasp of the industry and the manner in which you explained the information you gave us. You were very helpful indeed and on behalf of the committee I thank you.

The committee adjourned.

AFTERNOON SITTING

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 3 p.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: We have a quorum. Our witness today is Mr. W. A. Beckett of Beckett Associates, Toronto, who is to speak to us about economic development. The floor is yours, Mr. Beckett.

Mr. W. A. Beckett, President, W. A. Beckett Associates: Gentlemen, what I plan to do today is to point out some of the improvements, as I see them, that could be effected in the reporting and presentation of economic statistics, with the hope that we could improve general public economic understanding of what is currently going on in the economy.

As this committee must know by now, the processes of inflation are complex; so are the processes of deflation, but neither of these general economic conditions can be described or understood in terms of a single or simple index, whether it be a price index or a general economic indicator. Naive descriptions of trends can lead to misunderstandings that I believe can have far-reaching effects on public expectations and ultimately on public economic policy.

I think it is fair to say that the general understanding of the economic process has improved during the 'sixties'. The improvement has been apparent in the discussions of most economists; it has been apparent in the improvement in statistical materials available from most government agencies, in the appreciation of economic events by policy-makers, both private and public, and hence an improvement in public and private economic policy; and in a few cases the improvement has been apparent in the business news and in comments on business affairs by the business and daily press.

The events and the general debate of 1966 suggest that there is still need for greater understanding and greater appreciation of economic trends on the part of business, labour, consumers, governments, the press, and even some economists. The major misunderstanding of 1966, as I see it, concerned the timing and the degree of inflationary pressures. That has been the main preoccupation of this joint committee.

Such a misunderstanding as we had in 1966 arises from three lags in the information-policy process: First, a lag in the reporting and publication of current economic statistics, a lag which I consider to be important but not crucial; secondly, a lag in the recognition of changes in the current economic situation, which I do regard as crucial, which lag in recognition is due in part to the method of presenting statistics by the agencies concerned, but it is a function more of the failure of the news media to publish such economic data properly or to interpret such information in what I would consider to be a professional way; thirdly, a lag in the application of public economic policy, which I also regard as critical.

What I plan to do for you today, if I may, is to attempt to document these three points by referring briefly to developments on a month by month basis through 1966, and I will conclude my remarks with some recommendations which I hope would lead to a greater appreciation of the need for understanding of current economic trends.

A set of charts has been distributed to you and you can follow those, or you can follow the transparencies of the charts which I shall show on the wall. These charts are all of the same ten economic indicators, and they are shown as they were published at the time. We have gone back through the statistics and show month by month through 1966 the data as they appeared at the time.

Senator CARTER: Could you say where these appeared?

Mr. BECKETT: With one exception these are all official government statistics, coming either from the Dominion Bureau of Statistics or from the Bank of Canada. There is one indicator which is compiled by a private corporation, Southam Building Guide, which we have included in here because it is important and it is part of the general picture.

As we run through these twelve charts—and I do plan to be quite brief —what I will do is to contrast the interpretation that we put on it at the time, or the interpretion that seems to come out of these charts, with the interpretation that was placed on it by the general public, the interpretation that was placed on it by the various news media, and in one or two cases the interpretation that was placed upon it in official quarters, to try to contrast what really was happening to the economy with what people thought was happening to the economy.

The charts begin as the numbers looked for ten selected economic indicators in January, 1966. This illustrates, at least in one part, what I call the lag in publication. I direct your attention to the bottom line, which is Canada's gross national product in current dollars. As at the middle of January, 1966, we were sitting with information for the third quarter of 1965. Incidentally, the third quarter's figures had been published close to the end of December, 1966, so there is a lag of about three or four months in the appearance of the gross national product figures. As we will see when we move through to the third quarter of 1966, this lag in publication was rather important in trying to interpret what was really going on in the third quarter of 1966.

In the United States the national product statistics come out about six weeks beyond the end of the quarter to which they refer. In Canada they come out three to four months after the quarter to which they refer, and I think that we could probably do somewhat better than that in Canada if the agency D.B.S. had additional resources to work with.

At any rate, going back and looking at what was happening early in 1966, I think there was general agreement among most observers, whether they were professionals or amateurs, that the economy was basically sound, that the economy was still expanding. Most forecasters and pundits were predicting a good year for 1966, and these predictions and forecasts were generally echoed in official quarters. There was a sizable minority of observers at that time who were expressing fears of inflation during 1966, and there was a small minority of those, of whom I was one, who were predicting that the economy would slow down in the second half of the year.

Now let us look at the individual numbers and see what was going on as of January, 1966. Looking at the chart of the gross national product, we see that some four months earlier the gross national product was still rising, and still rising at a fairly rapid rate. The increase between the second and third quarters of 1965 was something close to $1 billion, or a rise that, if it continued for a year, would be an annual rate of around 10 per cent. If you look at the next indicator up you will see that retail trade was rising and, skipping one for a moment,

industrial production was rising, and there was a general feeling that the economy was moving ahead.

But note even at this early stage, as of January, 1966, that the number of housing starts in urban centres had been falling for some three or four months. Having hit an annual rate of 160,000 starts in August, 1965, they had fallen to about 124,000 starts by November, 1965. Note too at this time, when everyone was thinking in terms of a rapid investment boom and a strong year for the construction industry, that the volume of new contracts awarded for private business construction had fallen from around $400 million at a monthly rate in September, with an intervening lowering in November, to about $153 million by December. In other words, these two indicators, which refer to construction activity, were, even at this stage when the economy looked very good, indicating that there was maybe some slowing down coming in the economy later on.

I direct your attention particularly at this stage to the rate of change in what we call the public money supply. Let me define that for you. The public money supply is the sum of currency in the hands of the general public and in chartered bank deposits, excluding Government of Canada deposits. The rate of change in the money supply had hit a maximum in June, 1965, and here you see a classic case of the onset of tightening credit conditions as the Bank of Canada applied the brakes in order to head off inflationary pressures. Through the last half of 1965, long before too many people were howling about inflation, the Bank of Canada, very appropriately, was moving to tighten up on the credit situation.

The point is, as you sit in January, 1966, and look at this, the impact of the tightening of credit conditions was bound to appear in the subsequent numbers in terms of slowing down the economy, and, as we will see, this is exactly what happened. In short, what you see in January, 1966, if you look at things like the gross national product, retail trade, unemployment or industrial production, is the economy rolling ahead at a fairly good rate; but if you look at some of the distant early warning signals, such as housing starts, new construction contracts, the rate of change in the money supply and to a degree the wholesale prices of industrial materials, there were some warning signs that the economy, rather than building up inflationary pressures, was soon going to move in the direction of a slow down in inflationary pressures.

Co-Chairman Mr. BASFORD: What do the numbers in the middle beside each line indicate?

Mr. BECKETT: They refer to the month or quarter to which the last plot refers. For example, housing starts are plotted to November, contracts to December, the money supply to December, consumer price index to November and gross national product to the third quarter.

Mr. ALLMAND: What are the numbers on the right side of the column?

Mr. BECKETT: These are scales, with the scales alternating. You see housing starts, contract awards, stock prices, the money supply and so on down the line.

Mr. ALLMAND: They alternate?

Mr. BECKETT: Yes. Incidentally, in the interests of making the charts clear we put the scales, the units and so on, only on the first of the twelve charts. This is really all one chart showing twelve separate months.

Mr. LEBLANC: For instance, you have three 12s, three Decembers, three 11s and three 10s. That is because the statistics are not available up to the date we are studying?

Mr. BECKETT: This is what I refer to as the lag in publication. We have very current figures on the stock market and the money supply, but we do not have quite such current figures on the consumer price index, the index of industrial production or retail trade, so sitting here, as we are now, in February, 1967, we

are trying to sort out what is happening to the economy in February, 1967, and for the most part we have to rely on numbers that refer to December or November, and in some cases back into the third quarter of last year. There is this lag in the publication of information, which I think is important, but it is not crucial. Anything we can do to speed that up would be helpful.

We come to February and the economy was, I think, still moving along at a fairly good rate. We have no new information on the gross national product, but we have a new number for every other one of the indicators. We see that housing starts had come up a little bit, but were still below their earlier high. We see that contracts awarded had come up, but were still below their earlier high. The stock market was describing a pretty flat pattern. The money supply had shown a little improvement as you move into January, and wholesale prices had begun to go up. We see the beginnings of some movement in the consumer price index. The unemployment rate has moved narrowly now by the middle of February in a pretty narrow range. Retail trade is still rising, and there is no new information on the gross national product. But one would conclude at this stage, I think, that the economy was still advancing, and the remarks I made earlier about the weakness in housing starts, the contract awards and the money supply would still apply.

As of that moment, the Minister of Finance, in a pre-budget statement, observed that the economy had used up all the slack that had developed in earlier years, and that with the resources fully utilized—and he was thinking in terms of the unemployment rate, which was now around 3½ per cent—the threat of inflation had to be assumed to be serious and he, as Minister of Finance, was going to issue a call for restraint on the economy. That comment at that stage, when it was justified in terms of the way in which measures such as the gross national product, retail trade and unemployment were behaving, is an example of possibly good understanding of the economic stituation then. However, there was no or very little reference at that time to the weaknesses that were apparent in some of the distant early warning indicators.

As we move to March, again I think the picture adds up to one of sustained advance. We have added a new number for nine of the indicators, but there is still no new number for the gross national product; we are still thinking in terms of the third quarter of 1965, and now it is the middle of March, some six months later.

In March we would observe that there was some further modest recovery in housing starts, but not much optimism could be attached to this, because the winter bonus program in housing had been abandoned. We do notice that the new contracts awarded for construction had almost recovered from the dip in the fall, which might have been associated with the movement towards tighter credit; but here again there is a fairly bullish sign. The stock market had not gone ahead, but it certainly had not gone down. The money supply was beginning to get weaker again. Wholesale prices show some further strength, the consumer price index is coming down, and so on down the line. As of the middle of March one would still have thought in terms of an economy that was expanding and was threatening to boil up in terms of inflationary pressures.

Mr. LEBLANC: Would you explain how, with the money supply going down from February, the number of construction contracts go up, if you have a tightening of money?

Mr. BECKETT: On a month to month basis they can go opposite. What you have to look for are broad trends that conform. They will not conform for a single month, or even for a month or two. When we get a few months further down the line I think you will see how the movement of housing starts, industrial material prices and construction contracts move very much with the money supply. For a single month they do not have to conform.

The March 15 picture is the one that was available to the Minister of Finance when he was making his budget. As all of us in this room know, that was a restrictionist budget with the very clear objectives of slowing the economy down and driving some inflationary pressures out. We are all aware of the four of five specific items of a restrictive nature that were included in the budget. Broadly, I would conclude now, as I did then, that these measures were appropriate to the then economic circumstances.

The public discussion of this was expressed in terms such as these. *Nations Business*, early in April, under the heading "Inflation Fever Gets Hotter" noted that consumer prices were still going up. The *Financial Post*, under the heading, "Build Up In Inflationary Pressure May Persist Through '66", commented on the tight budget. I think it would be fair to say that at this particular stage the public economic understanding and the official economic understanding were broadly appropriate to what was being shown in the economic indicators.

It is as we move on from March that the situation begins to change. In April, if you look at the chart, every one of the top four indicators went down in the month to which they refer; the information became available during April. Housing starts dropped off almost to a new low, and I believe to a new low; new construction contracts for business construction fell off; stock prices began to go down, and the rate of change in the money supply turned negative again. In the bottom five indicators (consumer prices, industrial production, unemployment and retail trade—there was still some strength, but the distant early warning signs were becoming more insistent that the economy was getting set to slow up.

As we turn to May, we see that this trend is beginning to clarify. Housing starts recovered a little bit, but contracts continued to go down, the stock market continued to go down, the rate of change in the money supply was near zero, and the wholesale prices of industrial materials started to go down. There was still a lot of steam in the consumer price index, and there will continue to be through the next three or four months that we will see. The unemployment rate now has been moving sideways, aside from some minor fluctuations; it has been moving sideways now for about four months.

As we would expect, when the fourth quarter of gross national product came in it mirrored the strength that we have seen earlier, and it showed again a very substantial increase. But the gross national product data referred to the fourth quarter of the previous year and we are now into the fifth month of the current year, and for purposes of current economic understanding, for purposes of the appropriate policy, it is what is happening to the gross national product in the second quarter of this year that is important, not what was happening to it in the fourth quarter of the previous year, and this again is an example of the lag in publication.

I will move fairly swiftly through the next two or three months, because I want to spend a lot of time on September when I get to it.

Coming to June, the signs that the steam was going out of the economy are beginning to multiply. Housing again drops off to a brand new low. There is a bit of a recovery in construction contracts, but it is still below the previous peaks. The slide in the stock market is continuing. Wholesale prices move sideways. There is still, as we would expect, steam in the consumer price index side. The unemployment rate continues flat. The one bright spot that we see, as we are sitting in the middle of June, is the performance of retail trade in March. As we will find out subsequently, this sharp upswing was an irregular factor attendant on the increase in the Ontario sales tax which took effect on April 1.

As the summer wore on the general public concern with inflation began to get hotter. There were a number of widely discussed collective bargaining

situations, food prices were beginning to move and gradually, as we moved through the summer, the concern with inflation and the amount of lineage that it got in the press began to expand, but at the same time the signs began to multiply that the inflationary pressure was getting set to go out of the economy, so that these two things—the public concern with inflation and the actual fact of inflation—diverged all through the summer.

In July, for example, we see some renewed weakness in the June contract awards, a further slide in wholesale prices, a very clear upswing in unemployment and, for the first time, a sharp downward movement in retail trade. Now, this information was available in the middle of July, just as the public concern with inflation started to become newsworthy and started to hit the headlines, just at the time when demand was beginning to slide off.

Between the July chart and the August chart something rather important developed, and I want to select it as an example of the lag in the presentation and interpretation of statistics. By the time we had reached the middle of August we had a pattern in new contracts awarded for business construction, and we had a pattern of decline in housing starts, one of which had lasted very close to a year and one of which had been underway for about four or five months.

Just at this point, towards the end of July and the beginning of August, the survey of private and public investment intentions came out. This is a document that is produced jointly by the Dominion Bureau of Statistics and the Department of Trade and Commerce, and it is based on a survey of business intentions to spend for new construction and new machinery and equipment. When this came out towards the end of July it showed, or purported to show, that business was planning to increase its spending for new plant and equipment, and it was greeted as another factor in the inflationary situation, that here we were now going to superimpose on the economy another 3 or 5 per cent increase in capital spending at a time when resources were tight and scarce and the labour market was tight, and all this could do would be to feed the fires of inflation.

At the time that businessmen were telling the government, through this survey, that they were planning to spend more money, they were actually awarding fewer contracts. We have another chart, if you want to see it later, which shows that new orders for durable goods, including new machinery and equipment, had also been declining since February, 1966. There was thus a conflict or inconsistency between the information contained in the survey of capital spending intentions and the other indicators, the other forward indicators, of capital spending.

If you cast your memories back to that particular period, you know which got all the attention. The survey of investment intentions, although it is a statement of intentions, was accepted broadly in the community as fact, and was accepted as evidence that inflationary pressures were building up, when in fact there was some evidence to the contrary, that the capital spending boom was beginning to tail off.

As a matter of fact, when we get all through this and look back, we will find that just as the survey of investment intentions was being released, showing an upward revision in business plans to spend, business was actually spending less, and when the figures for the third period finally appeared we found that spending for non-residential contracts and spending for machinery and equipment actually went down at the very time business said they were planning to step it up.

Now this happens, and has happened before. If the survey had been interpreted in the light of this kind of development, and if it had been reported in the press and discussed publicly in the light of this kind of development, it would have received a different interpretation, and there would not have been

expectations aroused which were ultimately, and fairly immediately, disappointed. This is the sort of example of the lag in recognition, or the lag in interpretation, of economic statistics that I referred to as my second lag.

As we move on, I think September was the sort of highlight of the year in terms of the divergence between what was going on in the economy and what was being reported and discussed, and generally understood by the public. I believe there was an emergency session of the house to deal with the railway dispute, the newspaper headlines were more frequently referring to inflationary problems, I believe this joint committee was constituted to look into it, food prices were at their peak for the year, and generally the concern with inflation mounted to a peak in the month of September.

How did the indicators look as of the middle of September? The decline in housing starts extended, it had now reached its lowest point; in the period shown here, and actually in the month of August, 1966, there was the lowest point in housing starts for about four years, and the decline had been fairly persistent since the previous August. The decline in non-residential construction contracts was gentle but still proceeding. The stock market was still falling.

The one bright spot was that the weakness in these had apparently been appreciated by at least one government agency, and the rate of change in the money supply was beginning to improve. In other words, the tightest period of credit from the viewpoint of this one indicator was in the month of June, 1966, although interest rates did get higher until the end of August and, as we will see, had another rise in November.

The one point that I would like to comment on with reference to September is the divergence between two particular price indexes. It was just at this stage that the concern about food prices, which admittedly were rising, generated all the activity in front of supermarkets and a good deal of the activity before this committee, and led, I think, to the general conclusion that inflation was *the* problem and had to be dealt with. The consumer price index, as I am sure the committee has been told before, is only one measure of inflation. While the consumer price index was rising through the first half of 1966 the wholesale price index of raw industrial materials was going down.

As I said before, the processes of inflation are complex, but when you find the price of finished products and services going up and the price of primary products going down, you cannot by any stretch of the imagination describe this as a classic case of inflation. The prices of goods that go into the productive process are falling all through this period, and at some stage later on these are going to show up in finished product prices, and the signs of easing inflationary pressure were evident here and were a portent of the further easing in inflationary pressures that were to come.

At this particular stage you were getting comments like this. In spite of the performance of construction contracts through this period, there was a heading in the *Globe and Mail* of September 2, "Commercial Construction Spending Soars". One can see very little soaring in the performance of the new contracts being awarded. There were other comments at that particular stage. Again the *Globe and Mail*, under the headline "Food Prices to Skyrocket", referred to Ottawa plans to allow wages increases of between 25 and 40 per cent., and said this sort of thing would wreck the economy through wholesale inflation.

The extent of the concern finally reached all the way to the top of official quarters, with the comments of the Minister of Finance to the emergency session early in September, in which he warned that if the current inflation continued it would lead to a boom which would lead to a bust, and he hinted very strongly that there would be an interim budget which would contain further restrictive measures, so the sort of interpretation that we were in a classic inflationary situation had reached all the way to the top.

As we proceed through the last three charts we will see that, rather than a classic inflationary situation boiling up, the measures which had been taken earlier, the beginning of a tightening of the credit screws as far back as August, 1965, and what I have described as appropriate measures in the March budget, were beginning to take effect and were beginning to slow the economy down and drive inflationary pressures out.

If we look at what happened in October, again notice the performance of the top four indicators: housing starts down, non-residential contracts down, stock prices down, the rate of change in the money supply down, wholesale prices down. This is scarcely a picture of an economy running away with itself and generating inflationary pressures. Consumer prices were still rising, yes, but so was unemployment, and retail trade had for five months failed to pierce the previous March peak. This was not symptomatic of an economy with excess demand in it.

Finally, late in September the figures appeared for the second quarter for the gross national product, and they showed the smallest increase in the gross national product during the entire period of the expansion. They showed that in terms of the aggregate measure of economic activity the earlier tightening of credit and the fiscal restrictions of the March budget had taken effect at a very early stage of the game. As we add the last two parts of this on we see that the trend continued through to the end of 1966. You get a minor improvement in housing as the Central Mortgage and Housing Corporation injected some fresh money into the housing industry, and there was a slight recovery in construction contracts, but in both cases the broad pattern of decline continued. The stock market continued to weaken. The rate of change in the money supply again stayed down to zero. There was a bit of an improvement in wholesale prices but not enough to interrupt the trend. Unemployment was still moving sideways and was much higher than it had been in the spring. There was a bit of a recovery in retail trade, which left it still below its previous peak.

Finally, in December we see an economy which had started off at the beginning of the year with the promise of a pretty good year, with the possibility of inflationary problems, winding up at the end of the year with more moderate growth and some clear declines still underway in contracts, in wholesale prices, some improvement in the unemployment rate and a recovery in retail trade which had not quite matched the previous period.

I have one final chart, which is not really part of this presentation, but it just winds up the notion of the contrast between the mood in September and what was happening. When the numbers finally came in for the gross national product for the third quarter we found that as of September, when the concern with inflation was at its height, when as far up as the Minister of Finance there were warnings that more restrictions would have to be placed on, that all occurred in the third month of a quarter in which real output actually declined. This is what I mean by the lag in interpretation, or the lag in recognition, of what is currently going on in the economy.

If I could conclude very briefly, Mr. Chairman, this leads me to a few brief recommendations as to what we might do to try to improve the public understanding of current economic trends. None of these recommendations is original, but I think they are worth repeating.

First I would recommend that the Dominion Bureau of Statistics should strengthen its professional resources. I think measures should be taken to see that D.B.S. secure the professional resources that they require, and this may help to shorten what I have referred to as the lag in publication. Let me make it very clear that in recommending this I am not criticising the bureau. I think that with its present resources it has in the past done a most creditable job, but

it is the things the Dominion Bureau of Statistics has not done that are important, and I do not believe it can do them unless it gets additional resources.

In my second recommendation I do have an implied criticism of D.B.S. I believe that the bureau should increase the volume of data that it publishes on a seasonally adjusted basis. The developments in the area of seasonal adjustments have been of great help in improving public economic understanding, but there have been no real developments in this area for some four or five years. By way of contrast, the U.S. Bureau of the Census publishes a chart book each month which contains some 150 current seasonally adjusted economic statistics, and the Dominion Bureau of Statistics could very well imitate this publication and increase the volume of seasonally adjusted data that it publishes. I think this would be of some assistance to the professional community, and would also be of help to the news media in trying to interpret what is going on in the economy.

Thirdly, I would recommend that D.B.S., and any other government agency in the field of publishing economic statistics, should introduce or extend in-service training programs, which would improve the methods of presenting and interpreting the data, both to the newsmen and to the general public. The basic format of the publication of a number of government economic statistics tends to get frozen, and it is not very imaginative. I think there are many improvements that could be made in terms of both tabular and chart presentation.

My fourth recommendation is that I believe there should be an up-grading of the professional resources in the information division of D.B.S.

Fifthly, there is need for a liaison program between government agencies that issue statistics and the news media in order to provide assistance to journalists in the proper reporting and explanation of business and economic statistics. I think that too often the reporter is left on his own to try to make some cases out of a set of economic statistics that may not mean too much to him.

My sixth recommendation concerns the news media themselves. I believe that all news media, including both the financial press as well as the daily press, could use professional resources of a higher calibre in reporting statistical and economic information.

My last recommendation may be the most important one. It concerns the lag in the application of policy. I believe what we need in Canada is more flexibility in the administration of fiscal policy. Fiscal policy is now frozen in terms of an annual budget or an infrequent interim budget. The economy does not shift gears once a year or every six months. The economic climate may change quickly in the space of a few months, as it did in 1966, and it seems to me very difficult to attempt to use fiscal policy to deal with a sudden change in the economic climate if you have to wait for an annual budget or put together an interim budget that may be postponed three or four times.

With fiscal policy frozen in a mould of this kind you get an undue weight put on monetary policy. If the economy is expanding rapidly and inflation is a threat and you cannot bring fiscal policy into action quickly enough, then you have to have a much tighter monetary policy than you would otherwise need. This is exactly our experience of 1966. When you have a fiscal policy which is too loose and a monetary policy which is too tight, you introduce distortions into the economy. The impact of an extremely tight credit situation on the housing industry in 1966 is a classic example of the type of distortion which you get.

Similarly—and we have to go a long way back for this one—you may have the reverse situation during a recession. You may be forced to an extremely easy monetary policy during a recession if you are prevented from bringing

fiscal policy into action quickly enough; this may lead you into difficulties on the international side and may create difficulties in the exchange rate. We had an experience of that back in 1960-61.

As long as fiscal policy or the notional and annual budget is a fairly rigid thing it is not possible to have the kind of flexibility in fiscal policy that you really need to fight inflation or deflation, as the case may be. What I would recommend is that some thought be given to granting the Minister of Finance discretionary powers to vary tax rates within some prescribed limits so that fiscal policy can be brought into play fairly quickly when the economic plan changes.

Mr. Chairman, that is all I have to say.

Co-Chairman Mr. BASFORD: Before the members of the committee ask any questions, I wonder if, for the sake of those subscribing to the record, the witness could describe who he is, so they will know they are reading some pretty high-class stuff.

Co-Chairman Senator CROLL: Mr. Beckett, could you tell us something about yourself.

Mr. BECKETT: My name is Alan Beckett, and I am a consultant economist from Toronto. I spend most of my time making presentations of what is currently happening to the economy rather than what has happened, and I usually do it before businessmen rather than parliamentary committees.

Mr. SMITH: Who consults you? I do not mean the specific names of your clients, but what type of people consult you?

Mr. BECKETT: You name just about any large Canadian corporation.

Mr. SMITH: Banks, for example?

Mr. BECKETT: Yes, we have some banks.

Mr. SMITH: Trust companies?

Mr. BECKETT: Trust companies. Mainly manufacturing companies. If there is any particular group that is heavily represented among our clientele it is manufacturing companies who are concerned with capital goods. These are the ones where things go up and down.

Mr. SMITH: Auto companies?

Mr. BECKETT: We do not have an auto company, no.

Mr. ALLMAND: Trades union?

Mr. BECKETT: No.

Co-Chairman Mr. BASFORD: I thought it valuable to have that on the record.

Co-Chairman Senator CROLL: I think so too.

Mr. SMITH: I thought he could have expanded it a little more than he did and that was why I asked those questions.

Senator MCGRAND: As you went from month to month on the charts you occasionally said, "There was, as you would expect, steam in the consumer price index." Why would you, looking at that chart, believe that the consumer price index was going to rise? Was that the impression you intended to leave?

Mr. BECKETT: Yes, I think so. One thing I did not say on the way along, but which I will bring in now in answer to your question, is that there is a way of looking at economic statistics which divides them into three groups. There are those economic indicators which move in advance of the economy, which we call leading indicators. Housing starts and the rate of change in the money supply are examples of leading indicators.

There are also those indicators which move generally with the economy at the same time, and they are almost definitions of basically what is going on to

current economic activity; such things as the gross national product, the index of industrial production and the unemployment rate. We call these coincident indicators.

Then there are indicators that lag behind. Among the lagging indicators are a good many financial measures and such things as interest rates. The classic lagger on the price side is the consumer price index. If the economy is going to shift from a basically inflationary or expansionist phase into a deflationary or recessive phase, the very last thing to reflect this change will be the consumer price index. This is historically so.

Mr. SMITH: Is it the same in reverse, that the last thing that goes up is the consumer price index?

Mr. BECKETT: It is also true on the upswing, that the last thing to turn up is the consumer price index. The consumer price index is, if you like, out of step and late, and for that very reason it is a rather poor price index to select if you want to describe a general inflationary situation.

Let me be very clear about what I am saying here. The consumer price index measures the costs of things that a certain group of consumers buy. I do not minimize the value of the consumer price index for measuring costs in that particular area of the economy, but let us be very clear that these particular costs tend to lag on both the upswing and the downswing.

Senator MCGRAND: As we look from month to month we can see the wholesale price dropping and the consumer price gradually rising. Will a gradual falling off in wholesale prices eventually head off an upsurge in consumer prices?

Mr. BECKETT: Ultimately. Maybe we can even put some timing on this. The wholesale price index of industrial materials is based on a selection of certain commodities, and to the extent that these are ultimately embodied in the commodities that go into the consumer price index, sure, the one decline will ultimately be reflected in a weakening in consumer prices. Remember, as again you all well know, consumer prices also include the prices of a lot of services which may continue to rise completely independently of commodity price trends. Usually this is the factor that continues to drive consumer prices up even late in a recessional stage; it is the price of the services rather than the prices of the commodities that go into the consumer price index.

Senator MCGRAND: What effect does the drop in the inflationary tendency have on the drop in consumer prices? There is a connection, is there not? The drop in the inflationary tendency ends up with a drop in the consumer prices, does it not?

Mr. BECKETT: In the commodtiy consumer prices, yes.

Senator MCGRAND: That is what I mean. Then this drop in consumer prices that we are experiencing at the present time, this gradual dropping off, is due primarily to the drop in the wholesale price plus the drop in the inflationary tendencies. I would like to know if that is the cause, because some people feel that it was the consumers' protest that brought down the consumer prices.

Mr. BECKETT: I would say that both influences were there but that the dominant influence on the course of the consumer price index late in 1966, and currently, was the slowing down in the economy, the taking effect of the restrictions that were put on the economy and the general subsidence of total demand and the general dropping of inflationary pressures. Had the basic inflationary situation continued beyond the middle of 1966, I do not believe that any amount of consumer protesting would have brought consumer prices back. You had to have the right climate for it.

Mr. SMITH: All the charts, statistics and information published by the Dominion Bureau of Statistics come from information collected from manufac-

turers, banks and so on. One of the greatest complaints, or an often reiterated complaint, particularly from smaller manufacturers and businesses, is the multiplicity and complication of the reports they have to file for the Dominion Bureau of Statistics. Have you ever given your attention to or concerned yourself with a system of simpler reporting to reduce the amount of cumbersome reports that these people have to file?

Mr. BECKETT: Not directly. From what I do know about it, I think the Dominion Bureau of Statistics do strive to keep their reporting forms as simple as is compatible with getting enough basic information. They use short reporting forms for smaller firms and ask only the larger firms for more detail.

To the best of my knowledge, D.B.S. does a fairly efficient job in collecting data from businesses and is, to the best of my experience, well aware of the very real burden that reporting can impose on a business. From the business point of view, I have a feeling that maybe economic statistics and general understanding of the environment is not as important to business as it should be. I believe that business has a vital stake in having good economic statistics, and if there is a reporting burden it should be borne cheerfully, because it pays off in the long-run.

Mr. SMITH: Do you think the recommendations you have suggested today would increase the reporting burden?

Mr. BECKETT: I believe they would, and I believe that would be useful.

Mr. SMITH: But it would mean more reporting perhaps by businesses?

Mr. BECKETT: Conceivably more frequent reporting, conveivably getting the reports in on time, which is a perennial headache for D.B.S.

Mr. SMITH: Mr. Chairman, if this question has been asked or answered before perhaps you would let me know. Mr. Beckett, could you give a very brief explanation of how a seasonally adjusted average is worked out? Is it possible to put it in terms that perhaps I could understand?

Co-Chairman Senator CROLL: That was one of the points I had noted as wanting to ask about. Would you please illustrate it, if you can?

Mr. BECKETT: It is a bit technical and I will do my best to put it across so that you will all understand it. We are all familiar with the fact that there are seasons of the year—

Mr. SMITH: Cold seasons and hot seasons which vary production.

Mr. BECKETT: Or they may be rooted in social customs. The classic example is that department stores do an awful lot of their selling in the months of November and December. If I were running a department store what I would want to know was, not whether I was getting my normal seasonal increase in December or not, but whether, apart from the Christmas upswing, the December trend of my sales was upward. I cannot get that by a November-/December comparison because the seasonal influences are different in these two months. Nor can I compare, say, August with December, because the seasonal influence is different.

All I can do is compare December of this year with December of last year, and this is the technique that is used pretty consistently throughout Canadian business to get rid of the seasonal element. You take a look at December last year and see you are up 5 per cent, so you conclude that December this year is good. That does not necessarily follow.

Mr. SMITH: Maybe July was up 10 per cent.

Mr. BECKETT: July may well have been up 10 per cent. What we call a year to year comparison does not tell you what the trend has been in the last six months. It tells you what the trend has been over the year but it does not tell you what the trend has been within the last six months.

There are standard statistical techniques for measuring very precisely the seasonal pattern in any economic indicator you want to measure, so that you can compare November and December directly, or you can compare July and December or March and December; you can compare any current month with any other month so long as you have taken that month's seasonal variation out of it.

D.B.S. publishes something like 70 monthly indicators on a seasonally adjusted basis, and the quarterly gross national product accounts are published in some detail on a seasonally adjusted basis. This means you can look from the first to the second quarter and decide whether the economy went up or down; you do not have to rely on the first quarter of this year *versus* the first quarter of last year.

The technical process of doing seasonal adjustment has been written for the D.B.S. computer, and for a variety of other computers, and it takes about four seconds to take a piece of basic economic statistics and convert it into the seasonally adjusted.

Co-Chairman Senator CROLL: That is the I.B.M. machine at D.B.S.?

Mr. BECKETT: That is right.

Co-Chairman Senator CROLL: Where does it go from there? That is our trouble. Who knows of it besides the D.B.S. people?

Mr. BECKETT: It is published in the *Canadian Statistical Review.*

Co-Chairman Senator CROLL: How soon after?

Mr. BECKETT: One allows for the lag in publication. It is published in the *Canadian Statistical Review Weekly Supplement.* All I was making a plea for was a substantially larger volume of data to be processed in this fashion. At four seconds per indicator it does not take long.

Co-Chairman Mr. BASFORD: If it only takes four seconds why are not they doing it?

Co-Chairman Senator CROLL: But they are doing it.

Mr. BECKETT: They are doing it to a certain extent. There is another problem, in all fairness. It does take resources to compile the data for the computer, and it does take resources to have the information charted and printed afterwards.

Mr. MCCUTCHEON: If I might ask a further supplementary question, how are the seasonally adjusted unemployment rates arrived at?

Mr. BECKETT: In the same fashion. This reminds me of a little story of the fellow who went down to collect his unemployment insurance and they said, "Seasonally adjusted you are not unemployed", to which he replied, "Well, seasonally adjusted I was working last summer." There is a certain artificiality about this. It does not do any good to tell a fellow that seasonally adjusted he is not unemployed, because actually he is unemployed.

Mr. MCCUTCHEON: He is just as much out of work in June as in September.

Mr. BECKETT: Let us distinguish between the measurement of unemployment in its welfare connotation and its use as an economic indicator. I can go all the way back to, say, February or March, 1955, when we hit a very high rate of unemployment in the months of January, February and March of 1955, and as a consequence of looking at the seasonally unadjusted unemployment figures everyone around Ottawa got very concerned and gave the economy a good dose of stimulation, both monetary and fiscal. The result was that within eight months we had an inflationary situation on our hands.

I am not taking away from the 400,000 people who were unemployed that March, but in actual fact the trend in unemployment seasonally adjusted had been down for ten months before the authorities concluded, on the basis of the

seasonally unadjusted unemployment, that they should do something to stimulate the economy. I think we distinguish between these two. I am well aware of the welfare problem, but I also think that economic policy should be consistent with economic trends, and economic trends are only revealed by seasonally adjusted data.

Mr. SMITH: How far can you use economic policy for social purposes?

Mr. BECKETT: That is part of it too.

Co-Chairman Senator CROLL: Could I ask at this point, where did you get your training?

Mr. BECKETT: I studied at the University of Toronto, and I got a master's degree in economics in 1949. I got a fair bit of training working for the Planning Board in the Province of Saskatchewan. I got a fair bit of training working for the Department of Trade and Commerce in Ottawa. The best training I had was teaching at the University of Toronto from 1957 to 1960. I recommend teaching as a post for studying, as a method of training. Finally, I have been a consultant for the last seven years.

Co-Chairman Senator CROLL: The point I was getting at was this. If I were a small businessman interested in these trends, could I afford a service that you give? Do you sell a service—you know what I am referring to—that I could afford as a small businessman?

Mr. BECKETT: I think a small businessman could afford it, yes.

Co-Chairman Senator CROLL: But most of the time you have these group organizations that you service?

Mr. BECKETT: No, we work for all different sizes and types of clients.

Co-Chairman Senator CROLL: You issue a monthly publication?

Mr. BECKETT: We do, yes.

Co-Chairman Senator CROLL: Have you competitors in the business?

Mr. BECKETT: Some, yes.

Co-Chairman Senator CROLL: A couple?

Mr. BECKETT: I can think of two competitors.

Co-Chairman Senator CROLL: You say a small businessman could afford this service?

Mr. BECKETT: To be more definite—has.

Co-Chairman Mr. BASFORD: You had better be careful or we shall end up sending you a bill for public relations!

Co-Chairman Senator CROLL: This is very interesting; I am intrigued about this.

Mr. ALLMAND: In your seventh recommendation you recommend a greater flexibility in the application of fiscal policy, and you suggest, if I understand you correctly, that the Minister of Finance should be given discretionary powers to change the income tax rates rather than having to, let us say, make an announcement in a budget speech that he would like to change them and then introduce legislation to change them, which is a long process. Do you know if income tax or fiscal measures can be taken in that way in other countries?

Mr. BECKETT: No, I cannot think of any.

Co-Chairman Senator CROLL: Mr. Johnson did. He put on a 5 per cent tax; he announced it and it was on.

Mr. ALLMAND: Our Minister of Finance could announce it whenever he likes, but it still has to be carried through by legislation; it could be defeated in the House of Commons. I do not know exactly how it is carried out in the United States.

Mr. BECKETT: I cannot think of any specific examples, but there is one element—

Mr. ALLMAND: Excuse me, sir. You are suggesting he should be able to do more than just announce it. You are saying the Governor in Council should be able to change income tax rates to effectuate fiscal policy without actually going through the legislative process of the House of Commons, to give greater flexibility and quickness of action?

Mr. BECKETT: That is right. I also said, within prescribed limits.

Mr. ALLMAND: These limits would have to be set down in legislation.

Mr. BECKETT: Yes.

Mr. ALLMAND: You do not know of any other country that does it this way?

Mr. BECKETT: I cannot think of a specific example of varying, say, personal income tax, but in one of the current provisions there is an area of discretion that the Governor in Council has now, and that is on the 5 per cent refundable tax. As I understand it, the Governor in Council may suspend the collection of this tax at any time without reference to the house.

Mr. SMITH: In tariff matters too.

Mr. ALLMAND: In other things too, such as, I think, rates of interest for the National Housing Act. Also the Governor of the Bank of Canada has powers in respect of monetary policy.

Mr. BECKETT: I believe monetary policy has pretty well all the flexibility that it requires in legislation, but I do not think the Department of Finance has the same degree of discretion, and I think it should be allowed a modest degree of discretion. I am well aware of the importance of parliamentary approval of taxation and spending, but I think there is room for some small area of discretion here, which would be a net gain to the community if fiscal policy could be used more effectively than it has been used.

Mr. ALLMAND: I think it was Dr. Deutsch who testified before us and said it was of the very essence of fiscal policy that it should be used exactly at the right time, so what you suggest would follow through on what he suggested. In other words, if we are to use fiscal policy correctly, we have to have the data as quickly as possible and use it at the right times, without delays.

Mr. BECKETT: That is my feeling, yes.

Mr. ALLMAND: Even if we had this discretion in the Minister of Finance, and even if we had the data much quicker than we have it now, do you think our constitutional system would still hold us back in applying fiscal policy to its most effective extent because of the fact that both the provinces and municipalities can decide on their own fiscal policy, and can actually pursue policies opposite to that of the federal government?

Mr. BECKETT: I think in a federal state you are bound to have some decentralization of fiscal policy. If you look at the record of the last two or three years, we have had a good deal of that. I do not pretend to know what the solution to this is, but it certainly does make the life of the federal fiscal officials quite difficult at times.

For example, during the last two years, up until the middle of 1966 anyway, when the economy was going a little too fast, one of the things that was going extremely fast was provincial municipal spending. It was not the type of fiscal policy that you would recommend on the basis of economic analysis; it is not the type of fiscal policy, I am sure, that the federal officials wanted; but in our federal state there is no way around this other than through consultation, which I believe the Economic Council also has recommended.

Mr. SALTSMAN: This also leads to an increase in the use of monetary policy, does it not, using interest rates to deter them?

Mr. BECKETT: Sure. You have to use monetary policy to check provincial municipal spending, and this becomes a bit difficult too.

Mr. ALLMAND: One can conclude that it is very difficult to apply fiscal policy as it should be applied in a federal state such as Canada?

Mr. BECKETT: Yes.

Mr. ALLMAND: Next I wanted to ask about the effect of external statistics. Even if we had all the statistics presented in the way in which you suggest, to what extent do foreign trade and the effect of foreign economies bear on the economic life of Canada? Do not you need these external statistics just as much as you need domestic statistics, especially American and European Common Market statistics?

Mr. BECKETT: Oh yes.

Mr. ALLMAND: How available are they?

Mr. BECKETT: They are quite readily available too. In the field of seasonal adjustment alone the U.S. Department of Commerce does probably the best job that is done. You can get this little booklet, *Business Cycle Developments*, which contains a check each month on 150 U.S. economic indicators, run through it in a few minutes and get anyway a superficial fix on whether the U.S. economy is going up or down. The O.E.C.D. also publishes a broad range of economic statistics for all member countries, including Canada and U.S., and you can follow the European and Japanese situation pretty well by going through this. Again there is this inevitable lag in publication, but all these O.E.C.D. statistics are available on a seasonally adjusted basis.

Senator CARTER: Is the booklet *Business Cycle Developments* the one you refer to in making your fifth recommendation?

Mr. BECKETT: Yes.

Senator CARTER: Is the time lag in that any shorter now?

Mr. BECKETT: This arrives in my office on the first working day of every month, and contains some statistics referring to the previous month.

Mr. ALLMAND: When you or other economists are advising clients, or when the economists in the Department of Finance are advising the government, you take into consideration these external statistics as well as the domestic statistics?

Mr. BECKETT: Yes.

Mr. ALLMAND: My next question has to do with interpretation. Even if you had all these statistics to the extent you suggest, is there much speculation involved in the interpretation? You were saying that last year, in January a majority of economists were saying that there were inflationary pressures but a small minority, including yourself, were saying that there was actually going to be a down trend in the second part of the year. I am wondering whether these conclusions can be arrived at in a purely scientific way. How much would you say that speculation is involved in this?

Mr. BECKETT: I think my answer to that would be that there is room for honest differences of interpretation, and I think there will always be differences of interpretation—at least, I hope there will be. What I am concerned with is this sort of thing, to be specific. When we reached September of last year one of my colleagues wrote an article saying that inflation was *the* problem; I called him an inflationist and he called me an illusionist. This was in the month of September, which, as I pointed out, was the third month of a quarter in which real output fell.

There can be differences of opinion on this, I suppose, but only if someone is looking at some pretty irrelevant numbers, and I submit that by early fall one could only make a case for inflation in this country by referring to what I

would call the lagging indicators. This is the type of evidence that was referred to as this committee sat through the autumn; most of the evidence discussed concerned food prices, consumer prices and all the other things that you would expect to find rising even after the economy had turned down. I do not know where you draw the line here, but there is something scientific in the way in which we measure real output, and I submit that you cannot have inflation when real output is falling.

Mr. ALLMAND: Why I ask that question is because, as you know, last September the Minister of Finance, as an anti-inflationary measure, put back the introduction of the medicare program, stating that if it was introduced at the time it was supposed to be introduced it would have piled even more coal on the fires of inflation. There were others, who were economists, who disagreed and said, as you seem to be saying, that there were no real inflationary problems at that time. How would you assess that judgment?

Mr. MCCUTCHEON: Sometimes the wish is father to the thought.

Co-Chairman Senator CROLL: It is the political economists that you are talking about.

Mr. ALLMAND: No, I am talking about just economists.

Mr. BECKETT: I have to answer that question, do I?

Co-Chairman Senator CROLL: No, you do not.

Mr. SALTSMAN: I think it would be very interesting to have the answer.

Mr. MCCUTCHEON: I agree.

Co-Chairman Senator CROLL: It is up to you, Mr. Beckett.

Mr. BECKETT: Let me put it this way. I think that the measures the Minister of Finance took, both in March and in December, were broadly speaking quite appropriate to the economy. What I am interested in is what the Minister of Finance does. What he says, as opposed to what he does, may have less economic impact.

Mr. ALLMAND: Are you saying his announcements can have a psychological effect on other people in the economy, that by him holding back special programs it may encourage others to hold back?

Mr. BECKETT: I think he was in a sense setting an example there, more so in the December budget where I think the message was pretty clear: if this community wishes to have expanded expenditure programs this community will have to foot the bill for these. I think there is a message of some sort of self-discipline in that kind of thing, which was put across without tightening fiscal policy. It was hailed as a neutral budget, and it was in that sense, but I think there was the moral suasion of informing Canadians generally that you do not get something for nothing, and I think this was all to the good.

Mr. ALLMAND: You advise companies and businesses economically. Why I asked at the very beginning whether trades union were advised in this way was because at these hearings we hear a lot about the result of increased labour costs on increased inflation and that sort of thing. I understand that in bargaining trades union look at the indicators, they look ahead and bargain for their wages for two or three years. How much use do they make of statistics of this nature? In their bargaining, do you think they make a great enough use of statistical information?

Mr. BECKETT: First, I am not too well acquainted with what they do; secondly, I would assume that they do use indicators, and probably could make greater use of indicators. They do have research departments, and I am acquainted with some of these people.

Mr. ALLMAND: I have one final question on a point of clarification. Your first recommendation was that the Dominion Bureau of Statistics should

strengthen its professional resources and your fourth recommendation was that there should be an upgrading of resources in their professional services. I was wondering what the difference was between the first and the fourth recommendation.

Mr. BECKETT: In my fourth recommendation I was referring specifically to the information division of D.B.S.

Mr. ALLMAND: And in the first one?

Mr. BECKETT: The first one was a general recommendation that there should be more statisticians and economists at the bureau. The fourth one was specifically that there should be a couple of high-powered professionals in the information division.

Mr. ALLMAND: Public relations.

Co-Chairman Senator CROLL: No, the information division.

Mr. BECKETT: I think there should be professional economists as well as public relations experts.

Co-Chairman Senator CROLL: We made recommendations along those same lines in our preliminary report.

Mr. MCCUTCHEON: Could I get one word of explanation here from Mr. Beckett? This is something that is bothering me and maybe an explanation will help me to understand this as we go along. What is this money supply? Why does it go up and down?

Mr. BECKETT: The money supply is dollar bills, and it is also dollar bills when you put them in the bank. The total money supply currently is running at around $20.5 billion; there is about $400 million in dollar bills around, with a little bit more than $20 billion in bank deposits, and this is money because you or I can write a check on it and get money from that bank deposit. This is how we define the money supply. The public money supply is the currency that is in the hands of the public and the bank deposits that are owned by corporations or private individuals. The Government of Canada also has deposits with the chartered banks. This is the total money supply; this is the money that is around.

The money supply, like the stock of anything else that is used in the economy, has to grow as the economy grows. The responsibility for seeing that the money supply grows at the "proper rate" is the responsibility of the Bank of Canada. If I can interject, I think they have discharged this responsibility pretty well over the last four or five years. When you wish to tighten credit conditions the Bank of Canada slows down the growth of the money supply, which means it is difficult to borrow money to finance inventory, to finance new capital investment, to get a mortgage on a house. In this fashion you slow down real economic activity by preventing people from getting money to do what they want to do.

Co-Chairman Senator CROLL: How do they increase it? By what method? Does somebody start up a machine making money and hand it out into the markets?

Mr. BECKETT: Theoretically they could. Actually what they do is this. The Bank of Canada has legal control under the Bank Act of the reserves of the chartered banks, and the Bank of Canada, simply by buying or selling government securities in the open market, can either increase or decrease the reserves of the chartered banks, and the chartered banks must respond by increasing or decreasing their loans and investments in order to maintain their legal reserve requirements.

Mr. SMITH: Then is your money supply the money you have plus what you can borrow, in a sense?

Mr. BECKETT: There is an entire superstructure of credit that is erected on the basis of the money supply.

Co-Chairman Senator CROLL: Just give me the mechanics of it. You are sitting in the position of the Bank of Canada. Just give me the mechanics of influencing the market by selling bonds or buying bonds. I read about it in the papers and I scarcely understand it. Give us the mechanics of it.

Mr. MCCUTCHEON: May I supplement what you are asking, Mr. Chairman? One of the previous witnesses here admitted there was a great influx of money into the market place at the time of the Atlantic Acceptance fiasco. How did they do it? Why? I think this is what the senator and I are interested in.

Co-Chairman Senator CROLL: We are just a couple of farm boys!

Mr. BECKETT: Let us deal with both of those questions. If you go to the first page of the chart you will notice that the money supply increased in June, 1965, and the rate of increase fell in June, August, September and October following Atlantic.

To put the two questions together, if the Bank of Canada wishes to slow up the increase in the money supply, or actually reduce the money supply, it sells a government security in the open market, it takes a government bond, say a 4½ per cent. bond maturing in 1983, which it has in the vault and sells it to Senator Croll, who pays for it with a check drawn on his bank; this check goes to the Bank of Canada, the Bank of Canada presents the check to Senator Croll's bank for payment and the deposits of that chartered bank at the Bank of Canada are written down by the amount of that check.

Co-Chairman Senator CROLL: It is taken out of circulation then?

Mr. BECKETT: It is automatically taken out of circulation. When the Bank of Canada wishes to inject it back it purchases a bond, draws a check on itself, the Bank of Canada, that check is deposited in the ABC Bank, the ABC Bank then presents the check to the Bank of Canada, which credits it to that bank's deposits with the Bank of Canada. There is a multiplier in this, but you know about the multiplier.

Mr. ALLMAND: Say nobody buys? When they put their bond on the open market, suppose nobody takes it up?

Mr. BECKETT: They change the price until somebody does. That is why the interest rate goes up and down as the money supply goes up and down.

Senator CARTER: I would like to go through this money business a little further. At a previous hearing I asked an economist, first whether we were not using a horse and buggy system in an atomic age. He did not think so; he thought our monetary system was quite adequate, but I personally am not yet convinced. Then I asked him whether it would be better if we had two functions for money, one as a medium of exchange and the other as a commodity to be bought and sold, if we had these two functions separated and two separate people to do it. He said that money would have to be a commodity, but I could never find out from him why it had to be a commodity. Perhaps you could throw some light on this.

Mr. BECKETT: I do not think money is a commodity, except for coin collectors and gold hoarders. Money is the inverse of a commodity, it is what you exchange to get a commodity, or you exchange a commodity to get money, but you want money so that you can acquire another commodity. Only in a collector's sense is money a commodity.

Mr. ALLMAND: Did not he mean that on the international market it is a commodity, Senator Carter? In other words, our dollar is worth so much and the American dollar is worth so much. It was in that sense that I think he was talking about it as a commodity.

Senator CARTER: I may have misunderstood him.

Co-Chairman Senator CROLL: I understood what Senator Carter said and it struck me at that time, but I did not follow it and I was glad he asked the question. You see, you get differences of opinion even among economists. You do not have to go into politics.

Mr. ALLMAND: Is it not a commodity for international purposes?

Mr. BECKETT: No, it is simply a ratio, it is a ruler; the only difference internationally is that you keep changing the size of the ruler. Other than that it is simply a method of measuring transactions, that is all. You may say you can earn interest on money, but this is a sort of shorthand expression. You are not really earning interest on money. You take a dollar bill, put it in the ground and see if it will grow anything. It will not. What is earning your interest, or your dividends, are the real things that your money has bought. When you buy stock on the stock market it pays a dividend. It does not pay a dividend because you put money into it; it pays a dividend because your money bought a machine which turned out goods which make a profit permitting the corporation to pay a dividend to you. It is not money. Money itself is sterile. It is not money that does it; it is the real things that lie behind money that do it.

Senator CARTER: I can understand that if I go and work, if I raise a cow or perform a service, and get $100 for it, I have a right to rent it out, and if somebody borrows that $100 from me I have a right to expect some return on it, because I cannot make something out of it myself if I hold on to it. What I cannot understand is, if I go to a bank and they set up an account for me in a book, which does not represent any work done except writing it, or any investment except ink and paper, why should I have to pay interest on that?

Co-Chairman Senator CROLL: You go to the bank and you borrow money. You are borrowing my money, so you have to pay interest.

Senator CARTER: As I understand it, if the senator has got $1,000 in the Bank of Nova Scotia, the Bank of Nova Scotia cannot lend his $1,000—but they do. They are prohibited by the Bank Act. Is that right?

Co-Chairman Senator CROLL: No. As a matter of fact, they can lend $12,000.

Mr. MCCUTCHEON: Or $5,000 or $1,000. This is the point.

Mr. BECKETT: If the senator deposits $1,000 in the Bank of Nova Scotia they can lend you or I—and I hope I get there first—$920.

Senator CARTER: But not of his money.

Mr. BECKETT: Oh yes.

Senator CARTER: They do not reduce his account by that amount.

Mr. BECKETT: Oh no. They write up both sides. When I borrow the money I create a new asset. My liability, the loan, is an asset of the bank, so an additional $920 has been created.

Senator CARTER: What does that asset represent in wealth or services, or something tangible?

Mr. BECKETT: That depends entirely on what I do with the money I borrow from the bank. If I use it to build a house I get the enjoyment of the house, shelter from the cold.

Senator CARTER: But it does not represent anything until I have done something with it.

Mr. BECKETT: That is right.

Mr. SMITH: Social credit!

Co-Chairman Senator CROLL: Well, let us get on, senator. We are not going to solve this.

Senator CARTER: You have listed here ten indicators, and you have said that there are as many as 70 indicators. I gather these are the ten most important ones. Could you list us four or five of the others which could possibly nullify the effects of these ten or any one of these ten?

Mr. BECKETT: I selected these so that we would not have too much in front of us. We actually use 24 indicators. These are chosen on the basis of how well they conform to the business cycle, how representative they are of economic activity, how consistent they are in their performance, how far back they go in history and so on. There is a total of eleven separate criteria that we use to select a particular indicator.

In addition to the ten shown here, we use such indicators as new orders for durable goods, corporation profits, the average work week, the volume of checks issued through the bank clearing centres, imports and exports to reflect the external side, interest rates, consumer credit, unit labour costs. There is no magic in the number of indicators. You can go on and pick 50 indicators or, as the U.S. Cycle Developments have, something approaching 150 indicators. You generally get a consensus out of these. They do move broadly together, because that is the nature of the economy, it moves like this.

Senator CARTER: Do you have productivity as an indicator, or are there any meaningful statistics on productivity that you could use?

Mr. BECKETT: Yes, we combine productivity with something else. We use a measure which we call unit labour costs. This is a composite indicator which measures the change in the price of labour, changes in the quantity of labour and changes in the quantity of output, so that at any point you can say that the unit labour costs of turning out a given unit of production is so much. At the moment D.B.S. is in the process of revising, as they usually are, some back data and we do not have anything current on it, but this is an extremely useful indicator, and one we put a great deal of weight on. Incidentally, it is one that can be used for international comparisons, because you get around any problem of the exchange rate by expressing it as a ratio; you can look at the one for the U.S., the one for Canada, the one for the U.K. and the one for Japan and see what the trends are.

Senator CARTER: When we were getting all steamed up about inflation at the beginning of September, the economy was in the third month of a slow down.

Mr. BECKETT: Yes.

Senator CARTER: That slow down was the result of measures taken way back, some in March.

Mr. BECKETT: Some as far as back as August, 1965.

Co-Chairman Senator CROLL: If I might interpose, sitting round this table are parliamentary representatives, sitting downstairs are parliamentary representatives, the press of the country, the finance people of the country. Everyone was screaming about inflation at the time. How is it they did not know these things that they should have known or that their experts should have known? For instance, the Minister of Finance has available to him the best possible information, and as a matter of fact probably a preview on D.B.S., or a quick one, long before we get it. I do not understand how the whole country was wrong.

Mr. SALTSMAN: There were people at that time saying what Mr. Beckett was saying. I saw a report from some of the labour groups at that time.

Co-Chairman Senator CROLL: Mr. Beckett, what comment have you to make on that? Some of the research people of labour groups were saying that for different reasons. This was general talk that we heard in parliament, the

press were saying it, finance institutions were saying it. How could they be so wrong? And the women were shouting.

Mr. BECKETT: First of all, I think many groups have a point of view, and I would say that our economy functions because they take their point of view—

Mr. SMITH: Special pleading.

Mr. BECKETT: You can call it special pleading, but if I were a trade unionist I would have been trying to get as large a wage increase for my members as possible in September last year, and I would have been taking a line guaranteed to promote that. If I were Minister of Finance I would probably have been doing what he was doing at that time. I think we have to face that fact.

The fact that the sort of inflation crescendo hit its peak in September was simply a lag, as far as I could see, of people who were simply not looking at the right numbers. If you look at the evidence that was cited—and you can always prove this case—they were pointing to all the things that were going up and most of them were lagging indicators. I do not want to get a "commercial" in here, but at the time we did write a piece, in September—in fact, it came out on the same day as the Minister of Finance made his speech on restraint—in which we said that there was a serious danger of government policy taking a wrong turn if policy was based on the inflationary thesis, that the economy was already cooling down and if any stronger steps were taken to cool it down it would cool it down to the extent of producing a recession.

Co-Chairman Mr. BASFORD: The only indicator the housewife looks at is the price of bacon.

Mr. BECKETT: As I say, if I were a housewife that is what I would have been looking at; this is what she pays, these are her costs; she has a right, I think, to protest and so on. But the price of bacon or the position of the housewife, however legitimate that position may be, is not the type of thing on which to base a description of general inflationary trends, and it is not the sort of thing on which to base government policy. If public economic policy is based on the composite of special points of view, then I think you would have some rather poor government policy.

Senator CARTER: Do you think that we generate a sort of psychological atmosphere that blinds us to what is actually taking place?

Mr. BECKETT: I think so. The danger in this is that these expectations can in themselves become an economic force, and can conceivably stampede policy makers into making decisions they otherwise would not make, and I think we came very, very close to that point last fall. I can express this as no more than a belief. I believe that as of the middle of September the Minister of Finance was planning an interim budget which would have had restrictive measures in it. Fortunately, that was postponed and postponed and postponed until the need for restrictive measures was clearly past. Had we had a budget in midfl-October, or even on November 1, which contained further restrictive fiscal measures we would be in the middle of a recession right now.

Co-Chairman Senator CROLL: Let me make one observation with which perhaps you will agree. One of the reasons you did not get a budget was the fact that this committee sitting cooled off that particular tendency—not with respect to inflation—in that they had a forum for the purpose of discussing it at that time, and as it went on the thing cooled off, with the result that his policy changed too. That is my observation. I do not know whether that strikes you. We were not actually affecting prices perhaps.

Mr. BECKETT: I would concede that was a factor.

Senator CARTER: I would like to revert to the question of productivity. Do you have any comparative figures on labour costs which would compare 1956 and 1966?

Mr. BECKETT: No, I do not have any with me, I am sorry.

Mr. SALTSMAN: Mr. Beckett, just a fast question on information. I presume the information you provide goes to subscribers to your company. How does a member of parliament go about gathering this information who wants to become a subscriber?

Co-Chairman Senator CROLL: Your competition sends it to us every month free of charge. I want you to know that.

Mr. SALTSMAN: I notice you restricted your comment to the need for informaton to newspaper men. There might be a need for information on the part of other people as well.

Mr. BECKETT: I would be happy to send you one.

Mr. SALTSMAN: Thank you.

Co-Chairman Senator CROLL: That is special pleading. I do not think that is fair. If you are going to send it the whole committee should be treated as subscribers.

Mr. MCCUTCHEON: You have some poor farmers on this committee too, Mr. Beckett.

Mr. SALTSMAN: Mr. Beckett, you have pointed out that we have a set of large, elaborate fiscal and monetary policies that do have some lag and should respond to what is generally going on in the country. At the same time, there is a general problem in the country, there are specific regional problems in various areas of the country. Do you feel there is a need for two different sets of policies, one for the general economy and another one specifically directed towards areas of, in some cases, high unemployment or under-development, this type of thing?

Mr. BECKETT: Yes, I believe there are. I am not saying anything new here; it is something the Economic Council pointed out in its third review. The big levers, monetary and fiscal policies, inevitably hit one part of the country harder than they hit another part of the country. We are an economy and when money gets expensive in Toronto it gets expensive in Halifax or Saskatoon. There is just no way round this. Therefore, the big levers, which may well be in the national interest in the way in which they are being used at any given moment, are bound to have side effects which will vary from region to region.

What you need, it seems to me, and what the Economic Council is groping towards, are policies which will attempt to reduce regional inequities. These fall into a different basket I think. These are problems of long-standing, and we could probably do with a great deal more research, and certainly with new policies, in the area of reducing regional differences in Canada. One of the limitations which apply to the so-called big levers is that you simply cannot push monetary policy to its nth degree because one or two regions of Canada will be seriously hurt.

Mr. SALTSMAN: We ran into this situation as well under the threat or danger of inflation if you started to cancel out certain programs which were perhaps needed in terms of the long-term productivity of the country, which is a somewhat similar problem. Your feeling about it is that some examination should be made of this problem to find specific ways of tackling these difficulties, rather than through the sort of big lever budgetary approach?

Mr. BECKETT: That is right. You cannot deal with these specifics with a broad axe.

Mr. SALTSMAN: To what extent can Canada use more flexible fiscal policies if there is not agreement amongst other nations also to emphasize fiscal policy over monetary policy? Recently there was a meeting of the heads of central banks, who I think came to this conclusion, to try to play down monetary policy and to implement fiscal policy. Can Canada rely on moving in this direction to increase the use of fiscal policy if this trend is not going on in other parts of the world? For instance, will our interest rates go out of balance, and might there be a drain of money out of the country or into the country?

Mr. BECKETT: We can have departures in the fiscal area to a greater extent than we can in the monetary area. Our monetary discretion is severely limited by the fact that capital is free to flow. The structure of Canadian interest rates cannot be much different from the structure of United States interest rates. The external constraints or limits on monetary policy are ever present, and sometimes they are quite strict, as they were in 1962, for example. Therefore, to the extent that we can develop greater fiscal flexibility we will rely to a lesser extent on monetary policy, and in effect it would insulate us a little more from some international developments. I think we could pursue much more of an independent fiscal path if we chose to.

Mr. SALTSMAN: Your fiscal policy has to be geared to your monetary policy. If, for instance, your monetary policy has certain perils from other countries you cannot bring in a fiscal policy that taxes too heavily or eases credit too heavily; you are still restrained to some extent by the effect of monetary policy throughout the world.

Mr. BECKETT: At certain points in time these are alternatives. If you want to fight inflation you can tighten up in the fiscal area or you can tighten up in the monetary area, or have some mixture of the two. In the past the tendency has been to bring the fiscal policy into the game very late, we are always very late, and usually too heavily. If you go back into the late 1950s, from the viewpoint of fiscal policy that period was little short of atrocious. Sometimes you had a fiscal policy which was too weighty and you had monetary policy being used to offset it; and they would change sides, as they did late in 1959 when you had a very loose fiscal policy and had then to turn to a very tight monetary policy, which produced a premature recession in 1960. To the extent that you get more flexibility and you can choose a little bit of this and a little bit of that you can have better policy, and I think we have in the last few years.

Mr. SALTSMAN: Can we move towards reducing the differential between interest rates in Canada and the United States? Traditionally our interest rates have been roughly 1 per cent higher than in the United States. Is there anything we can do about reducing this differential, to bring them down to the level of the United States?

Mr. BECKETT: Not in the short-run. The United States is a capital exporter and Canada is a capital importer. We have a strong growth rate with medium returns in Canada, and we have a need for a strong growth rate because we have a rapid growth in the available labour supply, and the level of capital formation that we require to achieve optimum or a desirable growth rate is such that we will depend on foreign capital to the extent of $1 billion or better for about as far as you want to look.

In circumstances in which we are a capital importer, the structure of our interest rates will have to be above the structure of interest rates of any capital exporter. The amount of that spread may vary from time to time, but basically long-term Canadian interest rates will be a point or better above U.S. long-term interest rates for as far ahead as you want to look.

Mr. SALTSMAN: Turning to the question of housing, I guess theoretically the interest rate is supposed to determine priorities as to what gets built; in other

words, those who can afford to use money at a certain cost will use it to build and those who cannot will not. Is there anything we can do if the government wishes to give priority to housebuilding rather than certain other types of construction? Are there any specific measures we can have to provide these priorities outside the interest rate structure? I am thinking of sales taxes or investment policies, this sort of thing.

Mr. SMITH: A tax on building materials used for residential purposes.

Mr. BECKETT: You are asking me to verge on the policy area. I am quite prepared to comment on it, but I have only one vote here. This is not for the professional economist; you are asking for value judgments here I think. There have been some steps taken lately which I think will improve the possibilities for housing in the medium term. I refer particularly to the placing of the N.H.A. rate on a floating basis; I believe it is 1½ interest rate points above the average yield on long-term Government of Canada bonds. This will prevent the automatic workings of monetary policy and automatic fluctuations in interest rates from drying up the flow of mortgage funds, because the N.H.A. interest rate will always have a spread to cover risk and cost of administration above long-term Canadas and the conventional lenders and the N.H.A. lenders will base their commitments on their own portfolio balance and they can ignore a risk factor that is no longer there. I think this is a good step. In other words it converts the N.H.A. interest rate into a bond yield which should be adequate. In future periods of tight money, then, housing will be able to continue to attract money, which it has not been able to do because the spread has been either squeezed or eliminated before.

Beyond that I do not know. It seems to me that what you do in the field of housing is not solely a matter of economic policy or solely a matter of economics. It is a matter of social policy and so on. There are many dimensions to this particular problem which I do not feel too competent to comment on. I do think it is a good thing not to squeeze housing just because the rest of the economy is going well.

Mr. SALTSMAN: When you refer to a more flexible fiscal policy I presume you are referring to corporation and income tax proposals specifically. You also referred to the refundable tax. Would you comment briefly on these measures as suitable instruments? I would like to add one other measure, and that is a variable sales tax. If the government had some degree of flexibility in their application, if they could get agreement from parliament to give them this flexibility, could you comment very briefly on the use of these instruments in terms of their responsiveness in the economy? That is, income tax, corporation tax, refundable tax and sales tax?

Mr. BECKETT: I would think it would be completely reasonable to give the Minister of Finance discretionary power to, say, raise or lower the income tax rate by a given percentage for a limited period of time, or to do the same thing with corporation tax, to change it from 50 to 48 per cent for a limited period of time.

Mr. SMITH: For example, to the end of the next fiscal year?

Mr. BECKETT: For the next six months. Looking back historically, if the Department of Finance had possessed these powers in the fall of 1965, conceivably you could have put through a small personal and/or corporate tax increase which would have checked demand and checked the economy, permitted you to have a monetary policy which was less tight, and would conceivably have avoided some of the inflation that we had in the first half of 1966.

In the area of sales tax, I think you could apply it here. If the economy began to flag at any time one of the measures that you could take to stimulate demand would be to knock the sales tax back, again by some prescribed formula

to begin with, knock it back from 12 to 11 per cent., or even from 12 to 10, for a period of six to eight months, which hopefully would lead to some lower prices and some stimulus to real consumption, and would prevent the economy from going down as far as it otherwise would.

I think the matter of being able to time these things is quite important. If you come along with the right kind of tax change six months after you should have, then maybe you will need a tax change that is twice as big because forces have been accumulating while you have been waiting to take action. This is the danger of delay.

Mr. SALTSMAN: For instance, a sales tax could be applied almost instantaneously. Is not there some difficulty in applying income tax or corporation tax, where there might be one rate for a certain part of the year and another rate for another part of the year? This is why I am wondering about the flexibility of this as an instrument.

Mr. BECKETT: There might be some administrative difficulties but they would be far outweighed, I think, by the advantages.

Mr. SALTSMAN: In other words, it could be done?

Mr. BECKETT: Sure.

Mr. SALTSMAN: My final question is: how reliable is the stock market as an indicator of what is going on in the economy?

Mr. BECKETT: My answer is very short: not very.

Co-Chairman Mr. BASFORD: I notice in the tables you have given us that you have nothing on the labour force except unemployment; you have no wage scales in the manufacturing industry or in the durable goods indusry. I have spent seven months having business people, old-age pensioners and housewives shaking their fingers at me about the 30 per cent. seaway settlement and its effect on the economy. How typical was that settlement and what did it do, or what did labour settlements generally do, to the economy over the last year?

Mr. BECKETT: I want my answer on this to be very clearly understood so I am going to feel my way slowly. The 30 per cent. seaway settlement was a completely untypical settlement, so was the 18 per cent. railway settlement, so were some other 12 per cent. settlements. As near as we can figure out, the wage rate bill in Canada last year may have gone up by some 7 or 8 per cent., and in this sense 18 or 30 per cent. is untypical. It is an example of the kind of misunderstanding that I tried to point out in the way in which things are reported and discussed and interpreted. That is one point I would make in this connection.

Secondly, even if the average wage increase last year was somewhere round 7 or 8 per cent., it was clearly in excess of any possible productivity gain, so that wage rates undoubtedly went up much more rapidly than, and maybe twice as fast as, any possible productivity gain in Canada in 1966. Wages will probably go up by a somewhat smaller amount in 1967, but I would be very, very surprised if the wage rate increase did not once again outpace the productivity increase. I think these are the facts, and that is the second point I make.

The third point with reference to this is that there is nothing unusual in wage rates running ahead of productivity at certain stages of the business cycle. In fact, there is nothing at all unusual in them running ahead of productivity increases near the end of business cycle expansion. In short, in this sort of framework the 1966 experience was quite expected and quite typical.

Mrs. RIDEOUT: It was expected?

Mr. BECKETT: Certainly. That is the third point.

The fourth point I would like to make with reference to this is that wage rate increases lagged behind productivity gains in 1960, 1961, 1962 and 1963, and

about balanced in 1964, so that 1965, 1966 and 1967 simply represent a reversal of this. You can cast this particular point in another context. The share of national income going to labour was falling during the first half of this expansion and the share going to profits was rising; in the last half of the expansion the positions were reversed. Once again, this is not untypical; this is the usual business cycle experience going back a hundred years in Canada and the United States. Therefore, in one respect the wage experience of 1966 was a shifting in shares, and a shifting in shares that one would expect in terms of where that year falls in the context of the business cycle.

My final point may be a little subtle, but I think nevertheless it is rather important. In the type of economy that we have the contest for shares is a perennial contest, it is part of the game. Someone who employs capital is attempting, and should attempt, to employ that capital to maximize his returns; someone who is selling his services or his labour for wages should, if he is rational, also attempt to maximize his returns. We have evolved procedures over the years to make this a fairly formal contest; I think this contest for shares is part of the picture, and will be for some considerable time.

Mr. SMITH: In a free enterprise economy it is an integral part.

Mr. BECKETT: It is an economy in which we try to maximize and hope that efficiency is the result. This is just part of the game.

I am not one of those who subscribe to the so-called cost-push inflation thesis. I simply do not accept this, and I do not for these reasons. What is a cost to one person is a price to another, and what is a price to one person is a cost to somebody else. In other words, when you talk about costs pushing prices up or prices pushing costs up, depending upon which school you are in, you are really fooling around semantically, because all costs are prices and all prices are costs. In short, the cost-push inflation is, I think, an unfortunate kind of misnomer.

What I have tried to bring out here is that inflation develops in the situation where you have conditions of excess demand, and if you are going to have so called cost-push inflation it can only develop if demand is excessive, in which case it is not cost-push inflation at all. If you have unit labour costs pushing up in a situation where demand is not excessive—and that may be our experience in 1967—then all you will have is a redistribution of income from the people who realize on the selling prices, and they are the people who have to pay the labour costs; in other words, you will simply redistribute income from capital to labour. If you have a situation in which demand is excessive, it is traditional that prices rise more rapidly than costs in the phoney cost-push thesis, and you have a shift of national income shares from labour to capital.

This has been going on to the best of my knowledge for the best part of 150 years, and I do not expect it to change. Inflation is still something that develops in a condition of excessive demand, and you curb excessive demand with the economic policies that we have developed. This is what we did last year and it worked.

Co-Chairman Mr. BASFORD: Thank you very much. I take it that you are an adviser to business, but I also take it you do not agree with those businessmen who have been saying you will ruin the economy by giving the seaway workers 30 per cent.

Mr. BECKETT: Well, I do not know the intimate facts of the case. I believe there are always groups that may fall behind in the economic process, and the seaway workers may have been such a group; I do not know. At one time it was teachers, at one time it was economists—

Co-Chairman Senator CROLL: Politicians.

Mr. BECKETT: Fine, at one time it was politicians. There are always groups like this, and I think our system should be flexible enough to permit this.

Mr. SMITH: People say that politicians' services are not related strictly to demand!

Mr. BECKETT: Well, there is a limitation on the demand for politicians! I believe it is fixed at 265, is it not?

Co-Chairman Mr. BASFORD: You spoke about the need for D.B.S. to strengthen its resources in a number of ways. You have your own private clients. You have also been critical of the newspaper reporting of economic matters and fiscal policy. I am wondering whether amongst your private clients you or your competitors have the newspaper publishers of Canada.

Mr. BECKETT: Some.

Co-Chairman Mr. BASFORD: It is my observation that the quality of the reporting is always as good as the newspaper publishers are prepared to allow it to be.

Mr. BECKETT: My implied criticism here should be made clear. I think rather highly of the press in Canada; I think as journalists they do a good job. However, you will notice that the weather moves from page 2 to page 1 when there is a storm. The same thing is true of economic news. It is not news until we are in an inflationary situation, or until unemployment hits 5 per cent, and then it comes off the financial page and up on to page 1. Usually it gets there, not because of bad journalism, but gets there about three or four months too late simply because, I suppose, there is a lag in the way we all operate. I do not think this would happen if the news media employed people who had a very good background in economics or statistics.

Mr. SMITH: Higher degree specialization.

Mr. BECKETT: Well, you can send some of your top reporters to a crash course in economics, and I think this would help the reporting. As professional journalists they are fine.

Co-Chairman Mr. BASFORD: This is what I meant when I said that the quality of the reporting was as good as the publishers were prepared to allow it to be. If they wanted to spend money on this it would be improved; if they wanted to put their top reporters on the job it would be well covered. Here we have in Canada a very small group of very powerful men who own newspapermen and newspapers, a group that unfortunately, and very seriously, is becoming smaller and smaller. How do we know that they know anything about economic or fiscal policy?

Mr. BECKETT: We do not. At least, I do not.

Co-Chairman Senator CROLL: If I may interject for a moment, Myers of the *Gazette* and Robertson of *The Financial Post* are top-notch people, and all through last year they were talking our language; they were putting the heat on us, the politicians—"What are you doing about this? What are you doing about that?" They did not talk your language, they did not adopt your report at all, and these are people who understand.

Mr. BECKETT: Some of them did.

Co-Chairman Senator CROLL: I do not remember that. Certainly Myers did not, and I look to him, and Robertson did not. I read them pretty carefully and I do not think they shared your view. They were wrong as it turns out.

Mr. BECKETT: Maybe they were not reading it; I do not know.

Co-Chairman Mr. BASFORD: How do we know that the publishers, who generally dictate the policy of the paper and dictate the editorial policy, know anything, or how do we get assured that they do? How do we know that Brigadier Malone, Max Bell or Stu Keate know the first thing about economics?

Mr. BECKETT: Well, I guess we do not.

Co-Chairman Mr. BASFORD: They should subscribe to your service.

Mr. BECKETT: I would like to pursue how they educate the publishers, but I will do that elsewhere.

Co-Chairman Senator CROLL: Are there any more questions?

Mrs. RIDEOUT: I just wanted to raise one point for clarification, Mr. Chairman. I have remained quiet, because today is my day to sit, listen and learn, and I certainly have this afternoon. Mr. Beckett, I was wondering if you would just clarify my mind on a statement you made in answer to a question by, I believe, Senator McGrand, that the rise in the price of consumer goods was one that you could almost see coming for some time but could do nothing about.

Mr. BECKETT: No, not do nothing about it. I think the actions of the Bank of Canada from mid-1965 were designed ultimately to check inflation, and check it in the consumer price index as such. We were a bit late with fiscal policy, but that is part of the system. I do not think you could do nothing about it. You could do something; we did do something, and what we did was all to the good. It just was not early enough or as much as it should have been.

Mrs. RIDEOUT: That is what was in my mind. It was not early enough.

Co-Chairman Senator CROLL: Mr. Beckett, earlier, when I asked you to list your qualifications, you said you learned from teaching, as I understood it. All I can tell you is that your presentation to us today of this very complex problem was very exciting and somewhat different from what we normally obtain from very intelligent and capable people. The result is, as you can see from the members here, you created quite an interest, and they were following you very closely.

Mr. SMITH: We are sorry we did not provide quite as big an audience as we did for Mr. Coyne.

Co-Chairman Senator CROLL: You made it look very simple and very understandable. But one has to have a certain amount of judgment and knowledge to be able to weigh the indicators and factors, and it is a great skill all of its own. We are trying to understand the problem. You have been helpful here today; this has given us a broader understanding. I must say this. Having a quick look at your monthly business analysis for September, the only way I can describe it is prophetic; you certainly called the shot, and I wonder that more people did not read it or have knowledge of what you were talking about.

Senator CARTER: They will from now on.

Mrs. RIDEOUT: You are doing your best, senator.

Co-Chairman Senator CROLL: I am here to do the best I can, and particularly to thank a man who came down here, a busy man from a considerable enterprise, as a public service to be helpful to the committee, and on behalf of the committee I thank you very much, Mr. Beckett.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966-67

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 35

THURSDAY, FEBRUARY 9, 1967

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Mr. John A. Scollin, Criminal Law Section, Department of Justice; Dr. G. L. Reuber, Dept. of Economics, University of Western Ontario.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25661—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,	Inman,	Thorvaldson,
Cook,	McDonald *(Moosomin,*	Urquhart,
Croll,	McGrand,	Vaillancourt—(12).
Hastings,	O'Leary *(Antigonish-*	
Hollett,	*Guysborough,*	

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,	Horner (*Acadia*),	O'Keefe,
Andras,	Irvine,	Olson,
Basford,	Leblanc (*Laurier*),	Otto,
Boulanger,	Lefebvre,	Rideout,
Choquette,	MacInnis,	Ryan,
Clancy,	Mandziuk,	Saltsman,
Code,	McCutcheon,	Smith,
Crossman,	McLelland,	Whelan—(24.)

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract from the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

25661—1½

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(For text see Interim Report in Committee Proceedings No. 27.)

LÉON-J. RAYMOND,
Clerk of the House of Commons

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Procedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(*For text see Interim Report in Committee Proceedings No. 27.*)

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, February 9, 1967.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Cook, Croll (*Joint Chairman*), Hollett, Inman, McGrand, O'Leary (*Antigonish-Guysborough*), Thorvaldson, Urquhart and Vaillancourt—10.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, MacInnis (Mrs.), Mandziuk, McLelland, Rideout (Mrs.) and Smith.—8.

In attendance: Dr. R. Warren James, Special Assistant.

Mr. John A. Scollin, Criminal Law Section, Department of Justice, was heard.

At 11.45 a.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—7

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, MacInnis (Mrs.), McCutcheon, McLelland and Saltsman—7.

In attendance: Dr. R. Warren James, Special Assistant.

Dr. G. L. Reuber, Department of Economics, University of Western Ontario, was heard.

At 5.45 p.m. the Committee adjourned until Tuesday next, February 14 at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

Ottawa, THURSDAY, February 9, 1967

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: Honourable senators and members, please come to order. This morning we have as witnesses, Mr. John A. Scollin, and Mr. C. Donald MacKinnon, Advisory Counsel of the Department of Justice. Mr. Scollin will make a short statement as to the various statutes and enactments that apply to the situation we have been examining, and then we shall be open for questions.

Mr. John A. Scollin, Criminal Law Section, Department of Justice: Mr. Chairman, members of the committee, I should say at the outset that all the real hard work on this has been done by Mr. MacKinnon and not by me. He has taken the trouble to look up all the various legislative provisions dealing with the subjects in which the committee is interested.

The letter which the deputy minister received from Mr. James said that the committee was interested in knowing something of the legal position of such devices as trading stamps, premiums, games and contests. In addition, the committee expressed a specific interest in the statutes relating to misleading advertising, and accordingly asked if we could provide an expository statement of the legal restraints and methods.

What we have done is to look at it from basically two points of view: firstly, the advertising and labeling aspects, that is, legal obligations as to what must be given by way of public information; and, secondly, actual promotional schemes—and this is where we are getting into trading stamps, games and lotteries, and so on.

Just before dealing with some of the specific provisions, I thought it fair and proper to point out that apart from the general provisions which we shall be dealing with there are a large number of specific provisions and separate acts which I am sure the committee is only in the remotest way concerned with. Firstly, for instance, provisions of advertising in the Patent Act, The Pest Control Products Act, and The Precious Metals Marking Act. Secondly, in this area there are also a number of provincial statutes. There is an area of quite legitimate provincial concern where legislation has been enacted. Thirdly, I think perhaps it is worth while drawing attention to one general proposition which was laid down in the proprietary or Patent Medicine Act case in 1931 by the Privy Council as to the ambit of the right of the federal Government to enact legislation as criminal law, in which Lord Atkin said:

> If Parliament genuinely determines that commercial activities which can be so described are to be suppressed in the public interest, their Lordships see no reason why Parliament should not make them crimes.

He was dealing expressly with the Combines Act but indicates the attitude to the area which the federal Government could occupy as being criminal law.

Firstly, in the area of advertising and labeling, I think basically three main federal enactments are directed to this. The first is the Criminal Code of Canada. Section 306 is a long one, and I shall only read the important part, subsection (1), which says:

> 306 (1) Every one who publishes or causes to be published an advertisement containing a statement that purports to be statement of fact but that is untrue, deceptive or misleading or is intentionally so worded or arranged that it is deceptive or misleading, is guilty of an indictable offence and is liable to imprisonment for five years, if the advertisement is published
>
> (*a*) to promote, directly or indirectly, the sale or disposal of property or any interest therein, or
>
> (*b*) to promote a business or commercial interest

There are various saving sections for persons who publish an advertisement accepted in good faith, and so on, but this is the basic anti-false advertising section of the Criminal Code. You will note, for example, the terminology "or is intentionally so worded or arranged that it is deceptive or misleading." These words were directed to the kind of case such as fire sale advertising, where there might be put up in large letters, "Fire Sale," but in front of it, in small letters, "No," and would therefore read, "No Fire Sale". That is the sort of gimmickry we have in mind by the way the words are presented. Perhaps I should also read subsection (2) which will be of some interest:

> Every one who publishes or causes to be published in an advertisement a statement or guarantee of the performance, efficacy or length of life of anything that is not based upon an adequate and proper test of that thing, the proof of which lies upon the accused, is, if the advertisement is published to promote, directly or indirectly, the sale or disposal of that thing, guilty of an offence punishable on summary conviction.

I am sure the committee is not really interested in the history of the section. It has been changed and added to and altered several times over the lifetime of the Criminal Code to meet new abuses as they arise.

Subsection (4) of that section says:

For the purposes of subsection (2) . . .

That is, the guarantee performance, efficiency, or length of life of an article, and so on.

> . . .a test that is made by the National Research Council of Canada or by any other public department is an adequate and proper test, but no reference shall be made in an advertisement to indicate that a test has been made by the National Research Council or other public department unless the advertisement has, before publication, been approved and permission to publish it has been given in writing by the president of the National Research Council or by the deputy head of the public department, as the case may be.

That is the general anti-advertising section in the Criminal Code.

Now, section 33c of the Combines Investigation Act also deals with false advertising, and to some extent there is an area of overlap between the two. Subsection (1)(c) of section 33c provides that:

> Every one who, for the purpose of promoting the sale or use of an article, makes any materially misleading representation to the public, by

any means whatever, concerning the price at which such or like articles have been, are, or will be, ordinarily sold, is guilty of an offence punishable on summary conviction.

Subsection (2) provides:

> Subsection (1) does not apply to a person who publishes an advertisement that he accepts in good faith for publication in the ordinary course of his business.

That is a similar saving to that in section 306 of the Code.

Then, another major source of control of advertising is in the Food and Drugs Act and the regulations made thereunder. Section 5 of the Food and Drugs Act goes expressly into the area of labelling, as do most of the regulations, and it provides in subsection (1):

> No person shall label, package, treat, process, sell or advertise any food in a manner that is false, misleading or deceptive or is likely to create an erroneous impression regarding its character, value quantity, composition, merit or safety.

Subsection (2) is directed against two breaches of this, and it provides:

> An article of food that is not labelled or packaged as required by the regulations, or is labelled or packaged contrary to the regulations, shall be deemed to be labelled or packaged contrary to subsection (1).

You will see that there is regulatory power given in the act, and the regulations determine in relation to a specific food or product what the labelling shall contain. For example regulation B.01.004, dealing with food, provides:

> The label applied to food shall carry
>
> (a) on the main panel
>
> (i) the brand or trade name if any,
>
> (ii) the common name of the food, and
>
> (iii) in close proximity to the common name, a correct declaration of the net contents in terms of weight, volume or number in accordance with the usual practice in describing the food;
>
> (b) grouped together on any panel
>
> (i) a declaration by name of any Class II, Class III or Class IV preservative in the food—

and so on. In other words, there is a detailed regulation as to the contents of the label.

These are the three main areas in which legislation exists dealing with advertising and, in particular in the case of a food or a drug, with labelling. These are the three main statutes that govern these matters—section 306 of the Criminal Code, section 33c of the Combines Investigation Act, and section 5 of the Food and Drugs Act, and the various regulations made under that section.

The committee is no doubt aware that the enforcement of the Criminal Code itself is largely a matter within provincial jurisdiction. It is looked after by the provinces. The enforcement of the other two acts is looked after by the federal Government.

I have not attempted, and it would be quite a substantial task, to go through the legislation of the various provinces to deal with the very numerous advertising controls that are enacted there. For example, in provinces that have statutes

protecting the dairy industry it is very common for them to have prohibitions regulating the dairy industry and regulating milk products, and to have provisions preventing foods being sold or passed off as being dairy products—as being cream, cheese, and so on. There is a prohibition, for example, against the selling of foods which are similar to dairy foods but which are made of vegetable oils, or are of some other composition.

So, the provinces have these provisions. They have also provisions in their public health statutes and regulations dealing with advertising. There is a fairly substantial area of overlap where, for example, particular advertising might contravene the federal enactment in the Code; it might also contravene the provisions of the Combines Investigation Act; it might also contravene the Food and Drugs Act; and, it might also contravene a specific provision in provincial legislation.

So much for a general outline of the anti-false advertising legislation.

The committee is also interested in the question of these various promotional schemes. These break down really into two main categories. One is the perennial trading stamp prohibitions, and section 179 of the Criminal Code defines the promotional schemes and skill testing schemes that fall within the ambit of the gaming and lottery sections of the Criminal Code. Perhaps I should read to you the sections dealing with trading stamps. Firstly, there is the prohibition which is contained in section 369 of the Criminal Code, subsection 1(1) of which reads in this way:

> Every one who by himself or his employee or agent, directly or indirectly issues, gives, sells or otherwise disposes of, or offers to issue, give, sell or otherwise dispose of trading stamps to a merchant or dealer in goods for use in his business is guilty of an offense punishable on summary conviction.

This is directed against the supply houses—the people who produce the trading stamps and who are in the business of supplying them to the merchants.

Subsection (2) is the one which has been used in Canada for the prosecution of merchants themselves for giving what are alleged to be trading stamps. It reads:

> Every one who, being a merchant or dealer in goods, by himself or his employee or agent, directly or indirectly gives or any way disposes of, or offers to give or in any way dispose of, trading stamps to a person who purchases goods from him is guilty of an offense punishable on summary conviction.

You will know, of course, that these summary jurisdiction offenses are the least serious offenses. They involve a maximum of six months' imprisonment and a fine of $500, in the case of individuals.

Trading stamps are the subject of a quite complicated definition in section 322 of the Criminal Code, and I will try to make sense of it. Section 322(b) reads:

> "trading stamps" includes any form of cash receipt, receipt, coupon, premium ticket or other device designed on intended to be given to the purchaser of goods by the vendor thereof or on his behalf, and to represent a discount on the price of the goods or a premium to the purchaser thereof.

This is the basic test.

Then, there are certain further tests which must also be satisfied before the cash receipt or the premium ticket, or what ever it is called, is actually illegal.

That is a description of the item we are dealing with, and in addition it must possess at least one of these prohibited characteristics in order for an offence to be committed:

(i) that may be redeemed

(A) by any person other than the vendor, the person from whom the vendor purchased the goods, or the manufacturer of the goods,

(B) by the vendor, the person from whom the vendor purchased the goods, or the manufacturer of the goods in cash or in goods that are not his property in whole or in part, or

(C) by the vendor elsewhere than in the premises where the goods are purchased; or—

Then, dealing again with the characteristics of the cash ticket or premium receipt:

(ii) That does not show upon its face the place where it is delivered and the merchantable value thereof; or

And again dealing with another forbidden characteristic:

(iii) That may not be redeemed upon demand at any time, but an offer, endorsed by the manufacturer upon a wrapper or container in which goods are sold, of a premium or reward for the return of that wrapper or container to the manufacturer is not a trading stamp.

So these things wrapped up by elastic bands or the like, the giving of these things with a premium for the return of it to the manufacturer is not within the forbidden articles.

There have been a fair number of cases on the section. The effect of the principal decision given by the Supreme Court was that this is an exhaustive definition of trading stamps. That is, that unless the item given out falls within this forbidden category, by being, for example, a cash receipt given by the vendor to the purchaser and designed to represent a discount on the price of goods, or a premium and that has one of these offensive characteristics—for example, that it cannot be redeemed upon demand—unless the item falls strictly within this rather complicated definition, then it may be a trading stamp within the common use of the word—the ordinary man may say "that is a trading stamp" but it is not a forbidden trading stamp within the definition of the Code.

Here again there is some provincial legislation in this field. The provinces of Alberta, Saskatchewan and British Columbia have also concerned themselves with trading stamps, being as careful as they can not to tread on the criminal law provisions so as to render their own statutes *ultra vires*.

For example, Saskatchewan in 1960 passed an act called The Retailers Act, Chapter 73 of the 1960 statutes of Saskatchewan, under which provision was made for forbidding trading stamps.

Alberta has a Licensing of Trades and Businesses Act under which trading stamps are again dealt with.

British Columbia, also in 1960—which I think was a time when there was a lot of pressure in relation to trading stamps from organizations such as the Retail Merchants Association, and so on—passed an act directly effecting trading stamps. The act was called the Trading Stamp Act, Chapter 385 of the 1960 statutes. In British Columbia they follow a definition very similar to the one in the Criminal Code, but expressly say that this definition does not include "trading stamps" as defined in the Criminal Code. So no one can accuse British

Columbia of overlapping or jumping on Ottawa's toes. Their act is designed to deal with the aspects of trading stamps that are not covered by the Ottawa legislation.

Co-Chairman Mr. BASFORD: I was not aware that British Columbia was concerned about jumping on our toes.

Mr. SCOLLIN: Perhaps that has been changed now.

Mrs. MACINNIS: It is just because they are too far away.

Mr. SCOLLIN: One point that was made when the trading stamp provisions in the code were first inserted was that there were really two aspects of concern: First, the aspect of fraud, and, secondly, the aspect of damage to currency. Really these were given as the reasons or explanations why the anti-trading stamp provisions got into the code. The view generally held was that the merchandising aspects, the question of economic desirability or business ethics and so on, were aspects which belonged to the province, and so long as what was being issued did not constitute actual fraud and did not damage the Canadian currency then that was as far as the federal Government's interest in the matter went.

It is to these other aspects that this provincial legislation has been directed: More to the merchandising and economic desirability aspects.

You see, the provincial authorities have had to be relatively careful about how they acted. For example, in Alberta, previous to the legislation now existing, there was provision for ministerial regulations under which a regulation was made by the minister saying that no business licensed under the Licensing of Trades and Businesses Act could, secretly or otherwise, give or offer premiums or any goods or any similar plan for the purpose of furthering the sale of any commodity. In a decision, which was a magistrate's decision in Alberta, the court said that that was an infringement upon the powers of the Criminal Code and was *ultra vires*.

So much for the first of the two major aspects of the promotional schemes, that is, the trading stamp schemes. We have looked at the federal law and the provincial attempts to supplement it. The second of the two promotional scheme areas is the "skill-testing-question" contests. As a broad category this is what it amounts to: Things such as—well, for example, cigarette distribution. You get a ticket like this with your cancer. You know, you get an offer of money.

Mrs. RIDEOUT: Did you say you can get it with your "cancer"?

Mr. SCOLLIN: Yes. Provided you answer a skill testing question. This is the standard sort of method of attempting to evade the lotteries provisions of the Criminal Code.

Section 179 is the main section that the Committee would probably be concerned with, and it runs to many, many sub-paragraphs. But in effect it constitutes a general prohibition, and all the sub-paragraphs are directed against this, a general prohibition against the distribution of property by games of chance or games of mixed chance and skill.

The sections, that is, section 179 and certain other related sections, in the same part of the Code dealing with gaming and lotteries, are very complicated. In the case of commercial promotions, the prohibition is very difficult to enforce because, without knowing, for example, whether there is a genuine test of skill or knowledge involved, it is difficult to say on offence has been committed, because the details of the promotional scheme are not available in that case except to the people promoting it; and again that presents another difficulty in the way of enforcement.

Then there is the fact that it is done on such a massive scale and is widespread with radio and television and in newspapers that it poses an enormous enforcement problem to police forces, and being tied up perhaps with more serious crime it is an area which has tended to be neglected and ignored.

The committee will no doubt be familiar with the observations that were made by the joint committee previously in 1956 on lotteries. The joint committee at that time in presenting its report dealt specifically with advertising contests. The paragraphs dealing with that are 31 to 33 on page 70 of the report of the parliamentary committee. In recommendation number 2(e) on page 76 the committee there makes the same kind of observations that have just been drawn to your attention, the difficulty of enforcement, and mentions doubts about the meaning of parts of section 179. The long and short of it is that this recommendation was that all types of advertising in which chance takes any part should be clearly eliminated. Is it unlawful, in contravention of section 179, where the eventual distribution is done by some form of skill but the selection of those entitled to participate in answering the skills in answer to the question is done by chance? For example, five names are taken out of a drum containing 5,000 names. There is the method of chance used for that purpose. When it comes down to the five it may be that the final selection, the chap who gets the free car, or whatever it is, is done by a test involving some element of skill. Is this mixed chance and skill? Because of the complicated way the sections are framed —and they have been the subject of criticism over the years from various committees—it is very difficult to enforce.

I think, Mr. Chairman, that I have dealt broadly with the main areas the committee is likely to be concerned with. If there are some specific questions that any members of the committee would like to ask, if I know the answer I will give it, and if not I will find it out.

Co-Chairman Mr. BASFORD: Thank you very much for that general outline. I am sure both specific and general questions will be asked, judging from our past record over three months.

As you know, I make Senator Croll wait until the end of the meeting to ask questions. However, he has some questions he feels he wants to ask right away, and I will allow him to do so.

Co-Chairman Senator CROLL: This will be just to start your thinking about it. Here is an advertisement that appeared in the Montreal *Star*. I will read it:

> How to make up for the sun your children are missing this winter. Give them fresh Sunkist oranges from the Sun Country.
>
> Sunkist oranges come from California and Arizona where they soak up the sun all day, every day. Under the most ideal growing conditions, Sunkist oranges become plump and juicy and flavourful.
>
> More important, fresh Sunkist oranges are an excellent natural source of Vitamin C. Children need Vitamin C for normal growth and development. They particularly need its help in building sound bones, teeth and gums. So make sure they and everbody in your family has a fresh Sunkist orange every day. Sunkist.

I have before me a recent letter, addressed to me, which enclosed that advertisement, and it has heading which reads, "Does anyone care?" The letter reads as follows:

> Attached is a Sunkist ad which appears to be deliberately misleading.

Vitamin D is produced in the body by the action of ultraviolet rays from sunshine on cholesterol in the skin.

Vitamin D deficiency is more common in winter than summer because of the smaller amount of effective ultraviolet from the sun and because of less exposure to that which is present.

Vitamin D deficiency leads to rickets in children. The best sources of vitamin D in ordinary foods are milk, butter, egg yolk, liver and cod liver oil.

A deficiency of vitamin C leads to scurvy. Citrus fruits such as organes are rich in this vitamin.

How can Sunkist tell parents that you can "make up for the sun your children are missing" by giving them fresh Sunkist oranges.

There is the question. He wonders if someone does care. What are your views on it?

Co-Chairman Mr. BASFORD: We have a lawyer in front of us, not a doctor.

Mr. SCOLLIN: It is very difficult in this area to tell the difference between false advertising and what is commonly called and is accepted as "traders puff." It is very difficult to draw the line. Traders puff, by the way, is a term perhaps more in use in England than here. But the area has been recognized as a legitimate sort of no-man's land, a hunting ground for merchants for selling their produce.

It is rather difficult to draw the line. The advertisement may contain some misleading representations, but since most of the advertisements that are produced have got to be put in a concentrated form, or to say in a concentrated form what they consider to be the vital thing about the product, it is sometines difficult to pin a chap down and say, "Well, simply because over all this appears to be a bit off or a bit misleading, therefore you are guilty of a criminal offence". A lot of advertising on television, advertising of cars and other products, clearly contains material which the average sensible person is not going to accept as necessarily true. This area of give and take is recognized. I feel that I would be quite wrong to express any opinion on whether Sunkist is traders puff or misleading advertising, but if it genuinely directs attention to a healthful feature of whatever is being sold, which this appears to do, then this belongs in the category not so much of wickedness and falsity and misleading advertising as in the category of traders puff.

Senator CARTER: To what extent does deliberate intent enter into that conclusion of yours?

Mr. SCOLLIN: I do not think deliberate intent would change the accepted traders puff into the category of false advertising, because there clearly is an intent even in traders puff to mislead.

Co-Chairman Senator CROLL: Let us take a look at it—puff or no puff. When you see three-quarters or almost a half of this ad consists of wording like "how to make up for the sun your children are missing this winter" I would have thought it would be misleading in that fashion, rather than puff. I understand why you mean by "puff", but those words in the ad are large and consist so much of the advertisement itself.

Senator CARTER: Would that not come under the definition of form and arrangement of words that you referred to earlier?

Mr. SCOLLIN: Over the page which Senator Croll read from the Montreal *Star* in an advertisement are these words:

These unusual and superbly crafted wall shelves offer you unlimited scope in room planning.

If you examine that, the chances are it is untrue, that they do not offer unlimited scope in room planning.

Here is an excerpt from the other side of the page, which says, "Aluminum storm and screen doors the finest in quality." This also is not true. They are probably of good quality, but there is no comparison to show that they are of the finest quality.

On the same page an ad reads, "The light rum with the bright rum taste." This is meaningless. What is Morgan's white rum? It is very difficult to draw the line. One can take almost any advertisement and say part of it is wrong and that the fellow putting it together is trying to mislead me, but it does not necessarily bring him into the false advertising section.

Mr. ALLMAND: Mr. Scollin, I have *Martin's Criminal Code* for 1966 before me, and there are no cases mentioned at all under section 306 of the Criminal Code.

Mr. SCOLLIN: It is very rarely used.

Mr. ALLMAND: Then my point is, what is the use of its being here? I agree with Senator Croll that here you have an advertisement which appears to me to violate subsection (2). In this case it is the advertising of an orange, and it does not seem to be passed upon by a test in which the burden of proof lies with the accused to show that he has made a test. There are many other types of ads that would seem to violate section 306, subsection (2), but you say it lies in the area of traders puff rather than under this section. So what would come under that section?

Mr. SCOLLIN: Let me say, first of all, that I expressed the general opinion on something that was presented to me right at the start of this meeting. It might be that on a thorough investigation—there is a letter which Senator Croll received on that very point. I do not know who the writer of the letter was, and I do not know what the person's qualifications are.

Co-Chairman Senator CROLL: I do not know either.

Mr. SCOLLIN: Frankly, I am not prepared to pass on what somebody says in a letter about an advertisement. This is a matter of proof, and certainly on the basis of evidence given to me by Senator Croll I would not say that Sunkist is a misleading or false advertisement. But this, along with other sections of the Code, is a matter of provincial enforcement. At the present time the crown attorney in the province in which this is produced, if representations are made to him and it is drawn to his attention, he would have all the authority in the world to conduct an investigation to determine the validity by scientific analysis of both the orange and the claims about it to determine whether an infraction of section 306 has occurred.

This is a broad section, and it does cover many instances of advertising which could be prosecuted, but which for various reasons are not. Perhaps it is because of pressure of other work, or perhaps not sufficient concern is given to it. There are no cases reported in *Martin's Criminal Code* since the previous edition. There were several cases of this in previous years, but its use has been very, very limited.

For example, in the 1955 edition of *Martin's Criminal Code* there is only one reported case in which these provisions were given consideration, and that was a case in 1936. Even that was a civil action resulting from the advertising of the

use of corn syrup in the feeding of the Dionne quintuplets, and the author's observation is:

> The judgment is of little assistance in the interpretation of the section.

So, it just has not been used.

There have been a number of charges under section 33 of the Combines Investigation Act, which is the overlapping section that I read to you. There have been charges under that.

Mr. ALLMAND: This section would seem to have been enacted to prevent certain types of misleading and deceptive advertising. That would seem to have been the point in enacting that legislation.

Mr. SCOLLIN: That is so.

Mr. ALLMAND: I have examined other texts on the Criminal Code such as Tremeear, and I have not seen any convictions under that section. So, it would also appear that this section has not really accomplished very much in combating misleading or deceptive advertising. Is it not the role of the Department of Justice to recommend amendments to sections of the Criminal Code if they are not effective in doing their job?

Mr. SCOLLIN: Yes, but your point, I gather is not that it is not effective in doing its job—it is a broad and very well framed section. The question is: Who is using it? It is not up to the Department of Justice. We do not prosecute under the Criminal Code.

Mr. ALLMAND: But it is up to the Department of Justice to propose amendments to the Criminal Code.

Mr. SCOLLIN: On the face of it this seems to be a very good section. The answer then is not to amend what you have, if it is good, but to try it out.

Mr. ALLMAND: Would not the Department of Justice keep a record of the number of charges under a section, and how many convictions there have been?

Mr. SCOLLIN: No, there are no facilities for keeping those records.

Mr. ALLMAND: So you do not know whether the section has been used, or whether—

Mr. SCOLLIN: I personally know it has been tried at the magistrate's court level in western Canada on at least a couple of occasions, but it is not frequently used, obviously. There may very well have been cases under this section which were not worth reporting, or which never came to Mr. Martin's attention. It is obviously a little used section, otherwise there would have been a jurisprudence developed on it. But, this does not mean there is anything defective in the way it is framed that would merit amendment.

Mr. ALLMAND: Is it your opinion as a lawyer in the Department of Justice that it is an effective section? Are you satisfied with it?

Mr. SCOLLIN: I cannot see anything wrong with it, frankly. It is a prohibition against advertisements that are untrue, deceptive or misleading.

Mr. ALLMAND: Is not the test of a good law whether it actually accomplishes the social purpose for which it is enacted? The fact that it contains a lot of nice words does not mean very much if it does not actually lead to any prosecutions or does not protect the public. To me, that is the real test. The test is not as to whether it is logically set out, and sounds logical.

Mr. SCOLLIN: I cannot agree. I think if a statute is directed against a specific abuse, and is sufficient in its form to take care of that abuse, then what you are

dealing with is a matter of not enforcing effective law. You are not dealing with ineffective statutory provisions. You are dealing with a matter of enforcement. The same applies with many of the lottery provisions. These are, on the face of them, perfectly effective, but the fact is that the social conscience does not feel that prosecutions ought to be initiated, and they are not. There is a variation in the enforcement from place to place. This does not mean that there is anything wrong with the statute.

Mr. ALLMAND: With respect to the other two provisions of the Combines Investigation Act, and section 5 of the Food and Drugs Act, are records kept setting out the number of charges made under those sections, and the number of convictions.

Mr. SCOLLIN: I would have to check. I think as these are, generally speaking, under the control of the federal Government there would be records available somewhere indicating the number of prosecutions under the Food and Drugs Act and under the Combines Investigation Act.

Mr. ALLMAND: I would like to have those. I would like the Department of Justice to try to see if they have any records in respect of section 306, even though it is enforced or administered by the provincial governments. It may be that there are some records somewhere.

Mr. SCOLLIN: I am sure we have no records with respect to section 306 itself. The only way we could get them is, perhaps, by writing to the attorneys general of the provinces and asking them to draw to our attention any cases that they know of in the various provinces in which charges have been laid under section 306. But, I think there would be a very scanty result. The thing is not effectively used, and that is because people are not concerned about it. Policemen do not run around reading newspapers and considering whether advertisements are false or misleading. Crown attorneys are so busy charging rapes and murders, and so on, that they have not the time in which to set the police forces in motion in pursuit of this sort of thing. I think it is a matter of social attitude, and not so much a matter of weakness in the law itself.

Mr. ALLMAND: Under these sections does one have to prove criminal intent, or *mens rea*? In other words, do you have to prove that the person intended to deceive, or intended to mislead, beyond a reasonable doubt also? Could this be the reason why it is so difficult to get a conviction, or to enforce a law like that?

Co-Chairman Senator CROLL: The onus.

Mr. SCOLLIN: Who was it who suggested the onus?

Co-Chairman Senator CROLL: I was just trying to help out.

Mr. SCOLLIN: I think the onus is, to start with—

Co-Chairman Senator CROLL: I was not trying to help you out, but Mr. Allmand.

Mr. SCOLLIN: Yes, but there is this point, that there is a heavy burden on the Crown to prove even the falsity of the statement itself. That is often a difficult thing to prove. You have to get at the facts of the situation, and you would have to prove that the person knew that the statement was false, that it was deliberately made and, for example, was intentionally worded. You would have to prove he did this deliberately with a view to deception, so there is a fairly heavy burden on the Crown.

Mr. ALLMAND: Under subsection (2) it would seem to be less, because the burden switches there. The person would have to show that he made a test. The words are:

> Every one who publishes or causes to be published in an advertisement a statement or guarantee of the performance, efficacy or length of life of anything that is not based upon an adequate and proper test of that thing, the proof of which lies upon the accused—

In other words, if he makes a claim that this orange will put the sun back into the lives of the children, it would seem that that must be based upon a test, and he would have the burden of proving that he did conduct such a test. How does that sound to you?

Mr. SCOLLIN: My initial impression is that this particular advertising that we are dealing with would not fall within subsection (2)—it would not fall within "a statement or guarantee of the performance, efficacy or length of life". I do not think that can be taken as literally as you would like to take it. I think this deals with specific claims that something will last for five years, or that it is guaranteed to do certain specific things that can be identified. I do not think you can, in fact, put the sun back into the life of anybody. That phraseology is almost poetic, and not factual.

Mr. ALLMAND: It is romance.

Mr. SCOLLIN: Yes, romance.

Mr. ALLMAND: I will leave that. I understand you are going to provide us with figures as to how many charges have been laid within a reasonable number of years—whatever you think is reasonable—and how many convictions have been obtained, under the Food and Drugs Act and the Combines Investigation Act.

Mr. SCOLLIN: We will see if we can get that information.

Mr. ALLMAND: I have one final question. With respect to the stamp provisions many consumers wrote us asking: Why cannot we turn in our Pinky stamps or Gold Bond stamps for cash? The merchants who came before us said that this was against the Criminal Code, although they did decide after some of our hearings to permit the trading-in of the stamps for food. In other words, the holder of the stamps did not have to take the gifts any longer, but was allowed to trade them in and get more food at the same grocery store, but he could not get cash. If a consumer saved a couple of books of stamps he could not say: "I want my $2", or what ever the amount was. The merchants said that this was against the Criminal Code. Is that correct?

Mr. SCOLLIN: Could I take that under consideration? Frankly, I know it has not happened, and before coming down here I was concerned substantially in the prosecution of these trading stamp cases—quite unsuccessfully.

Mr. ALLMAND: Do you mean before coming to the Department of Justice?

Mr. SCOLLIN: Yes, when I was City Prosecutor for Winnipeg. But I, frankly, have not given any thought as to whether a redemption for cash was an offence under the Code. In section 322 of the Code one of the prohibitive aspects in respect of the stamps is that they may redeemed:

> (B) by the vendor, the person from whom the vendor purchased the goods or the manufacturer of the goods in cash or in goods that are not his property in whole or in part.

So they are quite correct in saying that they could not be redeemed for cash.

Mr. ALLMAND: I suppose those issuing stamps have got around the law by finding the holes in the definition in section 179.

Mr. SCOLLIN: The definition is in section 322. You see, under the previous Code, it was not so common. In 1955, when they amended the Criminal Code, and without, I am sure, intending to effect any change in the substance of the legislation—prior to 1955 this provision in the Code contained certain words which were omitted in the 1955 revision. The definition now reads:

> "trading stamps" includes any form of cash receipt, receipt coupon, premium ticket or other device—

That is a list of the offensive features. Previous to 1955 this definition read:

> "trading stamps" includes, besides trading stamps commonly so-called, any form of cash receipt, receipt, coupon, premium ticket or other device—

So, the essential part of the previous definition—that is, until the new Code came into force in 1955—was contained in the words "besides trading stamps commonly so-called".

One may conclude that the proliferation of trading stamps schemes is traceable to the omission of those words from the 1955 Criminal Code. Previously, as I said, the definition included that great bulk of things "trading stamps commonly so-called". Those words went out in 1955.

Following 1955 there was this gradual movement into this field by various companies, and so on. I think the reason for that was that previously they were deterred by the fact that the words "trading stamps commonly so-called" were included in the statute.

Mr. ALLMAND: I will conclude with a comment. I am surprised that the Department of Justice does not keep records as to the number of convictions and charges under sections of the Criminal Code, even though it does not enforce the Criminal Code, because, as I say, we have to make the law here in Ottawa, and the Department of Justice has to suggest amendments to the Code. When you have the administration, and enforcement from the point of view of law-making, the only way you can fill in holes in your law is by keeping in touch with the effectiveness of the law. Even though section 306 is a good section it seems to me that we should have some kind of contact with all of the departments of the attorneys general in all provinces in respect of all sections of the Criminal Code so that we know how effective they are.

Mr. SCOLLIN: For example, the Dominion Bureau of Statistics does collect overall statistics on charges under the Criminal Code, but to attempt, for example, to have the results of every decision in every magistrate's court across the country would be impossible.

Mr. ALLMAND: Well, the superior courts could anyway.

Mr. SCOLLIN: Generally, if the decisions in the superior courts create any new law of any sort they are generally reported, as you know, and they do come to our attention in that way, the same as to any other lawyer's attention. There are other channels of communication. Where a prosecution is undertaken by a province and is lost because of an apparent deficiency or defect in a section, by and large, the Attorney General will be pretty quick to get a letter in saying, "Look, there is something wrong with the section. There is an omission here."

Then, through the Conference of Commissioners on Uniformity of Legislation which meets annually and which is composed of representatives of each province as well as defence counsel and so on, a contact is maintained so that

defective sections are constantly being brought to attention. You see, dealing with a thing like 306, you are not on the face of it dealing with a defective section. You are just dealing with one that apparently nobody bothers to enforce.

Mr. ALLMAND: That is all for now, Mr. Chairman.

Mrs. MACINNIS: Do you consider that the present federal legislation, is sufficient to outlaw or enforce the outlawing of trading stamps?

Mr. SCOLLIN: Well, it depends on how you define trading stamps. Trading stamps as defined in the Code are, obviously, the only ones outlawed.

Mrs. MACINNIS: Forget about the Code kind of trading stamps. Does the Code in effect outlaw the kind that are used in the supermarkets?

Mr. SCOLLIN: No, obviously not. The prosecution we took to the Supreme Court was against the Loblaw Groceteria Company which was reported about 1960. In that case we had two cracks at that prosecution. The first one was when they came out with the stamp scheme in the first place; they did not provide redemption for each particular stamp. This was the only picayune item on which they were prosecuted. They were convicted on that and it went to the Court of Appeal, but we lost there.

While the case was before the Court of Appeal, Loblaws changed the nature of the scheme to provide that you could get a chiclet or a book of matches, or something like that, for any small amount of stamps, even down to one stamp that was presented. So this satisfied the aspect dealing with receipt upon demand at any time.

In order to test this, the Attorney General of Manitoba told us to make a further prosecution against them alleging that because the definition says that trading stamps includes any form of cash receipts—in other words, the word "includes" did not cut out what the ordinary man in the street would call a trading stamp. We went to the Supreme Court just on this point and the Supreme Court obviously looked at the change made in the Code and obviously one of the factors they looked at was that, and they said, "No, this is an exhaustive definition." They would not accept the argument put forward on behalf of the Crown that what the common man calls a trading stamp is still prohibited and this just extends that ordinary definition.

Mrs. MACINNIS: The legislation in the provinces of British Columbia, Alberta and Saskatchewan seems to effectively outlaw trading stamps such as they are used in the stores. Is that right?

Mr. SCOLLIN: Yes, I think in terms that are broad enough to cover them.

Mrs. MACINNIS: Is it possible for us to make recommendations to the federal legislation which would make it possible to outlaw trading stamps in the other provinces?

Mr. SCOLLIN: I see what you mean.

Mrs. MACINNIS: I am not touching enforcement for the moment I am just talking about the actual form of the legislation.

Mr. SCOLLIN: The constitutional position I have not thought out, but I would think using the general proposition that I quoted to you from the Proprietary Articles Trade Association case, that:

> ...if Parliament genuinely determines that commercial activities which can be so described are to be suppressed in the public interest, their Lordships see no reason why Parliament should not make them crimes,

On that basis my initial view would be that the federal Government has a legitimate area in which it can legislate to the effect of outlawing all forms of trading stamps.

Mrs. MACINNIS: All right. Canada being as it is, would it, in effect in order to get this enforced be necessary for the remaining provinces to take action.

Mr. SCOLLIN: No.

Mrs. MACINNIS: I understand that trading stamps come under the Criminal Code?

Mr. SCOLLIN: Yes, but all you do is simply blanket the other provinces. For example, the provincial legislatures used to deal with the subjects of impaired and intoxicated driving under the Highway Traffic Acts. So long as the federal government had not gone into those fields, they had a perfectly valid legislation. Then the federal government across Canada enacted in the Code provisions which superseded the provincial legislation.

Mrs. MACINNIS: Supposing the province of Ontario did not want to outlaw trading stamps but Ottawa did so. What would happen?

Mr. SCOLLIN: If it is valid legislation, as I think it would be, there is not too much that Ontario can do about it, except (a) protest, (b) not enforce it.

Mrs. MACINNIS: Would it be a waste of time for this Committee to consider such a possibility?

Mr. SCOLLIN: No, it would not be a waste of time.

Mrs. MACINNIS: Another thing is in regard to overlapping of provincial and federal jurisdiction. I just learned very recently of the existence in Nova Scotia of legislation which makes it compulsory for small loan companies, or any lender, I guess, to put the full annual rate of interest out. Now, I was talking with some of the officials there and apparently there is not too much question as to the legality of that provincial legislation. Is that right?

Mr. SCOLLIN: That is right.

Mrs. MACINNIS: But there is some question apparently as to whether the enforcing could go along under the straight provincial law. Is this true?

Mr. SCOLLIN: If it is valid provincial legislation, there would be no difficulty about provincial enforcement that I can see, so long as they did not tread on the federal Government's power in relation to dealing with interest.

Co-Chairman Senator CROLL: It was the banks who said it was not applicable to us.

Mrs. MACINNIS: This is before the Federal Committee on Banking and Commerce at the moment. They are probably trying to get that straightened out.

What I want to get at is this business of trading stamps and advertising. You see, the thing that bothers me or that I am asking about is that some provinces felt that they had to go and put in some legislation concerning trading stamps. Is it necessary for the provincial governments to take action in this regard?

Mr. SCOLLIN: I do not think it is. It seems to me to be a field in which, if the federal government feels there is sufficient abuse or there is fraud, it can enact legislation which would in effect override or supersede provincial legislation in so far as they conflicted.

Mrs. MACINNIS: I have just one other thing I want to ask.

Co-Chairman Mr. BASFORD: It should be understood, Mrs. MacInnis, that the administration is within the hands of the province.

Mrs. MACINNIS: That is what bothers me. I am glad you brought that up. Suppose the federal legislation is there and the provinces do not want to act. Then what happens?

Mr. SCOLLIN: This is what I would call an impasse. Theoretically, I suppose the Queen in right of Canada has the right to start proceedings, but it is virtually not done and has not been done. This would be a matter that would have to be ironed out in the event that they refused to enforce it. But I do not think, if there is valid legislation enacted and put in the Code, that you would be dealing with provincial rebellion and refusal.

Mr. ALLMAND: If I, as a private citizen, lived in Ontario, and they refused to act upon the Criminal Code, I could take a Writ of Mandamus.

Mr. SCOLLIN: Yes. Private citizens can go down and lay charges and proceed on their own, and this is done quite often.

Mrs. MACINNIS: May I just ask one question more? What is the reason that trading stamps apparently are not used and that there is no law against them in the Province of New Brunswick?

Mr. SCOLLIN: I beg your pardon?

Mrs. MACINNIS: I was told that in New Brunswick, where I have been recently trading stamps are not used in that province, but that there is apparently no legislation about it. Why would that be? Do you happen to know?

Co-Chairman Senator CROLL: Superior mentality.

Mr. SCOLLIN: I do not know, except for the point of view of some of the major chains such as the Safeway chains. For example, they have felt that they would spend their money elsewhere, and not in this particular form of promotion. It is simply an economic choice, I would think.

Mrs. MACINNIS: Another thing I wanted to ask about was when in dealing with this advertising, deceptive or otherwise, would you think that there would be an area to be explored to see if, by cutting down the percentage of a firm's budget, the percentage they could deduct from their income tax in returns, would that in itself be able to cut out any of the deceptiveness or wastefulness in advertising or is that a useful field to look at? The cutting down of the total amount that they can deduct or put into advertising, if you will, the total amount they can deduct from their expenses?

Mr. SCOLLIN: Put it this way. I do not think there would be any doubt about the validity of legislation, if the Income Tax Act limited the part of the budget deductible to a certain proportion of the firm's gross sales or gross profits or on such a fixed basis. There would obviously be nothing wrong with it. In fact, the total prohibition against trading stamps would not of itself mean that the money that is spent presently through the large trading stamp companies would not just be diverted to other areas of mass media advertising and so on. The point you are after, I think, is that there would no be anything legally wrong with doing so.

Mrs. MACINNIS: I am wondering, if you chase out trading stamps and make other things illegal does the total advertising budget flow some place else?

Mr. SCOLLIN: I would think so.

Mrs. MACINNIS: Is there any way of restricting the whole works?

Mr. SCOLLIN: The way you suggest would be as effective as any.

Mrs. MACINNIS: You could make legislation.

Mr. SCOLLIN: Oh, yes.

Co-Chairman Mr. BASFORD: Those are economic questions rather than legal questions, Mrs. MacInnis.

Mrs. MACINNIS: I guess so, but I wanted to make sure that legislation could be made which would hold water.

Co-Chairman Senator CROLL: Mr. Scollin, you participated in the prosecution when you were in Manitoba and I have no doubt this came across your desk: What was the ultimate cost of trading stamps to the people? What did you argue that it cost?

Mr. SCOLLIN: I frankly did not concern myself with that. The representatives of the two chains that were involved in that used this to buttress their arguments, which did not belong in the court at all—that is, the economic effect of it. I must say I was inundated with so much literature both for and against—the retail merchants presented some very significant statistics and these, on the face of it, were rebutted by some equally significant statistics from the trading stamp chains—that at the end of the day I just gave up since I was not immediately concerned with that aspect. I gave up the economic end of the argument.

One thing for sure, there was no direct fraud involved, but I just could not make any estimate at all of the economic effect of these stamps.

Co-Chairman Mr. BASFORD: I think you would be most unwise to try.

Mrs. RIDEOUT: Mr. Scollin, I hesitate to ask a question, since I feel so out of place among all these legal minds.

Co-Chairman Mr. BASFORD: That is why I tried to get the ladies on first in order to get it out of the hands of the lawyers.

Mrs. RIDEOUT: I appreciate your thoughtfulness, Mr. Chairman. It appears to me that advertising today, as it is for promotion and for appeal to the public, would be pretty difficult to prosecute as false advertising. I think you explained that quite clearly this morning. However, if you should find some instance of advertising that were false and which legally could be proved to be false, what would be the penalty or the sanction imposed for the infraction? Would it be a large amount of money or a small amount of money or what?

Mr. SCOLLIN: Well, under the Criminal Code, under section 306, the offence is indictable, and that is basically a serious offence. It is indictable and the person is liable under this to imprisonment for a maximum term of five years. Of course, a fine could be imposed, but it is a five year maximum prison term which is involved here.

An accused would have the standard right, this being an indictable offence, of being tried by jury.

Mrs. RIDEOUT: Would the advertising company be involved as well?

Mr. SCOLLIN: Do you mean the company that participated in the advertising?

Mrs. RIDEOUT: Yes. Legally they would be mighty sure they would be protected before they put any advertising in the paper.

Mr. SCOLLIN: You are thinking of the promotion companies.

Mrs. RIDEOUT: Yes.

Mr. SCOLLIN: I think they would, yes. The only exception is in favour of a person publishing an advertisement which he accepts in good faith. So by and

large you would not be able to prosecute the newspaper, because it would be an impossible task to sit down and analyse each advertisement. But the exemption would not apply to the company that put the advertisement together.

Co-Chairman Mr. BASFORD: You are referring to the public relations group?

Mr. SCOLLIN: Yes.

Mrs. RIDEOUT: I read through the Sunkist ad. Obviously some reputable advertising company has looked after that ad for them and they would be reasonably sure that legally it would be approved?

Mr. SCOLLIN: I do not know that that follows. This is traceable back to the question of enforcement. A lot of stuff on radio, for example, is clearly forbidden by the Code, but nobody goes around enforcing it.

Mrs. RIDEOUT: Why not? If I break the law by parking some place where I should not, I would get a ticket.

Co-Chairman Senator CROLL: But you get away with it quite often.

Mrs. RIDEOUT: No, I don't.

Mr. SCOLLIN: It is largely part of social attitudes I would think, and once the law appears to be not subject to strict enforcement this itself is encouragement of general breach of the law.

Mrs. RIDEOUT: If there was an enforcement of that section, do you not think it would curb some of the advertising we have on radio and television?

Mr. SCOLLIN: Yes, it would.

Mrs. RIDEOUT: Many of our young people are enjoying this media of television who are certainly going to be influenced in their later years by what they see as young people. Apparently there just has not been too much action taken to enforce this section.

Mr. SCOLLIN: I think this is it; and as a result, while it looks like a reasonable section, only enforcement and trial and error would reveal any defects there are.

Mrs. RIDEOUT: I want to ask another question, which may not be appropriate, but would you say that there is a definite tendency to avoid this kind of prosecution, that the law shuts its eye as if it did not want to see it?

Mr. SCOLLIN: I do not think one could say you were completely wrong in drawing that conclusion. The fact is that it is not enforced.

Co-Chairman Mr. BASFORD: Which law school did you go to, to come up with that one?

Mrs. RIDEOUT: One other thing, I think you used the word "cancer" in speaking of that advertisement.

Mr. SCOLLIN: Yes, that was just my remark.

Mrs. RIDEOUT: Oh, I thought you were reading it.

Senator CARTER: Most of my questions have been covered, but I would like to ask if the Food and Drugs Act is enforced provincially. Is it up to the provincial government or is it enforced by both parties?

Mr. SCOLLIN: No. The complete enforcement is done by the federal Government. I can only speak about personal exceptions I know of, but as a prosecutor for the Province of Manitoba I recall on one occasion laying charges under the act, and the province did take action in that case. I cannot remember the subject of the case, but I believe it had to do with goof balls or something like that.

Co-Chairman Senator CROLL: At the request of the Dominion?

Mr. SCOLLIN: I cannot recall that. This is in the hands of the Dominion to prosecute. Since it is an offence against the criminal law I do not think there is anything to prevent a provincial Attorney General from conducting a prosecution, but in fact it is federal enforcement.

Senator CARTER: It is the main responsibility of the federal Government, but the provincial government could also take action if it desired?

Mr. SCOLLIN: I think this is probably right. I do not see how one could prevent the provincial government taking action, but presumably action would be taken by the minister under the Food and Drugs Act.

Senator CARTER: You have mentioned the Combines Investigation Act, and some other acts, but there is some legislation under the Department of Agriculture which has to do with weights and measures, and labeling, and so on.

Mr. SCOLLIN: There is the Livestock Products Act which is enforced by the department, and the Proprietory and Patent Medicines Act. There are a number of acts of this sort which do contain, incidental provisions about advertising, labeling, packaging, and so on, but what I have tried basically to do is to deal with the over all, general provisions.

Senator CARTER: We had a situation in an earlier presentation with respect to corn. Corn apparently is a product of the earth which comes under—I forget what the section is, but there is another piece of legislation which calls corn a cereal. Apparently, when the farmer grows and sells it, that is one thing, but when the processor roasts it and converts it into corn flakes it is something else. There was some sort of a hiatus there, and the question was whether it was already covered under the other legislation, which was of a broad, general character.

Co-Chairman Mr. BASFORD: I think you are referring to the Agricultural Products Standardization Act, dealing with products from the soil.

Senator CARTER: Yes.

Co-Chairman Mr. BASFORD: And it was the view of the Department of Agriculture that this did not include corn flakes.

Mr. SCOLLIN: The question is, then, is there a possibility of a hiatus between say this Agricultural Products Marketing Act and—was another act mentioned? Well, frankly, I do not know, it is not an act I am familiar with.

Co-Chairman Mr. BASFORD: The position of the department was that if people were canning corn, it came under the act, but if they were buying corn and bringing it out in the form of breakfast food it did not come under the act. That was the interpretation they put on the act. I think this was because they were not particularly anxious to include breakfast foods.

Mr. SCOLLIN: I am sorry, it is an area that I am not familiar with. Is there anything the committee would like on that? Probably the Department of Agriculture had an opinion on this of which I am unaware.

Co-Chairman Mr. BASFORD: I think the conclusion the committee came to, Senator Carter, was that if you wanted to control cereal products you would just have to look to the definition and amend the definition under the Agricultural Products Standardization Act.

Senator CARTER: But what I could not accept was that if you take corn and process it, put it up in a jar, it was within this definition, but if you put it into corn flakes it was not within the definition. I could not see the difference.

Mr. SCOLLIN: It may have turned on the particular wording. The wording may be defective, or perhaps the initial intention was not to deal with corn when it was turned into something else, such as corn flakes.

Co-Chairman Senator CROLL: Corn is corn, in a can; but have they not taken corn and processed it so that it loses itself as actual corn?

Senator CARTER: It is the same corn.

Co-Chairman Senator CROLL: No.

Co-Chairman Mr. BASFORD: The Department of Agriculture is not interested in controlling breakfast foods.

Senator CARTER: No, but it could be.

Co-Chairman Mr. BASFORD: The committee came to the conclusion that if we wanted to amend the definition to include breakfast foods it was an easy thing to do.

Senator CARTER: But I think there was a question of whether there was a need to do so, whether the products of the soil did not include corn.

Co-Chairman Senator CROLL: But they undoubtedly got an opinion from the Department of Justice before they got it from us, and therefore the chairman says we will have to deal with it in view of what information we may have.

Mr. SCOLLIN: Perhaps I should check on that. It is possible that someone in the Department of Justice did express an opinion of which I am not aware.

Co-Chairman Mr. BASFORD: I am not sure that they did not get an opinion, or whether it was just that they did not want to control breakfast foods.

Senator CARTER: One more point. I think Mr. Allmand questioned the usefulness of section 306 of the Criminal Code, subsection (2) because it had not been enforced very much; and I gathered from what you said about section 179 of the Criminal Code, which has to do with the meaning and intent of contests, skills, and the testing of games, and so forth, that there has not been much enforcement of that. Has that been challenged in any way? Has there been much enforcement of that?

Mr. SCOLLIN: Section 179?

Senator CARTER: Yes.

Mr. SCOLLIN: Yes, that has been enforced. It has been in this form for quite some time. There are lots and lots of cases on it. It has now become a technical morass of decisions as to whether the case concerned a game of chance, a genuine game of skill, or a sham. But by and large they have not been directed much to the commercial promotional field in say consumer goods. Most of the decisions have arisen in connection with agricultural fairs, or lotteries run by charitable or service organizations—in that area. Not so much has been done in respect of these consumer goods, and promotional advertising; that has not been touched.

Mr. MACINNIS: Supposing we decided to recommend a consumers' protection act, would it be possible to codify, re-write and simplify and make better all these pieces of legislation which have not been looked at very much. Supposing a consumer-oriented group so decided, could they make it simpler, under say a consumers' protection act—would that be possible?

Mr. SCOLLIN: It would be possible. The general tendency has been against fragmenting the Criminal Code into a series of separate acts but this is obvious from the way things are going that this may well happen, such as bringing opium under the Narcotic Control Act and some other things under the Food

and Drug Act. Various areas which do involve criminal offences have been fragmented and broken off from the Code. So it is possible to do this.

Senator CARTER: I would like to go back to the Combines Investigation Act. As I understand it, the Combines Investigation Act now contains no provisions that would apply to predatory pricing.

Mr. SCOLLIN: I am just looking for the act, if you will excuse me for a moment. Perhaps you could enlighten me, senator, as to what predatory pricing is.

Senator CARTER: When a firm deliberately undersells with the intention of eliminating competition.

Mr. SCOLLIN: Could I answer that question in this way, that firstly the Combines Investigation Act is a specialized Act enforced by a specialized branch of the Department, with a director responsible to the Minister. But, I would point out that section 33A subsection (1) (c) of the Act does say:

> (1) every one engaged in a business who
>
> > (c) engages in a policy of selling articles at prices unreasonably low, having the effect or tendency of substantially lessening competition or eliminating a competitor, or designed to have such effect,
>
> is guilty of an indictable offence and is liable to imprisonment for two years.

Senator CARTER: What section is that?

Mr. SCOLLIN: Section 33 A (1) (c). This was enacted in 1960.

Senator CARTER: Has that been tested?

Mr. SCOLLIN: I will check that along with the general statistics as to the enforcement of the Combines Investigation Act.

Senator CARTER: Is not a weakness there that you have to prove intent? It is pretty hard to prove what a fellow has in his mind when he does certain things.

Mr. SCOLLIN: I can only look at what the act says, which is:

> Every one engaged in a business who
>
> > (c) engages in a policy of selling articles at prices unreasonably low, having the effect or tendency of substantially lessening competition—

It does not say anything expressly in the formulation of the offence about intent. It makes an offence of a policy of selling articles at prices unreasonably low, having the effect or tendency of substantially lessening competition or eliminating a competitor, or designed to have such effect.

Senator CARTER: Or designed to have such effect?

Mr. SCOLLIN: But that is an alternative. The substance of the offence is engaging in a policy of selling articles at prices unreasonably low, and the rest is a question of result.

Senator CARTER: You would have to prove the effect? You would have to prove that it was having that effect?

Mr. SCOLLIN: Yes, or that it had that tendency.

Senator CARTER: And a person who could produce that amount of proof could take action under that section?

Mr. SCOLLIN: Yes.

Senator CARTER: Does the Department of Justice concern itself very much with the Combines Investigations Act or is that left up to the combines commission?

Mr. SCOLLIN: Under the new Act this is one of the subjects or areas that has been allocated to the Registrar General.

Senator CARTER: Have you yourself had any experience—have you made any study of the Combines Investigation Act? Do you see any weaknesses in it that should be—

Mr. SCOLLIN: No, I have not made a study of it. It is not an Act with which I am familiar at all.

Senator CARTER: Thank you very much.

Senator INMAN: Mr. Scollin, one of the questions I have been asked is with respect to prosecutions under the Criminal Code. To go back to trading stamps I know that in Prince Edward Island we do not have trading stamps. In fact, they were prohibited before they ever came in, but now they have a scheme for which they think they cannot be prosecuted. This is a scheme where you get half of a coupon, and then obtain the other half. What would be your thinking on that?

Mr. SCOLLIN: What does this coupon entitle you to?

Senator INMAN: If you get the other half you can get a certain amount of groceries, or whatever you wish—and auto repair, or something like that. The question was asked me at a meeting as to how this fitted in.

Mr. SCOLLIN: Is this given for cash purchases?

Senator INMAN: Yes, it is given at one of the chain stores.

Mr. SCOLLIN: Does it represent a discount on the goods?

Senator INMAN: No, I do not think it is given in the same way as the stamps.

Mr. SCOLLIN: It would seem to be in susbstance, from what you say, under those prohibitions in section 369—that is, if the thing is given with goods and is intended to be a premium to the purchaser, and if the half you get is not redeemable upon demand right away.

Senator INMAN: No, you have to have the matching half.

Mr. SCOLLIN: Does it show on its face the value of what it is supposed to be worth?

Senator INMAN: If you get the other half, yes.

Mrs. RIDEOUT: There are not too many of the other halves around. It is like a game of chance.

Mr. SCOLLIN: When you have managed to get the other half do you then have to answer any skill—

Senator INMAN: No, you go to the store and take the money, or whatever you wish. You can take it in groceries if you wish.

Mr. SCOLLIN: I think on a brief consideration of what you have said as to what happens that this probably is a matter which the attorney general would be prepared to look at from the point of view of considering whether it is prohibited by the lottery section, section 179.

Senator INMAN: Well, the province has passed an act making stamps illegal, but has done nothing with respect to this.

Mr. SCOLLIN: Has any prosecution been attempted under this Act.

Senator INMAN: Not that I know of. I was just asked if I would find out if this came under the same type of promotional scheme.

Mr. SCOLLIN: From the very unsatisfactory answer you have received obviously the Department of Justice is not the place to ask, but I think this is again a matter about which you might very well consider dropping a line to the local enforcement people, or the attorney general, with a view to possible prosecution under both section 369 and section 179. As a matter of fact, as a practical matter, the mere fact that things are existing does not mean that they are not contravening the law because even now in some provinces stamps are being distributed which are in contravention of the Code but because of other pressures it is difficult to get around to bringing prosecutions.

Senator INMAN: I will take that answer back.

Co-Chairman Mr. BASFORD: I have a few questions following along the line of questioning of Mrs. MacInnis. Do I take it that it is your view that if the words "trading stamps commonly so-called" were put in the section again they would have the effect of outlawing trading stamps as the man on the street now knows them?

Mr. SCOLLIN: Those words were never judicially interpreted before, but I would certainly think that if it is the object to outlaw trading stamps altogether then those words would certainly give a likely ground for a court holding that any trading stamp if forbidden. But I can see the benefit of recasting the provisions rather than just tampering with them and replacing those words. If that were the recommendation of the committee then I would think that a fresh approach should be used rather than have the courts embroil themselves in an argument as to what the effect of the removal was initially, and what was the effect of putting those words back. I think a fresh approach would be preferable.

Co-Chairman Mr. BASFORD: So it is your opinion that it is possible to define trading stamps as we now know them, and to put that definition in the law?

Mr. SCOLLIN: Yes.

Co-Chairman Mr. BASFORD: Is that an opinion having regard to the constitutional position?

Mr. SCOLLIN: Mr. Chairman, I really have not made any study of the constitutional position in relation to trading stamps in particular, but on the basis of the proposition I quoted earlier I see nothing to prevent the federal Government from entering into the merchandising area if it feels this is a general fraud on the public, and enacting a prohibition which would in effect completely outlaw these stamps.

Co-Chairman Mr. BASFORD: There was one thing that you said in your opening statement that I did not quite understand. In discussing the various provincial acts you said that British Columbia Trading Stamp Act of 1960 defines trading stamps in almost the same words, or generally the same words—I forget what exactly what you said—as those of the present Criminal Code definition. That being the case, why has the British Columbia definition prevented stamps from being used in British Columbia, and the Criminal Code has not?

Mr. SCOLLIN: The British Columbia definition adopted all of the opening part of the Criminal Code definition, but it did not get itself enmeshed in this enormously detailed part dealing with redemption by persons other than the vendor. The British Columbia statute does not go into all these details about redemption. It uses the opening part of the Criminal Code definition, namely:

> In this section, "trading stamp" means any form of cash receipt, receipt, coupon, premium ticket or other device designed or intended to be given to the purchaser of goods by the vendor thereof or on his behalf, and to represent a discount on the price of goods or a premium to the purchaser thereof—

and then it says:

> —but does not include.
>
> (a) a trading stamp as defined in the Criminal Code;
>
> (b) an offer, endorsed by the manufacture upon a wrapper or container in which goods are sold, of a premium or reward for the return of that wrapper or container to the manufacturer.

It does not go into these redemption provisions at all. Therefore, it is a cleaner and neater definition.

There was a case in about 1964 which first got away altogether from these detailed redemption provisions, and said that if what was given did not represent a discount in the case of a cash purchase then it was not, even within the opening part of the definition, a trading stamp at all. I do not know if the committee is interested in the details of this, but even in the definition as it stands, and leaving aside this question of details of redemption and methods of redemption, there is this case which just using the opening part says and that was obviously considered by the Crown to be a trading stamp, and which looks to be a trading stamp, was not a trading stamp in fact.

These were coupons given to cash customers by a business that did both cash and credit. These coupons represented a bonus discount for cash and were not trading stamps since they did not represent a discount on the price of the goods but only a discount on the cash paid.

Co-Chairman Senator CROLL: Just as a matter of timing, we amended the act in 1955 by taking it out. The prohibition from the other provinces came out subsequent to that date, so there was nothing done previously, but only after we amended the act. Do you know the reason why we amended it? What historically is the reason?

Mr. SCOLLIN: Well, the code was re-enacted in 1955, and Mr. Martin, who has produced these comments on the Code, was a member of the commission or secretary to the commission, if I recall. It was designed to clean up and tidy up the Criminal Code, but it was very limited in the changes in substance it was supposed to make. On this particular change in the trading stamp section there was nothing in the debates about the reason for the exclusion of these words. At the time of the prosecution, as I mentioned to you, I did check with Mr. Andy Moffat who was a member of the commission which drew up the Code, and I asked him if he could recall what, if any, reason had motivated them to leave these words out and he could not recall. His only recollection was that they did not have any intention to change the substance, but considered the words superfluous. The record does not show that, but is was a private check with one of the Commissioners. This was the only reason for taking the words out that he could think of.

Co-Chairman Senator CROLL: That was in 1955. Then the provinces passed legislation to suit their purposes subsequently.

Mr. SCOLLIN: Even prior to that some of the provinces had a provision that was not used entitling municipalities to regulate trading stamps, but I do not think anything was done on this. There was some question, in view of the fact

that trading stamps were dealt with already in the Code, whether they could do this validly. I do not know.

Co-Chairman Senator CROLL: How long have trading stamps been around, to your knowledge?

Mr. SCOLLIN: This provision has been in the Code right since the very early days of the Code, that is, the provision against trading stamps. If you will just give me a moment, I will see when it first came in.

Co-Chairman Mr. BASFORD: Are you going to insist on an answer.

Co-Chairman Senator CROLL: I think it useful.

Mr. SCOLLIN: These provisions appear in the Criminal Code Amendment Act 1905, Chapter 9. The bill, that is the amending bill in respect of trading stamps, was introduced at the insistance of many boards of trade and retail merchants' associations throughout Canada.

The trading stamp scheme originated in the United States about 1895 and was imported into Canada about 1900.

Co-Chairman Senator CROLL: Mr. James, who is an historian, tells me that even Sir Wilfrid Laurier was excited about this whole problem.

Mr. SCOLLIN: Perhaps I might just point out to the committee that this is a quotation from the 1905 *Hansard* at the time of the bill.

> Mr. Kemp: Certainly some remedy should be applied to this abuse. These trading stamp companies, small and insignificant as they are, are permitted to do what no other kind of financial corporation can do. They are permitted to circulate money. This trading stamp resembles a postage stamp. They are sold at five dollars for a hundred dollars face value. The merchant hands them out to his customer and they get into circulation that way. When a customer gets a hundred dollars' worth he can go and exchange it for some article valued at from twenty-five cents to a dollar. He never gets anything worth five dollars. A greater evil is this, that a great amount of these stamps are never redeemed. Very few people can get a hundred dollars together. The people who have been deceived into taking these stamps are generally poor people, and it takes them a long time to collect a hundred dollars. Where the tremendous profit of the trade stamp companies comes in is due to the fact that the stamps are never redeemed. Then—when people present the stamps at the store, they will be told that the store is out of but some are expected in a few days, and in the end the trading stamp agents get away without paying anything.

These abuses are not generally true now. This is the aspect of the federal government's previous stand on questions of fraud and the circulation of money, problems which concerned them in this case and which were the reasons for their concern at the time in 1905.

Co-Chairman Mr. BASFORD: Excuse me, but what page were you reading from?

Mr. SCOLLIN: These are comments taken from page 612 of Martin's Criminal Code, 1955 Edition.

Mrs. MACINNIS: Is there any history of American legislation doing anything about trading stamps or have they done anything about that?

Mr. SCOLLIN: I do not know of any, but there is voluminous material on them. I recall at the time of one of the trading stamp cases among the materials

supplied by the companies there was a statement as to the position of various states in the United States and the development of various trading stamps there.

Co-Chairman Mr. BASFORD: Dr. James has some material, if you want to pursue that, Mrs. MacInnis. We are also having the Association of Trading Stamp Companies before us and you can ask them that then.

What happens, Mr. Scollin, if some consumer thinks that he or she is being abused and writes in to the Minister of Justice with that complaint?

Mr. SCOLLIN: The complaint that he did not get—

Co-Chairman Mr. BASFORD: Senator Croll produced a letter which some consumer had sent in because he thought he was being misled. What would happen if that arrived on the desk of the Minister of Justice rather than on Senator Croll's desk?

Mr. SCOLLIN: Within the constitutional limitations imposed on us, since this is basically a matter of contravention of the Code, the writer submitting the letter would in fact be referred to the Provincial Attorney General and told that as the enforcement is a matter within his jurisdiction it should be referred to him.

Co-Chairman Mr. BASFORD: Is there any officer or deputy in the Department of Justice who looks after consumer complaints specifically?

Mr. SCOLLIN: No.

Co-Chairman Mr. BASFORD: I am wondering about that. The 1959 Stewart Royal Commission recommended that, as an instrument of liaison with consumers, an officer bearing the appropriate name be established in the Department of Justice.

They recommended further that the proposed officer prepare, publish and keep up to date a report on legislative measures to protect consumers and on services, government aid and voluntary aid, available to consumers. You might like to duck out of the question and leave it to your Minister to answer, but I am wondering if anything has been done on that recommendation?

Mr. SCOLLIN: Mr. Chairman, I have no knowledge of the setting up of such a department in the Department of Justice.

Co-Chairman Senator CROLL: You are a new man there anyway, are you not?

Mr. SCOLLIN: There may be some chap hidden somewhere in the department who is doing this.

Co-Chairman Senator CROLL: Tell me, following Mr. Basford's question, if a letter, any letter at all, were to come in, would you, in writing to the provincial Attorney General, express some view or some indication of what your thinking on the matter would be, or would you simply say that you had received the following letter and were referring it to them for their attention.

Mr. SCOLLIN: We would not, generally speaking, refer it directly to the attorney general. We would refer it to the person who sent in the complaint and tell him to send it to the attorney general.

Co-Chairman Senator CROLL: That is worse. All right.

Co-Chairman Mr. BASFORD: Are all of the opinions given on the various acts channelled through the Department of Justice? In thinking of the question I have answered it myself, because the Combines Investigation Act has its own opinions. What about the Food and Drugs Act or do they have their own legal branch?

Mr. SCOLLIN: Each of the departments has its own legal advisor at some point.

Co-Chairman Senator CROLL: Then they get into more trouble.

Mr. SCOLLIN: Frankly, on this, since I have been concerned basically with the Criminal Code amendments, I am not as familiar with the operations of the departments as perhaps somebody else is.

Co-Chairman Mr. BASFORD: I understand that position.

Mrs. RIDEOUT: The food and drug people do have their own legal counsel.

Senator CARTER: I just want to clear up one point. You spoke about the federal government's concern about damage to currency, and you referred to coupons that were given out. There are some firms, if you make a purchase, when you pay your bill the cashier gives you back a little coupon worth 25 cents, 35 cents or 50 cents on it, depending on the amount of your purchase. That is, they are worth 50 cents, or whatever the amount of the coupon is, in that store or any branch of that store. You do not regard that as interfering with the currency?

Mr. SCOLLIN: I think the objection was the general circulation of these stamps. You see, this is why the specific limitations were put on redemption. For example, it is prohibited for any person, other than the vendor or person from whom the vendor got the goods or the manufacturer, to redeem. They can not redeem it generally at large because, you see, that would have the effect of circulating it.

Senator CARTER: Thank you.

Co-Chairman Mr. BASFORD: There being no further questions, Mr. Scollin, I would like to, on behalf of the committee, thank you and Mr. MacKinnon for coming here this morning and giving us the benefit of your knowledge and views in a very straightforward and sometimes witty way. I know that the committee has found your presentation extremely useful and valuable for its work on behalf of consumers. Than you very much.

The committee adjourned.

AFTERNOON SITTING

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 3 p.m.

Senator David A. Croll and Mr. Ron Basford, Co-Chairmen.

Co-Chairman Mr. BASFORD: Honourable senators and members, the committee will please come to order. This afternoon we have a brief presented at our request by Professor Grant L. Reuber, Head of the Department of Economics at the University of Western Ontario.

Professor Grant L. Reuber, Head, Department of Economics, University of Western Ontario, London, Ontario: I have checked with Dr. James about the procedure here, Mr. Chairman, and with your permission I would like to proceed to present this brief, if that is acceptable.

In everyday life all of us have been faced with the difficulty of choosing among several goals, all of which are highly desirable in themselves but each of which is inconsistent with some of the others to some degree. In this situation it is impossible fully to achieve each objective. A simple example of such a dilemma is the desire for income, requiring effort, versus the desire for leisure. Few of us opt for all work or all leisure. Most of us elect a compromise: some

income and some leisure. Nations confront similar difficulties in choosing among the objectives of economic policy. It is relatively easy to compile a list of desirable objectives. The difficulties arise when the country confronts the hard choice about how far to pursue one objective at the expense of others. In situations where the objectives of national policy conflict to some extent, most countries, analogus to most individuals, can be expected to elect a compromise, trading off some portion of one objective in order not to fall further short on some other.

This brief focuses on three objectives of Canadian economic policy: high employment, price stability and economic growth. It is addressed to three basis questions:

(a) how great is the degree of conflict between these thtree objectives of economic policy?

(b) what can usefully be done to reduce the conflict between these objectives to a minimum?

(c) having reduced the conflict to a minimum, what is the appropriate combination of objectives at which policy should aim?

The empirical evidence presented below is largely based on research on which I and three of my colleagues have been engaged for some time. Our most recent work in this area was done for the Economic Council of Canada and will be published shortly by the Queen's Printer.

Our evidence on the first question posed may be summarized as follows:

(a) Within the range of past experience in this country, there is little evidence that the secular rate of productivity growth is significantly affected by the level of unemployment or the rate of price increase (abstracting from cyclical changes). There are a number of reasons for believing that sustained high employment may enhance the rate of economic growth; and some traces can be found in the statistics of a positive association between the secular rate of productivity growth and high levels of employment and rising prices. This evidence, however, is impressionistic and fails to support the hypothesis of a strong and significant positive relationship. This conclusion for Canada coincides with the findings of a substantial number of studies which have considered this relationship for the U.S. and other countries.

(b) There is strong evidence of a conflict between the objectives of high employment and price stability within the ranges of unemployment and price level changes relevant to public policy discussion in Canada. Significant evidence of such a conflict exists for other industrialized countries as well. No evidence has been found for Canada, or for any other country, to suggest that these two objectives are either independent of each other or complementary.

(c) There is equally strong evidence that the relationship between the level of unemployment and the rate of change in Canadian prices is greatly complicated by the openness of the Canadian economy and the magnitude and pervasiveness of the influence of foreign (especially U.S.) price and wage changes on Canadian wages and prices. Given the importance of this external influence and given the limitations of public policy, it is unlikely that price changes in Canada can deviate very much from price changes in the U.S.—particularly if Canada adheres to a fixed foreign exchange rate.

(d) The evidence indicates that profits per unit of output have some positive influence on the rate of price change via the influence of unit profits on the rate of change in wages. This, however, is relatively weaker than the influence of unemployment and foreign prices on price changes.

The estimated trade-offs between unemployment and price change for Canada are shown in the appendix, Figure I and Table I. These estimates are based on quarterly data from 1953 to 1965. Two assumptions are made about the external environment. One assumes a non-inflationary environment in which import prices remain unchanged, U.S. wages rise at a rate which is held to be consistent with stable U.S. prices, and unit profits are at a level equal to their average level from 1953 to 1965. The second set of assumptions assumes an inflationary environment in which import prices rise at 2 per cent per year, U.S. wages at 6 per cent annually and unit profits are half-way between their peak and average values for the 1953-1965 period.

We might just look at that table for a moment; it is the first page of the appendix. Looking at the graph one sees that there are two lines, top and bottom. The top line refers to an inflationary environment in the world around us; the bottom line refers to a non-inflationary environment. According to the evidence which we have been able to find from the statistics, this is the relationship between the level of unemployment and the rate of change in prices which one might expect, given this external environment for the country.

From the estimates based on the assumption of a non-inflationary environment, it seems reasonable to expect the Canadian price level to remain constant when the unemployment rate is 4¾ per cent. When unemployment falls to 2½ per cent, prices can be expected to rise by about 4 per cent annually. When unemployment rises to 8 per cent prices can be expected to decrease by 1 per cent annually.

This picture changes sharply when an inflationary environment is assumed. At a 4 per cent level of unemployment retail prices can be expected to rise by 5 per cent; at a 2½ per cent level of unemployment prices can be expected to rise by more than 8 per cent; and when unemployment is 8 per cent prices are likely to rise by about 3½ per cent. In short, if foreign prices are rising by about 2 per cent annually, Canadian prices can be expected to rise substantially even at levels of unemployment that are well beyond anything that is politically tolerable.

All trade-off calculations—and I wish to emphasize this—are, of course, only approximations. Nevertheless, even when one makes full allowance for qualifications, the evidence strongly confirms, in the words of the Economic Council, "the existence of an inherent reconciliation or trade-off problem between the goals of high employment and reasonable price stability in Canada in the post-war period". At the same time, the lack of any evidence of a conflict between the growth objective and the price and employment objectives, within the range of experience relevant to public policy discussions in Canada, implies that Canadians do not have to choose between the objective of growth and the other two policy objectives; the choice between the goals of price stability and high employment can be expected to have little, if any, influence on long-run growth.

I would like to turn now to the question of what policies might be adopted to reduce the conflicts between objectives. Having already indicated my view that there is no conflict between the objective of growth on the one hand and the other two objectives, high employment and price stability, on the other, it follows that you do not have to pursue policies to eliminate a conflict.

Nevertheless, there are two important policy implications which I think should be particularly noted. For one thing, it suggests that it only muddies the waters of public discussion for anyone to suggest that low levels of unemployment, by the standards of our experience, and the concomitant increases in prices are inimical to long-run growth. Secondly, the absence of a conflict suggests that in formulating general monetary and fiscal policies for stabilization purposes, the authorities should keep their eyes firmly glued on the performance of the economy in terms of employment and price stability and should not be misled by the illusion that higher unemployment and more stable prices that we have experienced recently will promote the long-run growth of the country.

I turn now to the other two objectives, price stability and high employment. The question I ask is: what can be done to reduce the conflict between these two objectives? The policies, which we might consider, can be classified into four broad categories: demand policies; supply policies; direct policies; and policies to improve information, knowledge and co-ordination.

Demand policies, as indicated later, are generally directed at regulating the level of activity in the economy. This means that the particular combination of unemployment and price stability on the trade-off curve at which the economy performs in large part is determined by the aggregate demand policies pursued by the monetary and fiscal authorities. It also means that through changes in monetary and fiscal policies the economy can be moved along the curve from one combination of unemployment and price change to another. How effectively aggregate demand is managed may, however, also have some influence on the position of these curves, such as those shown in Figure 1. Under very effective management, in the sense of keeping the economy consistently at its employment goal, it is possible that the conflict between these twin objectives may be reduced in comparison with the conflict which would exist if the economy deviated from its employment goal frequently or for lengthy periods.

It is widely accepted that the effective management of aggregate demand is fundamental to good economic policy in Canada, and that there is room for improvement in this area. This calls not only for substantial improvement in our information and knowledge about how the economy works, but also for the refinement of our monetary and fiscal instruments. For example, I regard the measures taken to increase the flexibility in the fiscal instrument last spring as a significant step forward in this area.

Supply policies until several years ago received much less attention than they deserved. These can be regarded as policies which are designed to ensure vigorous competition in the markets for goods, financial assets and productive factors, to increase the supply and mobility of labour and other productive factors as well as of goods, and to increase productivity. Within this context much has been said by the Economic Council and others about

> manpower and other supply policies to improve resource allocation and open serious bottlenecks, policies to stabilize the growth of construction expenditure and so reduce pockets of excess demand which periodically develop in that sector, policies to achieve better co-ordination of expenditure planning and fiscal policy by all three levels of government, the laying of a fresh groundwork for a fresh policy approach to the problem of market power, policies to improve productivity growth and facilitate adjustment to technological and other change and policies relating to the government's increasingly important role as an employer and as a participant in collective bargaining.

I heartily endorse the Council's recommendations in these various areas. I should particularly like to emphasize the important role which the Council

assigns to improvements in education as a means of increasing labour mobility and productivity. I believe our efforts in all of these areas in the past have been too modest and too tardy. Although some considerable progress has been made in these areas in recent years, more ambitious and vigorous policies are called for the future.

In addition to these policies, more attention should be given to the role of commercial policies and government regulations in impeding competition and thereby increasing the conflict between the goals of full employment and stable prices. As far as commercial policy is concerned, a reduction in tariffs not only gives rise to a once-for-all redlction in prices to internationally competitive levels but also reduces the market power of businesses and trade unions sheltered from international competition by the tariff. To the extent that market power accounts for the upward creep in prices, the reduction in market power occasioned by a reduction in tariffs can be expected to reduce the conflict between price stability and unemployment. Tariff reductions are a particularly potent device for reducing market power in Canada because of the openness of the economy; indeed, it is difficult to see how any group could retain much market power if tariffs were wiped out. In addition to improving the performance of the economy in terms of its stabilization objectives, many economists would. of course, argue that tariff reductions would also improve the long-run growth and efficiency of the country.

Substantial reductions in tariffs have occurred since World War II and more are in prospect. This is not the place to pursue this question in detail. Two points are worth noting, however. First, there is considerable scope for further general reductions in Canadian tariffs. Secondly, it is much easier to reduce tariffs when the economy is running at a high level of employment and adjustments to tariff reductions can be made relatively easily than when there is a significant margin of unemployment.

In addition to general tariff reductions, more attention in my view should be given to the use of tariff reductions on a selective basis where evidence of the exercise of market power has been found. Section 29 of the Combines Investigation Act explicitly empowers the Canadian Government to reduce or eliminate tariffs on articles in regard to which there has existed

> any conspiracy, combination, agreement, arrangement, merger or monopoly to promote unduly the advantage of manufacturers or dealers at the expense of the public.

Table II summarizes the number of times since 1945 that tariff action has been recommended or implied on specific products in reports made under the Combines Investigation Act. In no instance, as far as I have been able to ascertain, has any Canadian Government implemented these recommendations. This is clearly an area where the Canadian Government has powers which have not been exercised in the past and which could be used quite effectively in future to deal directly with situations where prices are high or rising because of market power exercised by private interests.

We might just look at the items in Table II. The form of this table is that I have given the reference to the tariff report, a brief summary of the products in question—and it is by no means an all-inclusive summary—a page reference to the recommendation in the report referred to in column 1, and then an indication of the tariffs applicable. Naturally this group of commodities comes in under a variety of tariff rates, so I have had to summarize and perhaps group a bit, and my tariff rates are not typical of every item listed here. That point should be understood.

Co-Chairman Senator CROLL: Is that complete elimination of these tariffs or a reduction?

Professor REUBER: That is an open question which one would want to consider. I am not particularly suggesting elimination. I am saying that these are the tariffs as they exist, and that if there is evidence of market power in these particular areas, one way of reducing market power is possibly to reduce the tariffs and—

Co-Chairman Mr. BASFORD: I do not want to interrupt, but the recommendations were for their elimination. Is that correct?

Professor REUBER: No, they were not, as I recall them, for elimination. In some cases it was in the form that the government should consider tariff action, and that could be elimination, but it could also be a reduction.

Senator O'LEARY (*Antigonish-Guysborough*): In every case, though, they are recommending reduction?

Professor REUBER: I am sure they are recommending a reduction.

Co-Chairman Mr. BASFORD: I think that point has been cleared up.

Professor REUBER: Private market power also arises as a result of various government controls and regulations. For example, patent regulations are an important source of market power. As far as retail food prices are concerned, regulations governing the import and sale of agricultural products are important in keeping prices higher than they would be otherwise and make it possible for prices to rise more rapidly. Such measures exist, of course, to protect farm incomes. In some cases, at least, this objective could be achieved more efficiently than at present—e.g., by using deficiency payments schemes in place of price supports. It is encouraging that the government has asked the Economic Council to conduct a major investigation into the general question of competition and market power.

Direct measures to reduce the conflict between price stability and high employment in principle cover a spectrum ranging from a fully-controlled economy to the mildest form of exhortation. The prospect of a comprehensive system of price and wage controls in peace time is very unappealing to me, as I believe it is to most people. At the same time, few would question the need for the government to speak clearly and persuasively about the current state of the economy, the outlook and the responsibility of private groups and individuals in improving our economic performance. In recent years a number of governments in the U.S. and Europe have gone beyond this by setting out explicit guideposts for price and wage adjustments and attempting to enforce these guideposts with varying degrees of coercion. It has been suggested that an "incomes" policy of this sort should be implemented in Canada.

The Economic Council has examined this possibility in some detail. I find the arguments advanced against such a policy in their *Third Annual Review,* and in the Special Study prepared by Professor David Smith of Queen's University, very convincing. I understand that Professor Smith is slated to appear before this committee and I am sure he will go into this matter further. I should like to emphasize particularly one point in this connection. The logic of a guidepost policy depends essentially on the existence and exercise of market power by private groups. To the extent that market power poses a problem for stabilization policy in Canada, it can, in my view, be much more effectively dealt with by reducing tariffs on both a general and selective basis as well as by revising various government controls and regulations than through an incomes policy.

Policies to improve information, knowledge and co-ordination are spelled out in the Economic Council's *Third Annual Review.* I believe these measures

should be implemented as quickly as feasible. Canada has fallen seriously behind the U.S. and some West European countries in this area. In addition to endorsing the proposals advanced by the Economic Council, I should like to emphasize the need to provide substantially more funds on attractive terms for economic research at universities. I hope what I am saying here is not construed as simply grinding an axe because I come from a university. I do think this is rather an important question. Government agencies, research institutes and private research groups play an essential role in this area. However, I believe it will be extremely difficult, if not impossible, for these groups to be as effective as in other countries unless they are as fully supported by academic research and graduate training as such research groups are supported in these respects in the U.S. and elsewhere. Academic training and research on a large scale and of a very high quality, in my view, are the pith and marrow of the highly impressive achievements in the U.S. in the field of economic research. If our efforts are to be at all comparable I believe it is essential that substantially more resources be made available to Canadian universities and on better terms than in the past to improve both the size and the quality of their faculties, to support research in these areas, to underwrite graduate training and to encourage closer contact between university economists and economists in the Civil Service and independent research groups. Considerable improvement has admittedly occurred in recent years under the aegis of the Canada Council, the Economic Council, and others, but much more remains to be done. At present any one of the major university economics departments in the U.S. has substantially more funds available for research than all Canadian university departments of economics put together.

So far I have been talking about the question of what can be done to reduce the conflicts between these two objectives: price stability and high employment. Having done the best you can to reduce those conflicts you may still be left with a conflict, and that raises the question of what the appropriate combination of these objectives might be.

Although various measures can and should be adopted which will reduce the conflict between high employment and stable prices, the evidence for Canada as well as other countries gives little reason for believing that the trade-off problem can be eliminated for all practical purposes by these measures. Thus, the country is confronted with the question of choosing the point, or portion, of the trade-off curve which is least disadvantageous. An appropriate combination of price change and unemployment having been chosen, the country faces the further policy question of how to regulate aggregate demand in order to achieve this combination.

What is the appropriate combination at which policy should aim? In order to answer this, an assessment of the relative costs of price inflation and unemployment is required. This poses difficult questions about which we know only too little and which continue to receive less attention than is warranted. Moreover, important considerations of political and social policy are also raised. The issue is nevertheless unavoidable. Anyone who suggests, for example, that demand should be dampened in the interests of greater price stability is implicitly suggesting that the benefits from greater price stability will outweigh the costs of the higher unemployment associated with greater price stability. Similarly, anyone who advocates an expansion in demand implies that the gains from the resulting reduction in unemployment will outweigh the costs of the associated increase in the rate of price increase.

It is not possible to explore this matter at any length here. I leave aside all political and social considerations, recognizing that these may be very important. The economic costs of unemployment and price inflation can be usefully grouped

into two categories: those related to the total real output of the community and those related to the distribution of income and wealth. Concerning the first category, one of the principal costs of unemployment consists of the output foregone as a result of failing to employ productively all the labour, willing and able to work at prevailing wages, as well as other factors. To the extent that high employment stimulates productivity growth, further costs in terms of output foregone arise as the level of unemployment is allowed to increase. For the economy as a whole, a principal cost of moderate inflation arises from the reduction in the usefulness of money. Under inflationary conditions, there will be a tendency to hold a higher proportion of wealth in the form of real goods, which are produced at a cost, in place of money, which is virtually costless to produce. Taking into account only these aggregative real costs and assuming no balance of payments constraint, I have estimated that the incremental cost of unemployment is approximately equal to the incremental cost of price inflation when unemployment is about $2\frac{1}{4}$ per cent and prices are rising at about $3\frac{3}{4}$ per cent annually. These estimates should be regarded as only very rough approximations. There can be little question, however, that by the historical standards of this country the economy can be run at a very high level of employment before the aggregative costs of inflation begin to outweigh on the margin the costs of unemployment. Moreover, as is evident from Table III, Canada and the U.S. over the past decade seem to have given higher priority to price stability relative to unemployment than the countries of Western Europe.

We might look at Table III. What I have shown here is the unemployment rate for various countries for various periods, also the annual average percentage increase in prices. You will observe that generally speaking the unemployment rate in Canada and the United States has been higher than in the European countries listed for whatever period you wish to consider. You will also observe that generally speaking the rate of price change in North America has been lower than in any of the European countries. I would add this word of caution, that international comparisons of unemployment and price data are notoriously treacherous. These figures are alleged to be on a comparable basis. I can only say that I think some effort has been made to make them comparable. How successful that effort has been I shall have to leave to someone else.

It is much more difficult to say what the optimum combination is when one takes into account distributive costs. Several points should be noted in this connection. First and foremost, it is high time that the distributive effects of unemployment are taken into account as well as the distributive effects of price inflation when this question is considered. Distributive justice is no less important when inequities arise from unemployment than from price changes. Few would agree that the interests of bond holders, pensioners and fixed income groups should be given priority over the interests of the older and very young workers, minority groups, those who are less skilled and less healthy, those living in the more remote areas of the country, and those running small business —those groups, in short, upon whom the incidence of unemployment is greatest. Secondly the empirical studies that have been made of the distributive effects of price inflation indicate that these are much less than usually suggested. This is because the public learns from past experience and before long begins to make some allowance for future price increases in its contractual arrangements. Interest rates on bonds, for example, are adjusted upwards to reflect the expected decline in the purchasing power of the fixed value of bonds. Since World War I, retail prices in North America in every year have been higher than in the previous year with only ten exceptions, nine of these occurring during the inter-war period. No one can claim that price increases are a recent phenomenon, being sprung on the public unexpectedly. In the light of past experience and with the commitment of the country to a mixed economy and the goal of full

employment, can anyone claim an injustice if he bets on price stability in the future and loses? Is there anyone in the country who, in fact, seriously believes that prices will not continue to increase in coming years? And in the light of past experience, it there any reason for believing that a continuous mild upward movement in prices cannot be sustained and is inevitably doomed to deteriorate into hyper-inflation?

In addition to these considerations, it must be recognized that most governments nowadays actively redistribute income in the interests of achieving greater equity and distributive justice. The social welfare and other measures designed to foster this objective can, and do make, allowance for the redistributive effects of price inflation and unemployment. Indeed, the Canada Pension Plan explicitly links benefits to changes in the cost of living. Along this line one might argue that the primary task of stabilizing policy is to maximize real output and that those concerned with stabilization policy should leave it to other branches of the government already active in the field to achieve the distribution of income that is regarded as acceptable.

The question of selecting the appropriate combination of unemployment and price change as a goal for stabilization policy is further complicated by the influence of external price changes on Canada's price level as well as by balance of payments considerations—particularly if holding the foreign exchange rate fixed at its present level is regarded as an additional policy objective. It seems evident that Canadian employment and price level objectives can be sensibly defined only in relation to the external factors conditioning Canadian wages and unemployment and the ability and willingness of governments to contain or offset these external influences. The scope for public action to offset external price changes is closely circumscribed if one assumes a fixed exchange rate and also that no Canadian government can allow the unemployment level to rise and to fluctuate by the extent which might be necessary. In this connection, it is interesting to note that since 1920, with the exception of the post-war period, interregional variations in changes in consumer prices in the U.S. have exceeded the differences in comsumer price changes between Canada and the U.S. At the same time, it is questionable whether Canadian governments can simply back off and fully accept whatever external pressure is exerted on domestic prices without resisting such increases to some extent through aggregate demand policies.

The difficulties which external pressures create are illustrated in Figure II, III and IV, which have been calculated from our price-change-unemployment relationship. Figure II indicates the unemployment levels which would have been 'required' in Canada to restrict the rate of price increase consistently to 1½ per cent from 1953 to 1965, abstracting from lags and assuming the increases in import prices and U.S. wages which actually occurred.

Now let us look at Figure II. What I am saying here is that the authorities take the view that they are going to hold the rate of increase in prices to 1½ per cent and they are going to generate whatever unemployment they may need to generate to hold that, whatever conditions abroad may be. As you will see, the little x's indicate the unemployment rates. You will see that this strategy implies very high levels of unemployment on occasion, and in three years there is no level of unemployment which in fact could have stabilized prices in the sense of holding the rate of increase in prices to 1½ per cent.

Figure III is based on the opposite extreme. In this case the authorities are assumed to take the view that they are going to hold only the domestic component of price change to an increase of 1½ per cent, and they are going to accept whatever external influence comes in in the form of rising prices. This means that the unemployment consistently stays at 2.7 per cent according to this

estimate, and we then get much higher rates of increases in prices. These increases above 1½ per cent reflect the influence of external factors on the Canadian economy over these years.

In Figure IV I have simply assumed that the policy makers take the view that they are going to offset half of the external influence on prices. You will observe that, as you would expect, this reduces the rate of increase in price rather considerably compared to Figure III, but it also leads to levels of unemployment which are higher than in Figure III.

If you look at Figure IV, you will observe that even if that strategy is followed the average rate of increase in prices is still 3½ per cent per year. That is to say, if the authorities deliberately set out to offset half of the external influence coming in, as we have experienced it since 1953, the implied rate of increase on average for that period would have been 3½ per cent—an average which some people would probably regard as intolerable, and which could be reduced significantly only by maintaining an average unemployment rate well in excess of 4 per cent per annum. In short, if prices are generally increasing in the world around us at rates comparable to those during the past decade, any attempt to offset a substantial portion of the external effect on domestic prices by repressing domestic demand will not only prove very difficult to accomplish but also will prove very costly in terms of real income if, in fact, the attempt is successful.

By the same token, it is evident that Canada cannot realistically aim at a long-run unemployment-price change combination which gives substantially greater priority to employment and less to price stability than the unemployment-price change combination at which U.S. policy aims. Attempting to do so would result in balance of payments difficulties, especially if the country remains on a fixed exchange rate. Too much, however, can be made of this balance of payments constraint:

(a) There frequently is confusion between the current account balance and the balance of payments position. For instance, during the past year Canada has had a very strong balance of payments position—so strong in fact that the authorities elected to repatriate some $140 million of U.S.-held Canadian Government bonds in order to avoid further reserve accumulations. At the same time, Canada was running a large deficit on current account. The point to be emphasized is that the constraint on Canada's freedom to pursue its own policy combination arises from the overall balance of payments position, not from the current account balance.

(b) It should be recognized that the policy combination we are considering involves the consumer price index—not wholesale prices or prices of internationally traded goods—and that there is no close and direct relationship between changes in the consumer price index and Canada's balance of payments position. Although there undoubtedly is an inter-relation between price changes in various sectors of the economy, it is evident that the consumer price index is not simply a mirror image of wholesale or foreign prices. From 1953 to 1966, the consumer price index increased by about 25 per cent, the wholesale price index, it is possible that this index may have a greater upward the import price index increased by 21 per cent. One reason for this disparity between consumer price changes and wholesale and export price changes is that about 45 per cent of the consumer price index reflects the cost of housing and services which are not traded internationally. Increases in service costs since 1953 have averaged over 58 per cent, exceeding the increases in any other major components of

the index by a considerable margin. In addition, because of the more complex nature of the goods and services included in the consumer price index, it is possible that this index may have a greater upward bias arising from the difficulty of taking quality changes fully into account, than the wholesale or export price indexes.

(c) Some freedom is afforded to Canadian policy by the possibility of adjusting exchange rates and by the ease with which Canada in the past has been able to attract foreign capital.

It is indisputable that balance of payments considerations and a desire to avoid variations in the exchange rate substantially restrict Canada's freedom of choice in selecting an appropriate combination of price change and unemployment as the goal of stabilization policy. It bears equal emphasis, however, that this constraint does not eliminate all choice and that the country has some limited scope for selecting its stabilization objectives.

The main policy conclusions which emerge from this brief review may be summarized as follows:

(a) We should not assume that the difficulties facing economic policy in this country are more difficult than they really are by starting out from the premise that there is an inverse relationship between the long-run rate of economic growth and the level of employment. As far as one can tell, the secular growth rate is independent of the level of employment, and there may be a weak positive association. This implies that stabilization policies should be closely geared to the objectives of high employment and price stability.

(b) There can be little question that there is a conflict between the objectives of high employment and price stability. Various policies can and should be pursued which will reduce this conflict as much as possible, consistent with the other goals of our society. In particular, every effort should be made to improve the management of aggregate demand; various supply policies should be pursued which will increase competition, enhance factor mobility and facilitate productivity growth; and steps should be taken to improve our information and knowledge about the economy and to improve co-ordination among various sectors of the economy. I agree with the Economic Council in questioning the advisability of adopting direct measures such as "incomes policies". In my view there are a number of other, considerably more promising, policies to be tried first.

(c) Whatever policies are adopted, there is little reason for believing that the conflict between the goals of full employment and price stability can be eliminated for all practical purposes in the foreseeable future. It is difficult to say with any assurance what is the appropriate combination of unemployment and price change at which stabilization policy should aim. This issue poses important political and sociological questions as well as economic questions which in the final analysis are necessarily resolved by our political leaders. Nevertheless, if one looks at only economic considerations, one can argue that in the past there has been some tendency to over-estimate the costs of rising prices in relation to the costs of unemployment and that the community as a whole would have had a higher real income if economic policy in this country had given higher priority to maintaining high employment and lower priority to restraining price increases.

(d) The relationship between the level of employment and the degree of price stability in this country is greatly influenced by external factors

> conditioning Canadian wages, prices, and unemployment. It seems wholly unrealistic to define either a price objective or an unemployment objective for this country without fully taking these external influences into account. Moreover, balance of payments considerations and a desire to limit exchange rate movements seriously circumscribe the options open to Canadian policy. This constraint, however, should not be regarded as completely eliminating all choice between the objectives of high employment and stable prices.
>
> Since the time of Diocletian, and very probably long before, the sovereign has repeatedly responded to generally rising prices in precisely the same way: by berating the "profiteers", calling on private persons to show social responsibility by holding down the prices at which they sell their products or their services and trying through legal prohibitions or other devices to prevent individual prices from rising.

These words from a famous American economist Mr. Friedman, aptly summarize what I choose to call the conspiratorial theory of price inflation. According to this theory, rising prices reflect a conspiracy of villains victimizing an innocent public. I question this approach to this important policy question. Not only does it hamper public understanding of the issues in question but also, by promoting a wild goose-chase, it reduces the pressure on the government to adopt new and effective policies with a minimum of delay. Special circumstances in particular markets may, on occasion, be of some significance. In my view, however, the almost continuous rise in prices since 1945 in Canada and other countries reflects much more pervasive and deeply-seated economic conditions. A major task of public policy is to consider what measures might be adopted to modify these underlying conditions so as to improve the economic performance of the country. Another major task is to consider the relative merits of alternative combinations of policy goals which, because of underlying conditions, conflict with each other to some degree. These are areas where there is much room for improvement in our basic knowledge and understanding as well as for public education. I congratulate this Committee for its timely and impressive work on this very important subject.

Mr. McCUTCHEON: My first question is based on this statement on page 18 of your brief:

> This implies that stabilization policies should be closely geared to the objectives of high employment and price stability.

This is a fine statement of academic principle. Practicality tells me to ask you: how do we do it?

Professor REUBER: What I was getting at, Mr. McCutcheon, was that there has been some suggestion that the economic growth of this country would be advanced, or would proceed more rapidly, if the economy were not run at quite such a high pitch. In other words, if there were a rather higher level of unemployment, a little more slack in the system, that in itself might tend to promote the rate of economic growth.

I have suggested in this submission that the evidence which I and others have been able to find does not support that contention, that the rate of economic growth appears to be largely independent of the level of unemployment and the rate of price inflation. What I am suggesting in the sentence to which you have referred is that the stabilization authorities, when they come to make up their minds about whether to step up aggregate demand or reduce aggregate demand, should look at that question in terms of the level of unemployment which they hope to achieve and the implied rate of price increase, and should not be

particularly concerned by the prospect that by having a high level of employment they would thereby reduce the rate of economic growth. That is the point I am trying to make.

I am not sure whether this view of a conflict between high employment and economic growth has much currency here, but what I have been trying to suggest is that from the empirical evidence which I can find, and which most other people who have looked at it seriously can find, the rate of economic growth does not appear to be imperilled by high levels of employment.

Senator THORVALDSON: May I ask a supplementary question on that? There is something I do not understand in what you said. You referred to "stabilization authorities". What and who are they?

Professor REUBER: Monetary and fiscal authorities primarily.

Senator THORVALDSON: Of the federal government?

Professor REUBER: Of the federal government. They are the authorities who have the instruments which are used, and have been used in this country, primarily to regulate the level of aggregate demand.

Senator THORVALDSON: That would include the Bank of Canada?

Professor REUBER: The Bank of Canada and fiscal authorities—the Department of Finance. These are the main instruments which are used from the point of view of stabilization policy. When we are talking about other types of policy related to the economic growth of the country, we are talking about a whole range of other instruments. Many of the supply policies, for example, which the Economic Council has referred to are attempts to improve the economic growth rate in the country by making labour more mobile, by reducing bottleneck pressures in the system and so on. These policies are of a quite different form to the monetary and fiscal policies which have as one of their main objectives the regulation of aggregate demand, and therefore stabilizing the level of activity.

Mr. MCCUTCHEON: I do not know whether I can phrase my question properly or not, but in this assumption which you have presented to us it seems to me, a layman, that there is inherent in what you say the assumption that much of the development and the growth of our country is artificial and it can be turned on and off like a tap. Personally, I feel that in a private enterprise economy such as we have here these restraints which are artificial represent only a percentage of the overall effect. How big a percentage is this? How important is it?

Professor REUBER: There is no question that the basic structure of the economy, the demand from the private sector of the economy and so on, are key components which determine the level of economic activity in the country. However, ever since the 1930s, partly as a result of the writings of the late Lord Keynes, governments have much more actively participated in economic activity in this country, and in almost every country one cares to refer to. Through their active participation via the budget, the expenditures and revenues of government, and also via the monetary authorities' influence on credit conditions, governments are in fact able to regulate the level of activity. Suppose the government just did not do anything, but left everything unchanged, and as a result ended up with 10 per cent unemployment. Governments which are actively engaged in regulating aggregate demand can take a variety of steps which will improve the economic performance of the economy in the sense of reducing the level of unemployment, and the range of steps which they can take are such things as increasing government expenditure on public works, for example; tax reductions which put more cash in the pockets of the spenders who, as they spend, generate more activity in the country; monetary changes which, by making credit more easily available and less expensive, tend to stimulate

expenditure and generate employment. Those are the primary instruments which the government uses to regulate the level of activity.

I am not saying that all activity can be attributed to government or lack of government performance; that is certainly not what I am saying. I am saying, however, that governments in a mixed economy—which is, after all, the kind of economy we live in—do in fact actively engage in spending, in tax raising and in the financial markets of the country; in their involvement in those activities they take steps which they hope will improve the economic performance of the country, and which I think it is generally agreed, unless we have colossally bad management, do in fact assist the economic performance of the country.

Mr. McCUTCHEON: What is the conflict you refer to between price stability and employment?

Professor REUBER: If we turn to the first chart, let me take the bottom line of that curve. What that chart tells us is that according to the price history of this country from 1953 to 1965, from the estimates we can get out of the statistics, when the level of unemployment in this country is about 4¾ per cent—assuming now external conditions are non-inflationary in the sense that there is no inflation in the United States and we are not importing inflation—prices in this country will be approximately stable; that is to say, no change in prices.

However, if now the authorities step in and, say, engaged in an expansionary fiscal policy, embarked on public works and various other things of that sort, in order to reduce the level of unemployment, and get it down to, say, 3 per cent. According to the estimates that would imply, when the unemployment rate goes down, that labour markets become tight and people who are selling commodities demand higher prices. At that level of unemployment, roughly 3 per cent, according to historical experience one might expect prices in this country to rise about 2 per cent per annum. Now, that is a conflict.

If there were no conflict you could increase the level of employment, reduce the level of unemployment, and prices would still remain unchanged. If you could have that kind of world, that would be a better world to live in. The difficulty is, that is not the kind of world we are living in, so that we have two tactics to follow. One is to see what we can do to reduce this conflict; in other words, what we can do to shift that curve down towards the axes. I suggested various steps—supply policies, better information and so on. The other thing, though, that you must recognize is that as long as you cannot eliminate, or virtually eliminate for all practical purposes, this kind of conflict, you are then left with the question of what combination of price rise and unemployment you think is appropriate. Some people might argue—assuming again no inflation abroad—that the appropriate level of unemployment is 4¾ per cent and the appropriate rate of price change is zero. They would regard the cost of any size in prices, arising from reducing the level of unemployment, as exceeding the gain in terms of reducing unemployment. I doubt whether many of us would argue that we are completely unprepared to see any change in prices and are willing to have the unemployment rate however high it may need to be in order to make sure that the price level does not rise.

We can go to another extreme and put the unemployment rate down to 2 per cent. If you did that you are right off the chart. In any event, you have an extremely high rate of price increase. It is my view—and, I suspect, the view of most people—that the cost of price inflation at rates of 6, 8 or 10 per cent per annum would substantially outweigh the cost of raising the unemployment rate from, say, 2 to 3 per cent.

What this illustrates really is the point that there is a choice involved here. Where do you want to be on the curve? That is a difficult question. I am not

minimizing the difficulty, but I have made a valiant stab here at giving an answer. It is a qualified answer, and I emphasize and underline "qualified". But I do want to highlight this as a question of some importance from the standpoint of economic policy, because I do not think we have in the past given enough attention to the question of the costs of both price inflation and unemployment, and these are costs which are traded off against each other.

If there were no conflict, then, of course, you have the ideal situation. You would have stable prices, and maybe not zero unemployment but as close as you can get. The fact is, however, that the world is more difficult than that, and as a result you are faced with this difficult choice.

Mr. McCUTCHEON: You have been most helpful on that and I am getting a much better picture. Recently we did have, two or three years back, a great war on unemployment, which probably triggered our current price spiral. I think Senator Carter wanted to ask a question.

Senator CARTER: Yes, if you would permit me at this point I would like to ask a supplementary question on that. If we project the flat part of the curve below the line it seems possible we could have no unemployment at all and only about 1 per cent increase in the consumer price index. Apparently there are a number of variable factors here. You mentioned services, for example, which are included in the consumer price index, which went up faster and is, to some extent, distorted. How many variables are in there that could be modified to keep that curve down?

Professor REUBER: One of the key variables in there is the effect of external influences on the economy.

Senator CARTER: We cannot do anything about that.

Professor REUBER: You cannot do anything about that, but nevertheless it is a factor which keeps changing, as I have indicated. That top line assumes that, roughly speaking, prices in the United States are rising at a rate of 2 per cent per annum. That makes a terrific difference to the kind of performance you get in this country. In addition to that conditioning factor, the form, structure, shape and position of that curve is determined essentially by the structure of the economy. You have the service items which you have mentioned, you have the problem of mobility of labour from one area of the country to another. If labour were more mobile so that a slight adjustment in wages would bring labour into labour-short areas very easily, then prices would not rise as fast in those areas. In addition to that you have the whole question of monopoly power—although that is a nasty word, I guess.

Co-Chairman Mr. BASFORD: We have been using it.

Professor REUBER: Market power, shall I say, will influence the shape and position of this curve. In other words, I would suggest that that curve reflects all the factors which influence economic activity. If I were clever enough I would have a large model of the economy, I would have every market in there, with various equations and so on; every one of those would have some influence on the position of that curve. What I am suggesting is, one policy strategy—which the Economic Council suggest also—is that we look at these various supply policies, labour policy and so on, to try to move that curve down.

Senator CARTER: Your short curve covers a long period between 1953 and 1965, twelve years. What puzzles me is how you get comparable conditions at any one point in that period.

Professor REUBER: This is a fairly technical question, but we did estimate this for this period using fairly complicated techniques of statistical analysis. We included a whole range of variable—rate of increase in U.S. prices, U.S. wages, import prices, profits, factors of that kind. Furthermore, we fitted this curve for

the period 1953 to 1961 and then used it as a basis for predicting what happened in the period 1961 to 1965, and it worked well. We therefore have some test of whether we have nonsense or not on this.

Senator CARTER: I have some more questions but I do not want to use up the time.

Mr. MCCUTCHEON: Do you recommend a floating rate of exchange?

Professor REUBER: That is a very difficult question. Let me start in this way. I generally support the notion of a floating exchange rate, for a variety of reasons, partly because it provides for instantaneous adjustment to changing economic conditions, and I think that is very helpful. However, if you are asking me whether I would recommend that this country should now, or in the next month, adopt a free exchange rate, then my answer would be "No." It is one thing to be on a free exchange rate system and continue on that system and make it work. It is another thing to have gone off a free exchange rate system, as we did in 1962 or thereabouts, and now to go back on it. I think that would have rather important consequences and might not be in our interest.

May I just add one further comment to that reply? I would think, if it should happen on some occasion in future that the balance of payments became a serious constraint on economic policy in this country, we would again want to consider very seriously a free exchange rate system. I think it should also be recognized that in this country we have never really ever accepted the philosophy of a fixed exchange rate through thick and thin; we have changed the thing quite often. Sometimes we say it is stable; it is stable, but not in the sense of decades, it is stable over a few years. My own view is that that is the way the policy should be; that we should not nail ourselves to an exchange rate to which we are willing to bend everything else in order to maintain it; and I would hope that in the future, if the present exchange rate becomes a serious obstacle to the economic performance of the economy, we would seriously consider either changing it or going back again to a free system.

Mr. SALTSMAN: I have a supplementary question. Are you familiar with the suggestion Dr. Neufeld made to us here, which is a compromise between the fixed exchange rate and a complete floating exchange rate, one which would be variable within limits, if I am interpreting him correctly? He has some of the reservations on this subject that you have.

Professor REUBER: I do not know whether one can answer that kind of question in general. I think it depends on the circumstances of the time. I prefer a rather pragmatic approach to the exchange rate, as I think this country has followed.

Mr. SALTSMAN: Is not one of our difficulties the question of the huge capital import which takes place as an upsetting tendency on this sort of automatic adjustment? This is the difficulty we were in in the early 'sixties when we had a high level of unemployment which might have been corrected by a fixed exchange rate.

Professor REUBER: There are some people who would suggest that there were other difficulties in that period.

Mr. SALTSMAN: I know.

Professor REUBER: I do not particularly want to get into a re-hash of that piece of history, but it is my own personal view that the free exchange, when we had it, worked extremely well. One of the difficulties with a free exchange rate system is that if you manage your economy well it helps you, but if you do not manage it very well it works against you. It allows you greater latitude to perform well but also allows you greater latitude to perform badly. I think that period of our economic history was not a particularly distinguished one. There

were difficulties, and I think many economists have argued this before; it has been pretty well rehearsed. I do not believe that that period of our history proves much for or against the free exchange rate, and I do not believe it proves anything about the problem of adjustment to capital flows.

Mr. McCUTCHEON: Table II is the tariff action recommended in reports under the Combines Investigation Act. In other words, these items should be removed from the tariff list. Is that the inference?

Professor REUBER: I have here the recommendations which were made. Let me read one of them to give the flavour of what was actually said. Some of them are rather long. There is a short one on fine papers.

Mr. McCUTCHEON: Do you have a nice short one on sugar?

Professor REUBER: This is on fine papers:

> Modification of the rates of tariff be carefully considered.

That is the form in which these recommendations were put forward. In the recommendations the tariff is pointed to as a device which the government might consider for reducing market power in these areas where in fact they feel there is some.

Co-Chairman Senator CROLL: Certainly in fine papers they get fined every year.

Mr. SALTSMAN: Was not there a recommendation on glass as well at one time?

Professor REUBER: There may well have been. If so, it escaped my net. I think this is a fairly complete listing.

Senator CARTER: Could you quote one on drugs?

Professor REUBER: It has two parts. Let me read the part that I have, at page 507:

> In view of the foregoing circumstances the Commission inclines to the view that, with respect to ethical drugs, and more particularly antibiotics and tranquilisers, the dumping duty rules may sometimes operate to increase the costs of Canadian importers without giving any substantial protection to Canadian manufacturers.

Then at page 505 there is one particularly concerned with dumping duty provisions, which it suggests might be amended to reduce their market power.

Co-Chairman Senator CROLL: What about ammunition? That intrigues me a little. How did we get into that business with tariffs? What difference does it make?

Professor REUBER: This is rather a lengthy one.

Co-Chairman Senator CROLL: Then do not give it. Why would it arise? That is all I am concerned with.

Professor REUBER: This was small arms ammunition. We have a tariff, and apparently this was referred to the Combines Commission for investigation.

> If Canadian Industries refuses to give an undertaking of this nature—

here they were talking about alternative devices; one was to change their distribution channels in one way or another, but if they refused,

> the Commission recommends, either (a) that the tariff be reduced so that traders refused supplies of ammunition by Canadian Industries Limited can import comparable lines of ammunition on a competitive basis with recognized C.I.L. distributors, or (b) that traders refused supplies of ammunition by Canadian Industries Limited and importing ammunition

be granted a drawback of customs duties to an extent which will make their landed costs equivalent to the delivered price of C.I.L. ammunition to their competitors.

Mr. McCUTCHEON: Mr. Chairman, I will not belabour the committee with Mr. Whelan's speech on the fact that Caanda has the cheapest sugar of any country in the western world. We will let it pass, but I just wanted to mention that since he is not here.

Co-Chairman Mr. BASFORD: I am glad to see, Mr. McCutcheon, that you are sticking up for Mr. Whelan's point of view.

Mr. ALLMAND: You say there is no real relationship between growth and employment, and you suggest that policies should be geared to high employment and price stability. You say that amongst those we should concentrate more on high employment; but it seems to me there are some people who say that especially in this day of increasing automation there is a relationship between growth and employment and that we should concentrate on full production rather than full employment. In other words, if we concentrate on full employment we may disregard the new means of production, technological change and automation, and if we are going to have the most complete benefit from the new technology we should concentrate on full production by the full use of technology, even though it means a degree of unemployment, which we could subsidize through social assistance.

Professor REUBER: I agree with the point of view that one should not deter the introduction of automatic machines, and things of this sort, which increase productivity on the ground that you can stimulate employment by working with a shovel rather than a bulldozer. I would argue, though, that in accepting the best technology you can get and the most modern means and most efficient ways possible, you still are concerned, having done that, with the level of unemployment. There is no inconsistency with using very efficient means of production and having a very high level of employment. If you argue that point of view, which I am challenging, what you have to argue is that you have a high level of unemployment that is in fact going to lead to a reduction in productivity through the introduction of inefficient machinery, and the rest.

I think in fact the world is more likely to move the other way and when employment is very high and the cost of labour and wages rising, this in itself provides an incentive for the introduction of more modern machines and technology, and in that way you can in fact stimulate productivity. The pressure of demand on the existing resources in the community tends to induce the adoption of the new techniques and technology, and so forth, and that leads to more economic growth. It is along that line of reasoning one might expect to find that high employment is positively associated with an increase in the rate of economic growth; but in fact when you look at the evidence, as I have, one does not find that.

Mr. ALLMAND: I thought you were arguing that we should concentrate on full employment and that growth will take care of itself. On the other hand, I thought that you were arguing against the fact that if we concentrate on growth we do not have to worry about full employment. It would seem to me that if we concentrate on growth and productivity we may have unemployment problems, which we would have to work with, but we don't necessarily place the emphasis on productivity. Were you saying that we should concentrate on unemployment as opposed to productivity?

Professor REUBER: No, I am not saying that. I am all in favour of having that increased productivity. I am suggesting that there is very little that can be done to change the rate of productivity growth by changing the level of employment.

Mr. ALLMAND: What about the other way around. Don't you admit there is likely to be unemployment if we have fully concentrated on growth.

Professor REUBER: No, I do not think so, not if the level of aggregate demand is there and if it is regulated effectively by stabilization policies.

Mr. ALLMAND: But some suggest a guaranteed minimum income for people who do not work in this new society that will come about. What is your comment on that?

Professor REUBER: You are posing the question whether we shall have a society with any wants left. I think we have. I do not think we have a problem there. In fact, when we talk about rising prices we are talking about an economy the wants of which exceed the capacity of the country to fulfil wants.

I would be rather doubtful myself about an argument which led to the conclusion that there was really no way we could get rid of all this labour, because there was nothing useful to employ it at. We can do a tremendous number of things with people. I am not saying it is easy to do this. There are, after all, important questions of whether public works or tax reductions should be the strategy or whether monetary policies should be used. These are important questions which I think need to be considered, but I do not think there can be much doubt about the fact that, if you set your mind to it, you can stimulate the level of aggregate demand in this country to the point where it is going to soak up and very effectively employ all the labour we have in the country.

Mr. ALLMAND: I do not necessarily hold the viewpoint I was putting forward, but I was putting it forward because I know of that viewpoint and it seemed to me that yours conflicted with it.

Professor REUBER: It does. I do not take that view. I think the view which I would hold is that we cannot possibly argue against improvement in productivity on the ground that it is going to generate unemployment. I think these are essentially different questions.

What we should be talking about is the appropriate level of aggregate demand, and if it turns out that the level of demand is too low to keep up the employment rate where we want it, there are ways and means of stimulating aggregate demand: altering revenues or expenditures by the government, for example. There are other devices as well. Those are by no means the only ones.

Mr. ALLMAND: On page 6 you say, just before the beginning of paragraph 11:

> For example, I regard the measures taken to increase the flexibility in the fiscal instrument last spring as a significant step forward in this area.

Professor REUBER: What I was talking about was two steps taken, as I recall. One was the promise to reduce the sales tax, setting out a time horizon on it and letting expectations take account of that. The other was the arrangement whereby investment allowances were permitted.

Mr. ALLMAND: Yes, I call that forced savings, or refundable tax arrangements.

Professor REUBER: They are refundable tax arrangements, yes. The point about that is that I do not know whether those changes have had all that much influence. In fact, I expect they have had some influence but just how important they are, I do not know. The important aspect is that it introduces some element of flexibility into policy and the government, I believe, has a little more leeway. It can change a little more quickly its policies and is not quite so rigidly tied to an annual budget, and the inflexibility which that implies.

Mr. ALLMAND: With respect to tariffs, in your recommendations do you propose unilateral reduction of these taxes merely to combat market power in

Canada or do you propose something like the Kennedy round of multilateral reductions.

Professor REUBER: There is certainly no question that multilateral reductions are always better than unilateral reductions. I can say that without any reservations whatever. Indeed, I think that as a practical matter it may well be that general tariff reductions will necessarily have to proceed on a multilateral basis.

On the other hand, in cases where market power does appear to be very important and does seem to be really making a difference to the cost of living index, there may be occasional circumstances which would justify the unilateral reduction of tariffs in order simply to knock down some of the power groups which we happen to have in the community. I am not prepared to say how many cases there are of this kind or how important this is.

I have picked out in this table ten cases which were given considerable study by the Combines Investigation Commission. They have picked out approximately ten items on which they did find evidence of market power, and they point to the tariff as one possible way—and there are others which they suggest —whereby that market power might be somewhat reduced.

Now, even if you wipe out the market power on all those items and reduce the tariff to zero, I am not sure what impact that would have on the cost of living. It might not be very much.

Mr. ALLMAND: I was going to come to that. The items with which we have the most trouble in Canada this year and in the past year as well were food, housing and services. We had the housing people the other day and they seem to be a completely Canadian industry and so tariffs were not involved. When you come to the consideration of food, you run into the problems of the farmers, and then you come to the question of services. Do I understand that you recommend more open immigration?

Professor REUBER: My whole argument is based on the assumption that somebody does find market power. I am sure there is market power, but how much is an open question. But if someone does find market power being exercised, I think there is a case for using tariffs. In the case of housing and services, I do not think that market power is an explanation as to why these costs have gone up. You have to think about a whole range of other factors, demographic trends, lags in building and other things in the cost of housing. These changes today reflect the house building activities over the past ten years. If we had built more houses during that time the cost would be less today. I am not sure that you can do all that much about it, given that you have the considerations we are talking about. You may do something about building more houses this year or next year, and that may have some impact on the cost three, four or five years from now, but not on the cost of housing today. Unless you have a staggering house building program you are not going to change the stock of houses all that quickly.

Mr. ALLMAND: Where these tariff impositions would be used, you would admit there would be some unemployment following? If we lowered the tariffs into Canada, a manufacturer here would have to cut his labour staff, and you think we should accept that for the good of the lower prices that would result?

Professor REUBER: It does not necessarily follow. The whole assumption is that this producer has market power and is exploiting the public and is making an unusually high profit. If you cut tariffs you may cut his profits without cutting employment. Of course, you may get an employment effect but I don't think that is the situation we are talking about. We are talking about situations where we have a high level of demand, and in those circumstances I cannot see the problem of adjustment which is being discussed here.

Co-Chairman Mr. BASFORD: Do you have any explanation why none of these recommendations was acted upon?

Professor REUBER: No.

Co-Chairman Mr. BASFORD: I think Dr. James should get this from the Department of Finance.

Co-Chairman Senator CROLL: I was going to comment that from the fact that 1947 was the first and 1965 was the last, it certainly appears that they don't much value that as a matter of policy. They don't look upon it with favour at all. No government since that day has done so for some reason or other. However, Professor, you made one little remark which interested me. Perhaps it was a slip or perhaps you meant it. I gathered from what you said that you had some ideas about more than one budget in the year.

Co-Chairman Mr. BASFORD: That was another speaker yesterday.

Co-Chairman Senator CROLL: Yes, but he said it also. I know we had it before, but I wondered if there was something he said about further flexibility and he talked of approval. Have you anything in mind, Professor, along that line?

Co-Chairman Mr. BASFORD: That was not a supplementary question to Mr. Allmand's?

Co-Chairman Senator CROLL: It arose from it.

Co-Chairman Mr. BASFORD: I thought maybe one of the other members would like to ask that question.

Mr. ALLMAND: My final question arises out of page 20 where you seem to criticize the people who go around looking for a villain in price increases, and I was wondering whether you were criticizing our committee.

Professor REUBER: Not at all.

Mr. ALLMAND: And then I looked and saw on page 21 where you thought we were doing a worthwhile job. Do you think this type of committee where we call in supermarkets and housing people to explain high prices and so forth—do you think that this has a detrimental effect?

Professor REUBER: No, I think it has a very useful effect. I think, not only in terms of this particular question, but in terms of a variety of economic questions, I would welcome much more activity of this kind in which we could have a real discussion of important public questions. We should have people like supermarket executives in to talk about their policies. After all, they are men of great experience and ability, and I think the public should be aware of their views on this and other problems. It is very useful.

Mr. ALLMAND: You do not think it is witch hunting?

Professor REUBER: No, I am not suggesting that; but I think, on the other hand, some people—and I am not speaking here about this committee or people who have appeared before it, particularly—but I think frequently there is the feeling that when prices are rising somebody is gouging the public and isn't it awful and why should not they be looked after by somebody? I do not think this is of much importance in explaining the general rise of prices in this country and in the world generally since the war. There may occasionally be a particular circumstance where somebody, for a particular reason, has an opportunity to raise prices higher than might be warranted, but I think those are relatively rare and their impact on the cost of living, I would guess, would be very small.

Mr. SALTSMAN: I have the same question marked down as the senator had, and perhaps I can satisfy mine and the senator's curiosity by asking you this.

Co-Chairman Mr. BASFORD: If I had known that, I would have let the senator go ahead!

Mr. SALTSMAN: We had Mr. Alan Beckett before us yesterday. He was equally concerned about the need for a flexible kind of policy so the Government could act in calling for or making adjustments instead of waiting for the once-a-year occasion. His suggestion was for perhaps a biannual budget or a greater degree of flexibility given to the Minister of Finance to vary income tax rates or sales tax rates within certain limits. I would like to have your comments on it.

Professor REUBER: I agree with Mr. Beckett generally. It is very important in this country to improve the flexibility of the fiscal instrument. We have, in fact, had budgets brought in in the post-war period in the fall as well as the spring. As far as I am aware, and I am not an expert on these matters, the Minister of Finance can bring in a budget any time it is called for. The fact is, however, presenting a budget does involve a certain amount of time; it is not something you can do all that quickly. Going from a system of having an annual budget to one of having two budgets, one in the spring and one in the fall has some merit. However, I am not sure that economic circumstances are any more likely to coincide with that kind of rhythm than with the rhythm of having one in the spring. It is along that line of thought why I really believe it would be very desirable, if a satisfactory way could be found to do it, to give the Minister of Finance or the Government a certain amount of discretionary authority which would allow them to change taxes or selected taxes within specified ranges, possibly subject to approval after the event by parliamentary authority.

Co-Chairman Senator CROLL: Which power the President of the United States now has.

Professor REUBER: Yes.

Co-Chairman Senator CROLL: Is it for 5 per cent?

Professor REUBER: I am not sure.

Mr. SALTSMAN: On tariffs as well.

Co-Chairman Senator CROLL: Yes, on taxes and tariffs.

Professor REUBER: I think in commodity taxes there could be a range of variation and within the income tax provisions.

There have been suggestions in the past that on occasion you might want to have a tax holiday when, for example, circumstances are such that you want to add a quick stimulus to the economy, and the minister may wish to be in a position where he can declare a tax holiday for a month, or whatever it happens to be. I am not here advocating a particular type of discretionary authority. I do believe, however, that it would improve the ability of a government of whatever complexion to regulate aggregate demand if it had that additional authority.

Mr. SALTSMAN: I have a question with regard to the whole attitude which seems to run through your paper. Do I understand that you have reached the point where you say that there are means whereby the government can maintain full demand or nearly full demand in the economy, regardless of the circumstances?

Professor REUBER: No, I think that is being more optimistic than I am.

Mr. SALTSMAN: To what extent can we maintain full demand.

Professor REUBER: The answer to your question depends partly on what level of economic performance you are willing to put up with. I think, generally speaking, in the post-war period the public has come to expect a much higher level of economic performance from this country, and in other countries, than was true before the war. The fact that this expectation is fairly general—certainly it is true of the United States—makes it easier for us to live in this kind of world. But, I think it is also true that if there is some major development in the United States or in the rest of the world that leads to a depression it would be

extremely difficult, despite all the more sophisticated knowledge and procedure and techniques that we have—it would certainly be difficult, and it would certainly call for a level of skill and dexterity, which would be a challenge to this country. I am not saying it would be impossible, but I think it would be extremely difficult, although not as difficult as it was 20 years ago.

Mr. SALTSMAN: When you were discussing the problem of unemployment —you know, frequently a certain measure of unemployment in this country is advocated as a means of disciplining the economy. This is especially true if you read some of the speeches that are made along these lines. It is said that we are going to price ourselves out of world markets, and that kind of thing. It seems to me that business men who operate in the export market are very much concerned about employment and inflation, whereas the business men who operate in the domestic market do not seem to be as concerned about inflation and full employment. The business men who operate in the export market have a different kind of interest. They seem to have an interest in a higher level of unemployment and more price stability in order that they may cope with world prices.

Professor REUBER: That is true. If we set our sights on a higher level of employment, which would imply a higher rate of price increase, that would mean that our imports would tend to rise and our exports would tend to fall, with serious balance of payments consequences, and we would have to cut back on employment, depreciate the exchange rate, or bring in more foreign capital to finance the gap. Those are the options. I think you have really put your finger on one of the really important constraints on economic policy in this country, namely, the constraint of the balance of payments, provided you are on a fixed rate of exchange.

Now, recognizing that as a constraint, however, does not mean that you have no choice at all, or that we can go home and forget about economic policy. There is still a limited range of choice, and all I am suggesting in this paper is that within that limited range of choice it is my view that in the past we tended to give too high a priority to price stability and too low a priority to high employment.

It is true that as you change the priorities and push for higher employment and somewhat less stable prices—if you change those priorities—you are going to find that your balance of payments situation may be less rosy. But, it still may be viable in the sense that you are not faced with a sort of continuous devaluation or an ever increasing capital inflow, or with trade restriction of various kinds.

Mr. SALTSMAN: On the question that Mr. Allmand raised regarding the effect of high employment on, let us say, automation and things like that, I very much agree with your point of view that high unemployment is a stimulus to capital investment—in other words, the replacement of labour with machinery—but it is also a stimulus on the supply side because our mobility becomes better. The encouragement to mobility is better, and there is an encouragement to industries to diversify and move into areas of high unemployment in an endeavour to capture new pools of labour. It has the effect of permitting a wholly new manpower mobility program without any kind of interference. The market reaction itself and the high employment in addition creates very favourable effects throughout the whole world. I am glad you brought that out today.

Professor REUBER: I am very much in favour of various manpower policies that have been suggested, better information and so on; but if you have to pick out one policy to make it easier to move manpower around in the country I doubt if anything you can do is as effective as having a high level of employment. After all, people are more likely to move if there is a job at the end of the line. If there is not a job at the end of the line it means that an awful lot of retraining has to be done to encourage much movement. I agree that high levels of employment

are very conducive to greater labour mobility and mobility of other factors as well, for that matter.

Mr. SALTSMAN: And that is almost a pre-condition to having this high level of employment. Now, on the question of—

Co-Chairman Mr. BASFORD: I have a supplementary before you go on to the next question, if I may. It seems fairly easy to maintain high levels of employment in certain parts of the country, but we keep hearing statements that we must have high levels of employment throughout the country. How do you do this and still maintain the mobility? It seems to me there is a conflict.

Professor REUBER: There is no conflict in the sense that if you have a high level of employment in say the central part of Canada I think that would generate mobility in other parts of Canada and that as people move out the level of employment will increase in other parts.

This is a very difficult and important question which I am really not able to answer. If I were able to do so, I would be delighted. There are all sorts of social and political questions relative to whether you want people to move to other parts of the country. In addition, there is the very important question of what can and should be done in terms of regional economy development. That is a very difficult and also a very important question, to which I can add very little.

Mr. SALTSMAN: One of the other effects of high employment is that you get inter-industrial developments, and the difficulty of going from low level industry to high level industry, and so on.

Now, on this question of tariffs and why the Government has not taken the recommendation to the combines, I think on one occasion when he was asked this question the responsible minister indicated he was using this as a bargaining tool and was waiting to negotiate tariffs with other people, and therefore could not unilaterally reduce tariffs. I presume you would not be in favour?

Professor REUBER: I do not question that might be important that he might in fact be involved in a tariff negotiation, and that if he can cash this reduction which he wants to make anyway, against a reduction by somebody else, why shouldn't he. On the other hand, I think that this can also be used as an argument for doing nothing, because after all I really do not think one should allow the government of another country to forestall action which may be in your own interest. If it is considered that such reductions are in the country's interest, if it considered that they would reduce market power and improve the economic performance of the country, I do not see particularly why that should be held up because some other government in some other country has not been able to find some items on which it will make adequate tariff concessions. Generally, I am all in favour of multilateral reductions, but I think there may be occasions on specific items when the principle of multilateral reductions has to be amended.

Mr. SALTSMAN: The situation does not look too favourable for multilateral reductions at any rate. The question has been raised, what do you do to stimulate competition in those areas not subject to international competition. For instance, a lot of goods are subject to international competition and the tariff reductions would have the effect of bringing them in line. As has been pointed out, there are many areas not subject to international competition. I think the whole field of retailing, for instance, transport, housing, services generally.

Now, in Sweden apparently the co-operative movement has had quite an effect of stimulating internal competition within the country, from what we have been able to read, by occupying a small part of the market and trying to obtain the lowest level. Now, do you think there is a need for this sort of thing, or something similar to it, in Canada in order to act as a yardstick for competition without holding an overwhelming share of the market but some share of the

market to serve as a yardstick? That approach would be a way of measuring the prices and the efficiency of the operation of the general commercial community.

Professor REUBER: I am not familiar at all with the Swedish experience in this. Nor am I all that familiar with co-operatives and how effectively they work in the kind of context which you are suggesting.

I have, I guess, some reservations about that. I would think that in many of the retail areas which we are talking about there is really very active competition. After all, there are very few items in most areas of the country that one is limited to or where the range of choice where one can buy a particular item is very severely restricted.

There may be remote areas where perhaps there are only one or two stores and there is some lack of competition. I do not think that, generally, I would regard the retail trade as being particularly subject to lack of competition.

There may be particular certain areas. If you look through the Combines Commission Reports you will see some references to particular items where some lack of competition has been found. But in the case of housing, which you mentioned, I would think that is a fairly competitive industry.

Services which, generally of course, have been very important in accounting for the increases in prices, tend to be fairly competitive in most cases—although there are exceptions, I suppose, such as medical services. I am not aware of too active competition in that area, but that brings a whole range of other questions to bear which I do not know that I can discuss.

Mr. SALTSMAN: On page 9 you bring up the question of patent regulations as a source of market power. Do you see that national brands through the establishment of their name, through advertising and through the concentration that has been shown in some of the evidence before us, of spending large sums of money to advertise their particular products and particular institutions, do you see that this establishes any rigidity and any bars to competition in the same way as patents?

Professor REUBER: They do to some extent. I do not think they would be nearly as important as patents. It is true that through vigorous advertising and all the rest of it they can perhaps create the image that some particular product has some special characteristic that other products do not—and that impression may be warranted or not, I do not know—but it seems to me that is a different kind of competition in a sense. Really, people here are competing not in terms of reducing prices but in image-making about their products. It is a part of the competitive system.

Now, I do not think when we are talking about patents we are talking about that kind of competition particularly. We are talking about one company or person or group having access to a particular technology over which they have control for a rather lengthy period of time, and which control is provided to them by the state. The question is whether that kind of monopoly which is given by the state should be reduced, or whether it is appropriate to leave it the way it is.

Mr. SALTSMAN: I have a lot of questions to ask, but I think I had better pass.

Co-Chairman Mr. BASFORD: Senator Carter is next on my list. However before we come to that I would like to refer to Table II showing tariff action recommended in reports under the Combines Investigation Act. It would seem to be indicated that over the period of time covering these investigations none of these recommendations have been acted upon. I think we should have a statement from Mr. Bryce the deputy minister. He has a representative here and I am sure our desires will be made known to him.

Mr. SALTSMAN: Could we have the tables incorporated as part of the proceedings.

Co-Chairman Mr. BASFORD: Yes.

Senator CARTER: I would like to pursue the line of questioning Mr. Allmand started about the regional differences in growth and unemployment. To come back to the graph in figure 1, is this all Canadian data?

Professor REUBER: Yes.

Senator CARTER: And have you been able to make any comparisons with other countries like the United States or Great Britain?

Professor REUBER: Yes, as a matter of fact when our study comes out—it is being published by the Economic Council—you will find we have tried this for the United States, the United Kingdom, Germany, France and Sweden. We arrived at similar curves, but the curves have taken quite different shapes and they indicate the difference in trade-offs between these objectives. I hasten to add that our work on these other countries was done in much less detail than the work on Canada—it was more or less a check to see what we would get. Before the evidence as to those countries could be held to be very reliable, it would have to be further checked. Nevertheless I think it does suggest that the trade-off curve is quite different for different countries. The curve for the United States is very much like the curve for Canada. But the European curves are somewhat different. Apparently in some countries in Europe, it is possible to have a higher level of employment with less inflation than in this country. All of this international evidence is, of course, subject to the larger question I have already raised about the comparability of these statistics, and I am sure you have heard this from other people—that is to say that unemployment in Canada is different from other places. When somebody says it is 3 per cent as compared with Germany, those figures may reveal different circumstances.

Senator CARTER: You mean they may have different scales?

Professor REUBER: That is right.

Senator CARTER: Was there anything on the curve to show that Canada was much different from the United States?

Professor REUBER: Not from the United States, no.

Senator CARTER: This percentage of the labour force unemployed—what average is that?

Professor REUBER: These are quarterly averages.

Senator CARTER: But they are averages of the country as a whole and do not show the tremendous variation in unemployment between, say, the Maritimes and Central Canada?

Professor REUBER: That is right.

Senator CARTER: That seems to be true for the growth too, perhaps not to the same extent, but to some extent.

Professor REUBER: That is right.

Senator CARTER: You have said you have to make a choice as to how much you are going to trade off unemployment for price stability, and still further whether this sort of thing is helpful to the regional situation. I am wondering about this because what might be good for the nation as a whole would probably be the worst thing for, say, the Maritimes?

Professor REUBER: Well, I would not think that would follow. I may have misunderstood your question, but I would have thought, for example, if we have a high average employment rate in this country, that that would also mean a high employment rate in the Maritimes, though perhaps not quite as high as in

Ontario. In other words, I think changes in unemployment in various regions of Canada tend to move together. That is to say, as unemployment goes down in Ontario, it tends to go down in the Maritimes, British Columbia, and so on.

Senator CARTER: I suppose it is true to some extent, but our experience has been that by the time it has spilled over into the Maritimes it is busting in central Canada, and then you put in restraints and these restraints hit the Maritimes worse than the central provinces.

Professor REUBER: Well, I agree that is the way it has worked.

Senator CARTER: Yes.

Professor REUBER: If I understood you correctly, what you are really arguing is for a policy which is a regional economic one. What I am talking about here, really, is a national policy and one which, if you have high levels of employment generally in Canada, will also result in higher levels of employment in the Maritimes.

Unemployment in 1961 in Canada averaged about 7 per cent. That was also a time when there were very high levels in the Maritimes, and as unemployment has fallen in central Canada unemployment has also fallen in the Maritimes. The rates in various regions tend to move in the same direction, though they may be at rather different levels.

Senator CARTER: But there is a tremendous difference in the time factor.

Professor REUBER: Yes.

Senator CARTER: We get the worst of both worlds, because we get the worst of the unemployment and we get the worst of the corrective measures. What I am interested in is nation goals that will be achieved more uniformly across the country. This is fine for Ontario. Your "national" goals are really central Canada goals, but they are not really national goals.

Professor REUBER: This is related to the whole of Canada, averaged out, and the weight of the labour force is in central Canada, it is true.

I would regard it as important to distinguish two types of problems. It seems to me you have one problem concerned with the general level of employment in the country and the general rate of price inflation. There is the other problem concerned with the regional distribution of economic activity. I do not know whether one policy or one group of policies—say monetary and fiscal—can hope to achieve these complex objectives. If you want to achieve regional economic objectives in addition to national, you may have to think of a much broader range of policy actions that those I have been talking about there.

Senator CARTER: That is why I asked if any differences showed up in the graphs, even with the United States, because if you compare us with Germany or England, we are tremendously vast country geographically, but when you compare us with the United States we are perhaps geographically comparable, yet our little ribbon of population strung out along the border introduces such a variable you hardly expect the same results in Canada as you would in the United States.

Professor REUBER: They are quite comparable, really.

Senator CARTER: Getting back to price stability, I gather that what we should do, according to your brief, is give top priority to full employment—

Professor REUBER: I would say more priority.

Senator CARTER: Well, in order of priority you would place employment first, and stability second, and let the growth take care of itself?

Professor REUBER: I would let growth largely take care of itself in this context. I would put price changes and employment on the same plane, but I

would give rather less emphasis in the sense of giving a smaller weight to stabilizing prices, and a bigger weight to maintaining a high level of unemployment, than we in fact did during the period of the fifties.

Senator CARTER: My point is: In a country like Canada which depends so much on exports to other countries, should it not be the other way around? Should not the weight be on price stability?

Professor REUBER: It is certainly true, as I think I have already suggested, that the balance of payments represents a constraint or a restriction on how far you can go in allowing prices to rise in this country as compared to other countries, and you have got to face that. You do not have unlimited choice as long as you are on a fixed exchange rate, but, at the other extreme, you have some choice—you are not limited to one thing. I mean, it is not a matter of just saying that the unemployment rate in the United States is 6 per cent and we should aim for 6 per cent, and then if it goes to 7 per cent that we should aim for 7 per cent. We are not limited like that in our choice. We do have a few percentage points to play with, and within that limited range—and it is a limited range, I agree with you—my own preference would be to keeping the employment rate high with a little less preference given to restricting price increase.

You see, during part of the fifties and the early sixties we had a situation where the Canadian dollar was appreciating or getting stronger, and unemployment was high . At the same time we were fighting price inflation very actively. That is the kind of situation which I would think would not be very appropriate from the standpoint of maintaining the real income of the members of the Canadian community.

Senator CARTER: In these restraints, when you are working them out, the ultimate controlling factor is the balance of payments. There comes a time when the balance of payments says: So far and no further.

Professor REUBER: That is correct.

Senator CARTER: I gather from what you have said that you are one of those who feels that automation will continue to generate employment. You do not look upon automation as something that is going to produce mass unemployment?

Professor REUBER: Certainly not mass unemployment. I would think it is probably true, it seems very likely, that on occasion automation will give rise to rather substantial adjustment problems. I think within the last few days you have had a report from the Economic Council suggesting ways and means by which these adjustment problems might be reduced. Essentially what they suggest is some advance planning. After all you know you are going to get this new machine and it is going to reduce the labour force. It is suggested that instead of waiting until the thing is there and then firing people, you take a longer view and start thinking of ways of adjusting the labour force to take account of all this.

After all, automation is not anything new. We have had automation for years, I suppose. I think it does occasionally give rise to adjustment problems, but I think if you have a situation in which, generally speaking, the level of demand is high and there area lot of jobs and unemployment is low, then the problems of automation are really much less than they would be in a situation where there is a lot of unemployment. In such a situation automation certainly makes adjustment much more difficult.

Senator CARTER: When you say we have had automation for a long time are you equating automation with what I call mechanization. I draw a distinction between mechanization and automation:

Professor REUBER: Well, there may be a distinction, but it is a fairly subtle one in some respects.

Senator CARTER: In mechanization you have men to run the machines, but when you get to cybernation and automation you have machines to run machines, and I do not see the same scope for making jobs for men in that kind of a situation. I realize that perhaps it would take another ten or twenty years, but I would foresee the time when you would require very little manpower and what you did require would be very highly skilled and educated.

Professor REUBER: I think there is certainly no question that the introduction of more automatic machinery does require a corresponding increase in the level of education and skill on the part of the labour force. On the other hand, I am not sure that by introducing more automatic machines you are in fact increasing unemployment of the labour force very substantially. This makes it possible, for one thing, to increase the amount of leisure time the community has.

Furthermore, I am not at all sure that this does in fact lead to a reduction in the labour force requirements.

Now, I think there are many activities which are automated to some degree which still require the labour. In the whole development of the service industry as countries get rich, it has been the experience in most cases that the proportion of money paid for services goes up very substantially. One reason in fact why services have become so important in terms of raising the price index in the past few years is because of the heavy expenditures in that area.

Automation in the tourist trade and various service industries is not a very big factor. It is important and has some place I know, but when talking about automation we are usually talking about automatic machines in factories, making engine blocks, and so on; and it seems to me to the extent communities have become richer as a result of this their expenditure patterns change. In fact, there is very little evidence that I am aware of that automation is leading to long-run, hard core unemployment.

Senator CARTER: Thank you. I have just one more point. I agree with your statement on the need of more research, but my question is: If suddenly our research branch were doubled or trebled, would you be able to find a competent staff to use it?

Professor REUBER: Yes, because I think you should recognize that this country—

Co-Chairman Mr. BASFORD: Could you tell us where we could get them, because economists in Ottawa are as scarce as hens teeth.

Professor REUBER: The way I like to look at it is this; when you are looking at the supply of economists in this country you are not looking at the supply of people living in the country. The supply of economists is not just those who are here, but you should also take into account the economists in other countries. It turns out that economists, and other people as well, are fairly mobile and they are also fairly responsive to the kind of conditions which they find in terms of research facilities, salaries, and all the rest of it.

Now, if in this country we can create the appropriate environment—salaries and research facilities and so on—we only have to attract a very small proportion of the economists in the United States to make a tremendous impact on the supply of economists in Canada. That is true of every other discipline you want to mention.

So the way I like to look at it is that the supply of economists, and of any trained person in this country, is very elastic, and that is an important point which is frequently missed. It is so elastic that given a change in the environment it is possible to change that supply. We do not have to wait on our home-grown supply. This works for you if you take advantage of this elasticity of supply, and it works against you if you do not. In other words, if there is a situation where research facilities, salaries and so on, are not comparable, then

people will move out of the country just as readily as they will move in, if you make those changes.

I am glad you raised that point, because I think it is an important one which, I must say, is all too frequently missed.

Mrs. MACINNIS: Is there any central purpose for which the Canadian economy is being carried on? Any overriding purpose and, if so, what is it?

Co-Chairman Mr. BASFORD: It is now 20 minutes past 5.

Mrs. MACINNIS: This is no time to cut me off. I want a few minutes now. And if I did not know that Dr. Reuber was holding his own I would not be so keen.

Co-Chairman Mr. BASFORD: We can go on for two hours on that subject.

Mrs. MACINNIS: These are important questions to me.

Co-Chairman Mr. BASFORD: I am not disallowing the question.

Mrs. MACINNIS: I know that Dr. Reuber is well able to look after himself so I am venturing on some really tough questioning. Is there an overall purpose, and if so, what is it?

Professor REUBER: That is a broad philosophical question.

Mr. MACINNIS: Make it an economic question. Never mind the philosophy. You have been talking about prices and employment and one thing and another. All these are factors. Senator Carter is right. It is perfectly true that shipping has left the ports in the Maritimes and has gone over to the St. Lawrence ports. And other industries are flitting away in the Maritimes. At the moment they have not got a viable enough base on which to carry themselves. Is there any overall planning or looking after the thing by economists?

Professor REUBER: If you press me, senator—

Mrs. MACINNIS: I am not a senator; I am just an ordinary member.

Professor REUBER: If you press me, I guess I will have to say that a short answer might be that the purpose of the economic activity is to make income per head in this country as high as we can get it, given our resources.

Mrs. MACINNIS: Well, we have a lot of people before us now in connection with consumer prices. Are we consumer-oriented at the moment in this country or is our economy still very largely producer-oriented for all these producer groups? Which would you say?

Professor REUBER: I think that many people tend to think of themselves, when they talk about economic policies and so on, or are much more aware of their interests at any rate, as producers than they are of their interests as consumers. Now, that is a very broad generality. But I think it is true that when we talk about questions of changing the tariffs—taxes or other types of policies—there tends to be larger response from individuals looking at themselves as these changes affect them as producers than there is in terms of these effects on their lives as consumers.

Mrs. MACINNIS: Do you believe that as time is going on we are tending to get away from looking at things in terms of letting these individual producer interests sort of work out the salvation of the country? Are we tending to get to the place where we try to look at the country as one piece, without thinking of it as a collection of little producer groups?

Professor REUBER: I think we do. We try to.

Mrs. MACINNIS: How is that going to be done? You say we live in a mixed economy and you said that there were times when the authorities should or did step in. What are the factors that do cause the authorities to step in or that should cause them to step in the economy at various times?

Professor REUBER: Well, I think, for example, it depends on what you mean by stepping in.

Mrs. MACINNIS: I was just using your own words.

Professor REUBER: Stepping in in a rather large impressive way such as they do in a war with price controls and wage controls and the whole paraphernalia of regulations is one way of stepping in. That is obviously related to marshalling efforts for the national defence of the country. That is one circumstance. I think in peace time in this country, and in most countries in the western world at least, the approach is that the role of government is in a sense, to compensate for certain inconsistencies or alternatively to provide changes in the rules of the game so that the private interests, the private activities of various members of the community, work out more effectively for the economic performance of the country.

Now, within that broad framework I suppose the activities, for example, of the Combines Commission are really an attempt to examine conditions of competition in various markets and, if in fact certain action is called for, to recommend that the government take that action. I think that is one line of government intervention, if you wish to call it that, which governments in most countries undertake at the moment.

Mrs. MACINNIS: Now I want to get down to prices. We are asked to find out what factors are responsible for the recent very large and very sudden increase to the cost of living—in food and rent and things like that. We have had the Economic Council before us, and we know that these cycles occur and that they generally subside, but apart from waiting for the cycles to come round and the prices to subside what can be done? What measures can be taken to iron out the regional bumps to which Senator Carter referred, and to iron out the inequalities in the buying power of people. There is great unevenness in the buying power and I would like to know what economic measures can be taken to combat that situation. You were talking about employment and so on, but not everybody is able to get access to employment; they are not able to draw on wages or incomes directly. What other factors should we look at?

Professor REUBER: I think if you are talking about people who are in unfortunate economic circumstances, there are a whole range of social welfare policies to be looked at. In some of these, provision is already made for the effects of price variations, for example the Canada Pension Plan. In the case of unemployment relief you are looking at the economic consequences of unemployment, and making provision for people who are in unfortunate circumstances. As far as regional questions are concerned, let me say that I think they are very important, and if I had the answer to the regional problems of this country nobody would be more delighted than I. I am afraid I don't know the answers and I am not aware of anyone who can give the answers to that.

Mrs. MACINNIS: Do you think there is a case to be made for gearing income to the two main items, price and productivity?

Professor REUBER: There certainly is a case to be made for gearing income or wages, if you wish—

Mrs. MACINNIS: But I don't mean only wages or earned income, I mean pensions and government allowances and things like that. Is there a case for increasing those when prices rise and when productivity increases?

Professor REUBER: I think they are geared totally to the way our market economy works. Unless there are gross distortions and I don't think there are, wages are determined by the productivity of labour. That is to say employers pay labour because in the course of working the labour is productive. As far as prices are concerned there is also very little question that an increase in the cost

of living feeds back via wage negotiations and so on to a rise in wages. Our evidence, when put forward, will indicate that there is an inter-related system.

Mrs. MACINNIS: Is there a case for this being automatically done? I have in mind that when the construction people were before us one day they said they thought there should be measures taken—they were not specific as to at which level of government this should be done—in order to iron out the bumps and the peak periods and the slack periods. They thought a certain amount of planning by government should iron those out.

Professor REUBER: In the construction industry?

Mrs. MACINNIS: Yes.

Professor REUBER: Well, I think there is a good case to be made for that in the sense that as you know over the course of the business cycle, or whatever we call it, construction activity is one of the highly volatile factors—it really goes up and down. The Economic Council is a good guide in this matter. According to the Council these vast fluctuations give rise to very large adjustment problems. It would be desirable if through various measures some greater stability could be introduced into that industry. Part of the instability arises just from fluctuations in Government spending on construction. That is not just the federal Government, but governments right down the line. In addition to that, housebuilding activity is subject to considerable fluctuations, and it is also subject to Government policy, in some degree, depending on what policies are followed with respect to interest rates.

I think it would be desirable if, with a certain amount of co-ordination amongst governments, certainly, if within each government service, a longer view of construction requirements were taken. If a longer view could also be taken by the housing authorities about housing requirements—I think those developments would tend to stabilize the construction industry to some greater degree. It would still be subject to fluctations, but hopefully not such large fluctuations, and I think that would be very useful to do.

Mrs. MACINNIS: We had an economist, Hungarian-trained, I think, from the University of Montreal. If I am doing him wrong—and I ask to be corrected if I am—I understood him to say he agreed at the present time with the Economic Council, because of our regional difficulties both in the matter of trade unions and other factors, that we could not now deal with the question of prices, profits, productivity and income, and put it all together, but that he felt that sooner or later this country would be up against a situation where we would have to deal with these by tying them in some meaningful relationship with each other in a planned way.

Professor REUBER: It is difficult for me to say what the future will bring. I think in this country that would be a very difficult thing to develop. We have already mentioned regional problems, and there is no question that if we are going to come towards any incomes policy in this country, there would be very important and difficult questions to be resolved on a regional basis. I am not sure they could be resolved very easily. It is a two-fold problem: a problem of just what, in principle, the answers should be; and then there is the other problem of inter-governmental relations which, as I am sure you all know, can be very difficult.

Furthermore, I think, as I have said, that before one embarks on this whole apparatus of incomes policy and gets involved in all the difficulties with it, there has to be some evidence and reason for believing that it is going to substantially or significantly improve the performance of the economy.

I am sure we could all agree there is room for improvement, but I think there are other things that offer greater promise, and that we should start on

these other things first before we get bogged down in the problem of trying to devise an incomes policy which is going to take account of regional disparities, inter-governmental arrangements, and all the other complications in this country. I must say I think that would be an extremely difficult kind of policy to organize and to administer. I may be wrong, but I would think it would pose very difficult problems.

There is one further point I want to make on this. Just because I say that, it does not mean I do not think that the Government should regularly and frequently speak out with clarity and persuasiveness about the economic conditions of the country and what it sees as the rate of increase in productivity, and the limit of wage increases beyond which we will get into trouble. We have already got this. There may be room for improvement. We have after all, an annual budget, and we may even have one twice a year. There may be other occasions. These are all occasions when, I think, it is contingent on the government to speak clearly about economic circumstances as they see them. But, I rather distinguish that from the kind of policy where we devise clear guidelines as to what incomes, wages, productivity, and so on should be, and then try to enforce that kind of guideline on various parts of the country. I would find that a very difficult thing to imagine in this country for many years.

Co-Chairman Mr. BASFORD: I have a couple of short questions, professor. A number of people have spoken of or advocated the establishment of a prices review board, but as to what it would do is not very well spelled out. I notice that you turned down an incomes policy, and you turned down price controls. I am wondering what your view would be of a prices review board before which, presumably, could be called those who increase prices, and in respect of which they would have to show justification.

Professor REUBER: Well, I think the problem is in trying to devise criteria which could be used to consider whether these changes are justified or not, and I think that immediately gives rise to these problems we have been talking about. My own preference would be—I have not considered a review board at any length—to let the market essentially work out the appropriate prices, but to make sure that there are groups, such as the Combines Commission and others that we have already in the community, which are very alert to the possibility of market power and which actively consider rising prices and high prices when they come to consider what particular activities they wish to investigate. The same is true of patents. We have, after all, people in the government who are worried about patents.

We have already rather substantial machinery at work, and I think that there may be some room for improving the machinery in a number of areas to enable it to look at particular cases where prices seem to be rising. Whether one wants to go beyond that to a prices review board is difficult for me to say at the moment because people can always justify price increases. It seems to me there would have to be worked out a fairly precise set of criteria against which to judge price changes and I would find it very difficult to contemplate just how that set of criteria might be established. But, I am not saying it is impossible.

Mr. SALTSMAN: On that same subject, Mr. Chairman, may I ask a short supplementary question? Can you see any value in a prices review board more in the way of an information and publicity agency—in other words as a way of informing the public of what is going on in various industries—and relying on this type of publicity to act in a somewhat restraining fashion on the activities of people within the economy, rather than have a prices review board which would be a regulatory body? Would you consider that a prices review board that was doing essentially the kind of work this committee is doing as a good thing?

Professor REUBER: I think it is much more effective if it is done by a committee like this. You are, after all, bringing this right to the heart of parliamentary discussion.

Mrs. MACINNIS: Prices are still going up, though.

Professor REUBER: I realize that, but that is not necessarily due to lack of effort on your part. There is no question that anything that can be done to inform the public is useful. Whether a prices review board is the best way of approaching it is another question. I have not explored this at all, but I imagine that some of the people who work in the consumers' groups in this country might argue that what we want is some kind of facility for testing consumer products, and for reporting on prices and the deficiencies of products, and that sort of thing. This is the sort of thing that is done by the Consumer's Union in the United States, if that is what it is called. This is, in a sense, an information service and it is, I think, undoubtedly helpful.

Mr. SALTSMAN: Perhaps "consumer review board" would be a better name than "prices review board".

Professor REUBER: I think that is true. Anyway, the form of that is something I think one might want to talk about.

Co-Chairman Mr. BASFORD: One last question, professor. Others have advocated that where there is a concentration in the market or the market does not seem to be operating freely the Government should enter into that market and compete in it; that is to say, if all of the stores in Saskatchewan were owned by one group or controlled by one group the Government should open a store and compete with it. I am sorry I cannot put the question as well as I would wish, because there is a description for that type of competition.

Mr. SALTSMAN: Yardstick competition.

Co-Chairman Mr. BASFORD: Thank you, yardstick competition. What is your view on that concept?

Professor REUBER: I suppose I would have some reservations. I believe I already talked about that in connection with cooperatives. I rather question, except for a very few isolated communities, that competition is that limited in most areas. It is very difficult, as you know from past experience, to set up crown agencies which compete with private enterprise. It is difficult, because sometimes they do not do it as well as private enterprise in terms of efficiency. Sometimes they do it better.

The assumption in this proposal it would seem to me, is that somehow this particular agency could operate to sell goods and services and that they would keep the price right and that others would relate to that.

Co-Chairman Mr. BASFORD: It is not my suggestion, but I take it that is the suggestion?

Professor REUBER: I am not sure that that is altogether clear. As I say, my own disposition is rather to favour the idea of promoting competition as a way of keeping prices in line, rather than setting up agencies of this sort to act as yardsticks; and if there are areas where there is absence of competition, and this is what the concern is, my approach would be to try and develop techniques of improving the competition, rather than to try and set up another institution which will act as a yardstick.

These are alternative approaches, and I cannot profess to have studied these alternative methods sufficiently to give an informative opinion. but that would be my instinct.

Co-Chairman Mr. BASFORD: There being no further questions, and the time being quarter to six, I am sorry to keep you so long professor, but this was of interest to the members of the committee. We are grateful to you, sir, for coming here today and giving us the benefit of your brief, and also of your wisdom. Over the last few weeks we have had a good deal of help from the academic community and your plea about increased help to the community certainly does not fall on deaf ears in this community, because we are going through an educational process, for which we are most grateful. Thank you very much.

Professor REUBER: Thank you very much, Mr. Chairman.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966-1967

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 16

TUESDAY, FEBRUARY 14, 1967

JOINT CHAIRMEN:

The Honourable Senator David Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Dr. David Smith, Dept. of Economics, Queen's University; Dr. David Slater, Dept. of Economics, Queen's University.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

First Session—Twenty-seventh Parliament

1966-1967

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 36

TUESDAY, FEBRUARY 14, 1967

JOINT CHAIRMEN:

The Honourable Senator David Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Dr. David Smith, Dept. of Economics, Queen's University; Dr. David Slater, Dept. of Economics, Queen's University.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25663—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Cook,	Inman,	Thorvaldson,
Croll,	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,	Horner (*Acadia*),	McLelland,
Andras,	Irvine,	Morison,
Asselin (*Charlevoix*),	Leblanc (*Laurier*),	O'Keefe,
Basford,	Lefebvre,	Olson,
Boulanger,	Macdonald (*Rosedale*),	Rideout,
Choquette,	MacInnis (Mrs),	Saltsman,
Code,	Mandziuk,	Smith,
Crossman,	McCutcheon,	Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extracts from the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living presented the Third Report of the said Committee, which is as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

25663—1½

Mr. Basford, from the special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(*For text see Interim Report in Committee Proceedings No. 27.*)

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(For text see Interim Report in Committee Proceedings No. 27.)

J. F. MACNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, February 14, 1967.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, Choquette, Code, Irvine, (*Mrs.*) MacInnis, McCutcheon, McLelland, Saltsman and Smith—11.

In attendance: Dr. R. Warren James, Special Assistant.

Dr. David Smith, Department of Economics, Queen's University, was heard.

At 12.30 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: *For the Senate*: The Honourable Senators Carter, Croll, (*Joint Chairman*), Hollett, Inman, McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson—7.

For the House of Commons: Messrs. Basford (*Joint Chairman*), Boulanger, (*Mrs.*) MacInnis, Macdonald, McLelland, Morrison, Olson and Saltsman. -8.

In attendance: Dr. R. Warren James, Special Assistant.

Dr. David Slater, Department of Economics, Queen's University, was heard.

At 5.15 p.m. the Committee adjourned until Thursday next, February 16th at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

MINUTES OF PROCEEDINGS

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, February 14, 1967.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Order. I see a quorum. We have with us today Professor David W. Slater of the Department of Economics, Queen's University. He was born in Winnipeg, is a graduate of the University of Manitoba, Queen's University and the University of Chicago; and, amongst other things, is now the editor of *The Canadian Banker.*

Dr. David W. Slater, Department of Economics, Queen's University: Mr. Chairman, ladies and gentlemen: last fall, when you were making a start on your work, your research director, Dr. James, asked me whether I would come up and speak to you. At that time I could not, but I suggested two or three other fellows, and I gather they came and that you had an enjoyable time with them. It is a pleasure to be with you.

On this occasion Dr. James' instruction to me was that the Third Annual Review of the Economic Council of Canada has been referred to this committee for study and, presumably, for review and whatever disposition you might want to make of it. Dr. James asked me whether I would come up and join with you in a discussion on some aspects of the Third Annual Review of the Economic Council.

My colleague, Dr. David Smith, is to appear before you this afternoon. He is the author of a special study that was prepared for the Economic Council of Canada in connection with the Third Annual Review; and Dr. Smith has a great deal more expertise on incomes policies than I have and on the related policy matters. My suggestion is that I defer to him on these subjects, and that you go after him on the matter of income policies and the related supply policies which he studied in some considerable detail. My terms of reference then are to deal with sections of the Third Annual Review other than incomes policy.

Dr. James also asked me to say a few things about the tariff in relationship to Canadian price experience. I take it that this subject is on your agenda and you wish to develop a view.

It is my understanding that the main arrangements are for the committee members to proceed by way of questions, and I will do the best I can to attempt answers. I have prepared some introductory comments on a few features of the review of the Economic Council, and also one or two comments on tariffs in relationship to prices in Canada.

I am going to deal mainly with a few implications of the chapter on *Canada and the World Economy*; the Council's view about what is called the trade-off problem between prices and unemployment; the Council's model of business cycles and growth; the Council's discussion of the goals and consequences of inflation; and the cause and effect relations of inflation in Canada, their interpretation of our experience, and one or two aspects of the tariff.

You will recall that the Third Annual Review of the Economic Council contains two regular features and two special features. The repeat items are, first an updated report on the performance of the Canadian economy regarding prices, productivity, unemployment, growth, et cetera; and, second, an updated and slightly elaborated statement on some features of regional development in Canada. Those are the regular things. The main special feature is the Economic Council's Report on the reference made to it in mid-1965 by the Government on the subject of cost, prices, incomes and productivity and their relationship to sustaining growth—what we might call in short the Government's "Prices Reference."

This report on the prices reference is embodied, you will recall, in the Economic Council's Report in three chapters. One is on the basic policy problems and issues. Another is on Canadian post-war experience with respect to prices, costs, productivity and incomes. The third chapter of this report on the prices reference is on the policy implications, including an analysis of incomes policies in other countries, a view of incomes policy, and the suitablity of such policies for Canada.

The other special feature of the Third Annual Review is an analytical essay on trends and prospects in the world economy, and the general implication of those trends for Canada.

The Economic Council has continued and extended its outstanding record of contributions to Canadian economic analysis and policy by the Third Review, and by associated special studies. In this particular review it seems to me that the outstanding contributions are, first, an effort to bring high-powered up-to-date analysis to bear on Canada's problems of unemployment, inflation, and growth by drawing on the best of the general literature available on the subject and adapting this to the Canadian economy. Secondly, they have made a contribution by a presentation of a forthright and thoughtful interpretation of conflicts among objectives and potentialities in economic policy in Canada. I think they have made a contribution by a balanced and, what I would call, sophisticated interpretation of Canada's inflation experience; and they have provided a rather valuable background essay on Canada and the World Economy. It seems to me that these are the outstanding features of the report.

Some of my remarks are going to be critical of the Economic Council's Review, but these ought not to be taken out of context. I have a great respect of their work. I think also some of the criticisms I have—about equivocation and vagueness, and so on—are not so much a criticism of the council as such, but a reflection of the general state of knowledge of my profession about many of these matters. The main feature of the Economie Council's Review is an updated synthesis of theory, and a balanced interpretation of the causes of inflation experience and of policy issues. It is inherent in doing a synthesis and arriving at a balanced view that you will be vague and equivocal, and not appear to be sharp and crisp, and the council does not appear to be very sharp and crisp on a lot of issues.

They have, for example, in my view, a nagging worry that comes up over and over again about the trends in the competitive position of Canada in the World Economy. This more than anything else is the element of worry about inflation that the council is concerned with, and yet they do not want to overstate this. They do not want, in a sense, to become just like the caricature of a central banker who sees money and prices, and nothing else. They want to present a balanced view of the issues, and as a result it comes out, as I say, not very sharply etched.

The council presents a model about which I will talk a little later, to show how it is that economies combine inflation and unemployment. This is one of the central things they feel has to be explained—one of the new phenomena of the modern world. They present the model that lays out inflation process in business

cycles, and it is very helpful indeed because it does remind us of a typical sort of price behaviour in a modern economy in the later stages of a business cycle expansion. But, on the other hand, the model does not tell you very much. It does tell you that you are likely to have a continuing inflation to some degree, but it does not tell you whether that is likely to be one, two, three, or four per cent a year, or what it is that really makes the difference between one, two, three or four per cent, or just what the possibilities are of making it one per cent rather than four per cent. It is just not a precise treatment, but it is a reasonably accurate reflection of the state of the literature.

One of your central interests, I think, has to be, and has been, explanations and understandings of Canada's recent experience with rising prices. I think the following is a fair summary of the Council's position on this matter. They regard a part of the increases in prices in Canada during the last two years as due to transitory phenomena—things that will pass. Among these transitory phenomena there is, first, the usual pattern of relatively rapid increases in prices, and even more rapid increases in costs of production in the stages of business cycle expansions. We have been in the later stage of an extended business cycle expansion and we have had, in a sense, the usual price and cost level increases that go with that experience. This is one of the council's views.

Secondly, it is their view that we have had an unusual conjuncture of supply conditions in food production which are cost and price increasing, and some of those will pass.

Thirdly, I think they have a view that Canada has had a comparatively large increment of increases in indirect taxes in a short period of time, taking the whole package of taxes—provincial, municipal and federal—together.

Fourthly, we have had the experience of an unusual set of strains in certain segments of the construction industry. All of these elements are to some extent transitory or temporary, but they have given a temporarily large upward push to prices in Canada. This seems to me to be the first point.

Thus, the council's message is that we should not extrapolate into the future the most recent price experience. That is lesson number 1 that they are reading to us—to me as well as to you.

The second thing is that the council is rather sceptical about what is called cost-push inflation. They regard the general state of demand in an economy—in Canada's case, the general state of demand in Canada, and external to Canada for Canadian products—as the dominant element of the general inflationary story for Canada.

They regard cost price movements and wage changes as we encounter them in Canada very much as a sort of part of a process—a means or vehicle by which inflation gets implemented, but not the cause of inflation. The central issues of cause, in the council's view, are on the demand side. I think this is their central position.

The third thing is that the council takes a view that we have one particularly notable deficiency in the management of investment. We still seem to have the habit of piling peaks of public investment on top of peaks of private investment, and therefore generating for ourselves in this country extreme variations in investment spending and extreme variations in the demand for capital goods and the products of the construction industry, and that we create for ourselves greater bottlenecks in these sectors than need be, and we could do something about this. I think it is the council's view that it is a sad comment on the Canadian economic policy that 21 or 22 years after the White paper on Income and Employment we still do not have a better way of smoothing out somewhat the pattern in variation in investment in Canada. This is important not only for extreme pressures of prices and of investment goods, but it is something which has impacts elsewhere, too. Prices and costs in the construction industry and the

investment goods industry do have implications on the other prices in the Canadian economy.

The council's view also is that prices and costs, in terms of money, inevitably increase in terms of money during an economic expansion but they fall very little in periods of business cycle contraction. They put their case very much on a downward inflexibility of prices and costs which they interpret to be part of the basic pattern of expectations, hopes, institutions and so on, of the country; and, on the other side, an almost inevitable process of price level increases in terms of rapid growth and business cycle expansion. So in a sense it is a sort of a ratchet process. Prices go up, and then perhaps level out for a time, but they never fall. They just keep on going up, and on the average this is an upward drift in prices.

Finally, in stating what appears to be the council's view of prices, it seems to me that the council considers that Canada on the average has a somewhat stronger average upward trend in prices than does the United States, and in costs. This is due to a complex set of factors in productivity developments in the country, and in expectations, parity notions, etc. etc. The council, it seems to me, points to this as one of those worries that we ought to take pretty seriously in this country.

I am not saying whether all of these things are completely accurate or completely documented, but it does seem to me that these few points summarize the council's general view on prices, which is and has been one of the main concerns of your committee.

Let me turn to some details, and what I shall do is to follow through the council's report section by section and say a little about each of these sections.

The first is "Canada and the World Economy," chapter 2, which is a special feature, an essay on Canada's position. The council reminds us of the astounding post war record of growth in population, in output, and particularly of trade in the world, and the prospect of continued high rates of growth in output and in trade, particularly for the industrialized countries.

One of the great success stories of the post war world has been the very rapid growth in trade in comparison with world output to the point where trade bears relationships to output now that are coming close to the sort of thing that existed in the 1920s.

I have sent around a little piece of paper adding what I have done on the same subject as part of a bigger study on trade and output developments, and I think you will see from this that I am generally in sympathy with the council's interpretation of what is going on in the growth of trade and output. I will mention only four points. First: the consensus among the leading students of this subject now is that the recovery of world trade from the low points of the 1930s and 1940s was strongly encouraged, though not entirely due to the reductions in barriers to trade, payments, and flows of capital in the world, and that the recovery and growth of world trade has been one of the powerful contributing forces to the sustained growth in the world output and income in the post war period.

Secondly, the council regards the growth of trade in general, and the growth of Canadian trade in particular, as important factors favouring Canadian economic growth. Indeed, the council pretty clearly strongly favours growth policies for Canada which would incidentally tend to increase our specialization in the world economy and the increased integration of Canada into the world economy and expansion of our trade in relation to our output.

The council does not, although it comes closer than it should at some points, attribute postwar Canadian growth to the growth of Canada's trade; but, I think fairly interpreted, they say that the extremely important aspect of a Canadian growth policy will be a trade expansion.

Thirdly, the council points to what I call the incipient food crisis in the world. The growth in numbers of mouths to be fed is fantastic. Even if there is an astonishing success in bringing birth rates in the less developed countries under control, we shall continue to have huge increases in population. Admittedly they cannot afford things, but in one way or another they will have to be fed. For a number of years we have been drawing on the accumulated stocks of food that had been built up in periods of agricultural surpluses. We cannot go on doing this. In one way or another there is likely to be something bordering on a food crisis in the world in the next decade. It seems to me that the council points to this with two implications for Canada. One is that we are likely to experience in the next decade food prices for basic foods in comparison with other products which are a good deal higher than we have experienced in the last decade.

The second thing is that we will be a supplier to world markets for many of these basic foods and this will be a factor in the Canadian export position.

Finally, in looking at the story of Canada in the world economy, one should note that Canada's expanding exports, which various people have been extremely proud of in the last three or four years, do not look nearly as astounding when we put them against a background of the growth of world trade. I think it is fair to say that, throughout much of the 1950s, Canada's exports were declining in relation to world trade.

We have recovered somewhat our exporting position. I do not think one should interpret Canada's recent export experience as if all is rosy in our position in the world trading environment.

Let me turn now to the report on the "Prices Reference". The first chapter in this report, Chapter 3 of the review, is on the fundamental challenge and on models of inflation in Canada.

In the chapter on Fundamental Challenge, the council sets out its view on the conflicts among the main objectives of Canadian economic policy. They also indicate the fundamental issues to be explained, which they treat as being the conflict between price stability and full employment; and between full employment and our balance of payments. They set out the case for putting some emphasis on price stability as a policy goal; and they set out the main factors influencing Canadian inflationary experience and policy.

Several features of the council's treatment of these fundamental challenges deserve special attention.

First, the council takes the view, which is in accord with the consensus amoung economists nowadays, that there is no fundamental conflict between the goals of growth in productivity and of price stability. There is no clear correlation of the experience of countries with high or low increases in prices and high or low growth rates.

The main conflict, as they see it, is between high levels of employment and price stability. If Canada aims for high levels of employment of its labour force, this may introduce really serious problems of price increases in their view. Also, if Canada's price increases are greater than the price increases of other countries, and if this is associated with our low unemployment rate, then the possibility arises of balance of payments deficit problems. So there is a possible conflict between high levels of employment and our balance of payments.

The second thing the council says about the fundamental challenges is that inflation of the sort which has been experienced through most of the post-war world, which they describe as increases of rates of prices, between 1½ to 5½ per cent per year, cannot be blamed on a poor job in monetary and fiscal policy—the blame has to be put substantially some place else.

What they are saying is, in their view, we will not deal with the issues adequately if we focus only on monetary and fiscal policy. There is something more to the story than this. The principal thing they point to, as the evidence

that there is something more to the story than this, is the fact of price level increases associated with unemployment. They say that in Canada and in a lot of other places in the world we have had the experience of inflation and unemployment and this suggests that there is something more to the story than general demand factors and thus inadequacies in fiscal-monetary policy. This is all very well, but what is to blame, then? How is the blame to be apportioned among various factors? What other major policies other than monetary-fiscal policies should share the blame? The first part of the council's answer consists of the development of what they call a model of partial inflation. This is a model which was developed originally for a closed economy like that of the United States, and has been adapted by the council to Canadian circumstances. This model is an attempt to show why it is that economies typically will have some price increases in situations of falling but still substantial unemployment on the one hand, and on the other hand that economies will not have very much by way of price decreases in situations of slack and economic decline.

The model is interesting and helpful, for example, in providing a qualitative interpretation of Canada's recent price experience. But it does not provide an effective quantitative apportionment of the blame for price increases, and it does not provide a very effective indication of which of the inflationary forces could have been made significantly different by the right policies.

The council's model is essentially one of: pressure points in price development; bottlenecks increasing with development; lags in the adjustment of contracts; development of expectations of high levels of income; expanding profit margins in the early stages of expansion; etc., etc., and all these things combining to give to us, inevitably, price level increases in times of business cycle expansion, even when we are a long way from having full employment. A downward inflexibility of prices and costs in periods of recession is fundamental to the argument. The model is going to generate an inflationary drift indefinitely.

The council plays down, in this model, the independent contributing forces from the exercise of market power of business, or the power of labour in collective bargaining. The council adapts this basic model, which is essentially an American model, to the Canadian circumstances, to make some allowance for changes in our external trade and price position.

The council then turns to the question of why should we be interested in price stability, and how much priority should be given to price stability in the Canadian economy. As to the reasons why we should be interested in price stability, they give the standard reasons, but give them in a somewhat sophisticated way.

The price stability provides for us a monetary unit which is good from the point of view of planning and decision-making. Price stability minimizes the distortion in production and income. Price stability limits the undesirable redistribution of income and wealth. Price stability is a good thing from the point of view of our competitive position in world economy. These are the things to be had out of price stability. The council's view is that these are worth having, but they are not absolutes.

The council says quite a number of things which are very interesting, I think. First of all, they reject the notion, widely believed in Central banking circles a number of years ago, that creeping inflation will eventually change from a creep into a walk, and from a walk into a run. They say that is not really what is going on in the world and therefore they are much less worried about the development of inflation in the future, i.e. of a little bit of inflation in the future, than people used to be.

The council does take the view that we might set for ourselves employment goals that are so high that we might generate much more inflation in Canada

than elsewhere. However I think the council does not regard their employment goals as necessarily bringing about such a degree of inflation.

The council seems to go quite a long way in accepting the notion that low unemployment rates and high rates of wage increase and high rates of price increase go together, and there is not much we can do about it. They go a long way on this line, and then they draw back and it seems to me that the council does not quite believe the story that has been presented in the special study done for them by Professor Reuber and his associates.

The council turns to the question about the relationship between prices and costs in Canada and prices and costs elsewhere, and this brings them right up against the exchange rate. They take a highly orthodox position regarding Canada's exchange rates, a position which, in its overall impact, you will have noted Professor Eastman regards as fatuous—a word which is a little strong in my judgment in this situation.

The council's view is that changes in Canada's exchange rate have to be regarded as extremes of policy rather than as routine elements of Canada's policy alternatives. Though the council hopes for international institutions and procedures by which some greater flexibility in Canada's exchange rates than now exists might emerge, the council is not very optimistic about these sorts of developments in the world's monetary system.

The council indicates that in «fundamental disequilibrium" of Canada's balance of payments, Canada might change its exchange rates in an extreme case. If Canada has a very high surplus in its balance of payments owing to external inflationary pressures which are extreme, and we want to cut these down, then Canada might appreciate its exchange rate. On the other hand, if Canada has a very substantial deficit of a fundamental sort in its balance of payments, it might depreciate its exchange rate.

The council's position is traditional, orthodox and not very helpful. The fundamental point is that the Canadian Government had hardly enough major policy instruments available to meet all of its main objectives of internal and external balance, when it could include changes in the exchange rate in its package. Abandoning the possibility of changing a country's exchange rate as an ordinary element of policy amounts to throwing away a potentially very important element of a nation's economic policy, and one which is extremely important for Canada.

The implication of this, I think, is that other tools of policy have to be developed and the capacity of the remaining tools has to be improved. The fundamental point is that, from time to time, policies which can have a powerful impact on Canada's balance of payments, such as import surcharges, capital flow policy, quantitative restrictions, and so on, will be required in lieu of the exchange rate changes which have been given up.

These other instruments often amount to a *de facto* partial selective appreciation or depreciation of the external value of a country's currency. The fundamental tasks for which exchange rate changes are a means of adjustment have to be done in some other way. You just cannot act as if these problems will not arise.

The council then turns to what it calls the fundamental truisms about productivity, prices of inputs and prices, and of final goods. The fundamental truisms, you will recall, run in terms like this: If a country has productivity growth on the average of 2 per cent per year, and the prices per unit of input in terms of money go up 2 per cent a year, the cost of output does not go up at all and prces can be stable. If, on the other hand, a country has 2 per cent increase per year in productivity and 5 per cent increase in the prices of input in money terms, then costs per unit will go up 3 per cent a year and prices will have to go up 3 per cent a year. This is the fundamental truism, as it is called, about prices.

A very nice comment that I ran into some place very recently ran as follows: The one thing you have to remember about fundamental truisms is that they are true. We often act as if calling something a truism means we ought to pay not attention.

The council shows very clearly the truth and the limitations of the fundamental truisms concerning price increases being associated with higher rates of increases in the prices of productive inputs than increases in productivity. The council shows the incompleteness of these truisms as explanations of what has gone on and the incompleteness as guides to policy.

They also show that it is national productivity and national wage forces that should be the dominating factors for an economy as a whole, but they, of course, point out that in any particular segment of pricing or production or services or inputs there are bound to be, and there will always be, substantial deviations from these national averages. Indeed, they point out that the fundamental problems in any system of guidelines are the appropriate weighting of the factors that are special or particular to that situation and the appropriate weighting of the national or general developments.

The council makes one extremely important use of these truisms about productivity, wages and prices. This is in reference to the gap between Canada and the United States. In general, as they have shown, particularly in their Second Annual Review, productivity in Canada is significantly lower than in the United States and so are money wage rates. The latter, that is the lower money wages, compensates for the former,—the low productivity—in many situations. Canadian production can compete in money prices. Canada can and does afford some limited parities with the United States in incomes, but for any general approach toward parity the essential requirement is improvement in Canadian productivity relative to that in the United States.

Movements to parity in levels of living begin with productivity and carry through the prices of goods and services. Parity in wages is derivative rather than primary. The council's main worry about Canada's inflationary experience, as I mentioned before, is that Canadians may be pushing to close the gap in money wages between Canada and the United States ahead of, or perhaps without, comparable steps to close the gaps in productivity, the upshot of which can only be loss of Canadian competitiveness, slowdown in growth, and balance of payments difficulties. This is the sort of thing that the council is worried about.

Now, let me finish by saying one or two words about the chapter on the Canadian experience in prices, incomes and productivity, and then a word on policies and tariffs.

The council, in chapter 4 of its review, which is the second chapter of the special report on the "Prices Reference", discusses the quality of Canada's price indices, which you people have looked at. It reviews the general price experience in Canada, discusses the price experience of particular sectors, reviews the evidence on business pricing practises and on collective bargaining, and discusses the Canadian experience regarding price and unemployment and growth experience.

I am going to comment on only four things: First, the council presents several fragments of evidence to show repeated instances of price increases in Canada being larger than in the United States since 1949. It is not only that they are worried about the possibilities of this problem, but they say we should look at the evidence, because the evidence shows that we have had greater price increases than in the United States.

The choice of base year, 1949, distorts the comparison somewhat; as does the change in the exchange rate between 1960 and 1962. The change in the exchange rate as between the Canadian dollar and the U.S. dollar between those years, as

you will recall, was partly a correction of an over-valuation of the Canadian dollar that had developed for a variety of reasons, and partly also the generation of a small degree of under-valuation of the Canadian dollar by 1962 that gave us a bit of price advantage, and the council takes this into account. But as you all know, when you get an advantage of this sort, some part of it becomes dissipated in due course by domestic price increases and this has to be taken into account in assessing the situation of Canadian as opposed to United States experience.

While there is some basis for worry about recent increases in Canadian prices relative to those in the United States, the notion of persistent Canadian trends in this direction should be discounted somewhat, in my opinion. I think the council loaded the dice a little in supporting this position. Secondly, the council points to the concentration of periods of general price increase in Canada since the war into three periods, one of which runs from 1964 to the present time. These periods have had in common two features; one, each one has occurred in the later part of the expansion phase of business cycles; and two: each one has been associated with a comparatively high level of investment expenditure, and bottlenecks of a particularly bothersome type in the construction industry. The council is very critical of Canadian policy for failure to spread out the pressures of high public and private investment more effectively, with the main criticism falling on to governments regarding public investment.

The third point which seems to be worth noting is that the council does not put much blame for inflation on business pricing or on collective bargaining. Business pricing is one of the things you looked at very closely before Christmas. Increases in prices and in wages take place, but these are treated as just the mechanics of inflationary processes, which are explained by general demand conditions. The council is not completely confident in its dismissal of business pricing and collective bargaining as causes of inflation, and it does cite some examples of strong use of business pricing power in situations in which industries are quite heavily protected from external competitive pressures. But the council on the whole is highly sceptical of the business pricing and collective bargaining as major causative factors in the Canadian inflationary experience.

Fourthly, the council reports on its work, and the Reuber study which it commissioned, on the determinants of wage increases and price increases in Canada. This is a very, very high-grade sophisticated econometric study of this question which I believe will have a great impact on this question.

The trade-off relationships, as they are called nowadays, between unemployment and wage and price increases for Canada have to take account of the other, particularly external, factors influencing wages and prices in Canada. The Reuber study does this and the council does this. The Reuber study seems to show, for a given set of external conditions, a comparatively high rate of increase of wages and prices in Canada for low rates of unemployment in Canada. The council shows some hesitation about accepting fully these results, and they talk in terms of a broad band of trade-offs, rather than a curve of trade-offs, presumably with other factors including policies qualifying the movements along a trade-off curve and movements within the band. The council notes the partial nature of the trade-off measurements, with the models not yet having sufficient regard for other economic relationships. The models can do little to cope with the determinants of expectations, and the way in which expectations can be changed so that they based their conclusions in part on this, but they qualify their position, as I think they well might do.

The last chapter of the price reference deals with policies, and the policy I will leave for your discussion with Dr. Smith this afternoon. I will make only three points in this regard; first, the council re-emphasizes its criticism of the phasing of public and private investment in Canada, and the excessive peaking and consequent extreme inflationary pressures from this sector.

Secondly, the council's doubts on the significance of business pricing and collective bargaining as contributing factors to Canada's inflationary experience should be taken with a grain of salt at this stage. By their own admission, they have not yet been able to do enough work on these subjects to have much confidence in an opinion, one way or another.

Thirdly, the council recognizes that every wage settlement has about it an element of general or national influence, and elements of factors that are specific to the situation. This is the essence of the difficulty of attempting to evaluate individual settlements. But explanation and analysis are called for to promote public understanding and appreciation. The council is highly critical of certain of the government wage settlements in 1966, but they are not criticizing the settlements as such, but they are critical because of the inadequate efforts made to explain the general and special factors bearing on these agreements. What was highly special in these circumstances was taken as being the general situation, and this was quite improper.

Finally, a few *obiter dicta* on tariffs and prices. The propositions about the Canadian tariff and Canadian prices are set out as a point of departure for your discussions. I suppose I would be labelled by most of you people as a doctrinaire low tariff man and that seems to settle things. I hope I am not being completely prejudiced in what I say. The first thing is that the Canadian tariff has reduced Canadian productivity and Canadian levels of living by a significant degree. It permits certain kinds of activities to be carried on in certain ways that would not otherwise occur. Canada is led to do many things on small scales and in unspecialized ways rather than fewer things on large scales and with greater specialization. Low productivity is the price for this type of approach to our industrial structure.

Secondly, the Canadian tariff, I think quite clearly increases prices of many kinds of goods in Canada, compared with competitive world prices. That is how you bring about the development of certain types of activity in Canada. Without doubt the tariff causes higher prices for a great many things.

Thirdly, the Canadian tariff shifts the distribution of income in Canada a little in favour of labour and against the owners of natural resources, which in many cases are the Canadian governments. On the average, the Canadian tariff reduces the rates of pay of productive inputs in Canada. There may be benefits to some sectors, but on the average it is depressing to the rate of pay of productive inputs in Canada.

The combination of reduced rates of pay for productive inputs together with tariff-protected higher prices in Canada allows the tariff-protected elements of Canadian production to carry on in the low productivity activities and procedures.

Some domestic goods and services are cheaper in Canada, as a by-product of the tariff. By that I mean things that don't enter into international trade, services and so on. But the overall effect of the tariff is to reduce the real income of Canadians.

There appears to be a positive correlation between the degree of tariff protection of activities in Canada, the relative poverty of their productivity performance, their possession of market power, and their exercise of market power.

What I am saying is as a broad generalization, but then there must be a lot of qualifications. High tariffs imply low productivity and strong market power in Canada, and imply an exercise of market power. This has to be qualified by many other factors such as variations in the internal productivity of Canadian industry, and so on.

Finally, the Ecoonmic Council regards reductions of Canadian tariffs, in a multi-national agreement or agreements, to be very much in Canada's interests: (a) by promoting specialization and higher productivity; (b) by reducing the drag on productivity and competitiveness provided by the present tariff; (c) presumably by reducing the market power which might be exercised in inflationary situations by tariff protected industries.

Mr. Chairman, I apologize for taking so long, but I thought it better to try and produce something which was at least tidy and, for better or worse, was an attempt to wrestle with the problems before you than just to waffle.

Co-Chairman Senator CROLL: No, you did not waffle. We are thankful to you.

Senator CARTER: Dr. Slater, I think you referred to the council's comments on the deficiency in the handling and management of investment in Canada.

There are two sectors—public investment and private investment—and I think in the last issue of *The Financial Post* there was a graph which purported to indicate that the policies, and particularly the restrictive policies taken by the Government to curtail inflation, to slow down the economy, have affected only the private sector and have had little or no impact at all on the public sector. The editorial concluded by saying that for that reason we are today nearer a recession than at any time during the past six years. Would you agree with that assessment?

Dr. SLATER: I think your comment raises two or three things that might be taken one at a time.

First, dealing with the question of whether or not the policies have had their impact primarily on the private sector and that so far the policies have not affected public investment, I think one has to realize, or I have to realize it is extremely difficult to get a phasing management of public investment in Canada, because so much of it is provincial and municipal; because we have been so relatively unsuccessful in building up co-operative federal-provincial machinery for dealing with the phasing of things of this sort. It is a very difficult problem. I think what the council particularly points to this failure of our timing of public investment. You will recall that when the White Paper on Employment and Income was written just after the war, of all the things about business cycle policy in Canada that seemed to make most sense Dr. MacIntosh pointed to a phasing or timing of public investment as obviously the most attractive thing to do to try to deal with, rather than to change taxes and so on.

The whole profession has now shifted over and has said that is absolutely right, but somehow we cannot seem to get untracked in our political and administrative arrangements to manage it. So, if we are going to do anything we have to do it on the tax side. This is the first thing that occurs to me in dealing with your comment.

As to the recession and private investment, the Economic Council and a great number of other people have suggested that we are either past the peak or very close to passing the peak of the most recent business cycle expansion phase. The evidence accumulating in Canada and the United States in this respect is very considerable. The council takes the view, and from what I can make out from the Minister of Finance's statements and all sorts of private reviews—I think this is the consensus of views nowadays, but one should be very careful in interpreting them. I think the consensus is that what you get is not a recession in the sense of a severe drop in rates of output and employment, but a slowing down with some moderate increase in unemployment rates; the general judgment is not for a huge increase—for anything like a repetition of, let us say, 1960 unemployment. The view is it is a peaking out into a plateau, as it were, with a bit of an increase in unemployment, and all of this within the context of an

intermediate growth framework which is very favourable to employment and investment opportunities, and so on.

Why are we in that position; and have the policies contributed to our being in that position? I think why we are in that position is very largely independent of policies, in the sense of the immediate short-term policies that have been introduced in Canada. We are in that position, in part, because after you have had five or six years of expansion you have built in a situation in terms of profit margins, cost changes, capacity, availabilities, et cetera, using up certain lines of investment opportunities, and so on, so you almost inevitably get some slowing down; and I think we probably would have had some slowing down in the economy and in private investment even if we had not had any changes in Canadian policies.

I believe that the Canadian policies in the last budget probably have contributed to the slowing down in private investment, but they were policies which I think had some extremely interesting experimental features to them. They recognized that there was this possibility of a slowing down. There was, however, in particular situations altogether too much pressure. So, what was done was to introduce a series of policies, tax policies together with monetary policies and policies influencing the liquidity position of businesses, in such a way as to try to discourage spending a bit, but to do it in ways you could reverse comparatively quickly and effectively. Perhaps you could reverse more quickly and more effectively if it turned out that slack appeared in the economy. I am afraid I do not have a sufficiently expert knowledge of how those have worked to be confident of my judgments. But this is my interpretation of why they were done. I think that they did in fact contribute to the slowing down, and that presumably the decision that the Government and you people will have to take in due course is, if this slowing down really provides more slack in the economy and more slack in the sectors in which you are particularly interested than seems desirable, then do you not only reverse these things that are implemented but do you add a few other things along with them in an endeavour to bring about some expansion.

The Council makes a point which is quite valid here, namely, that it takes a little while—sometimes quite a while—after you do things before you get results. They appear to believe that it takes a lot less time if you take action within those areas than it does if you do things in the area of general monetary and credit policy. I think the upshot is if these forecasts turn out to be right, and if there is much more slack in these sectors than appears desirable, then you reverse the policies that were put in place.

Senator CARTER: Is it your opinion at the present time that some stimulation is needed in the economy, and if so what stimulants would you recommend?

Dr. SLATER: I do not like to duck a question like that, but I have not really done a careful piece of homework on this particular subject recently. It is half a dozen months since I have looked at this. I have spent most of my life supervising graduate students, giving lectures and running committees and all sorts of other things. These are the main things one works at in a university, and I really have not had time to look at this. I would guess that we probably can justify some easing off in the monetary and fiscal tightness that we put in place in the last year. Already we have some easing in credit conditions, which I think is appropriate. I just do not know whether the time is exactly right, and the forecasts are exactly right, for some change on the fiscal side. But, if things keep on accumulating in the way they seem to be accumulating right at the moment then we cannot be very far away from the point where a reversal of some of the things that were done in the last main budget would make sense.

Senator CARTER: Do you get from your study of the council's report that there should be some sort of balance between the private sector and the public sector with regard to investment?

Dr. SLATER: I think there are ideas implicit in the Economic Council's Review on this, but they are not very explicit. I do not think the council's view is particularly doctrinaire on this subject. I think they regard public investment as making an enormous contribution to the productivity of Canada, and reject the view that it is only private investment that contributes to productivity, that public investment is just so much waste to be tolerated, and so on. I think they reject that view and take the view that that is something that has to be settled by political processes at the political level—that is, as to what are the priorities in public and private investment—and that that is not their business. What they are concerned about is looking at the problems of smoothing out our growth and the problems of achieving Canada's very ambitious goals of full employment and price stability.

We have got to do better from the policy point of view, and one of the things which we have to do a lot better is the timing and phasing, the fitting together in a time sense of the public and private investments.

The council worries about the following problem: If we get ourselves into, let us say, a set of public programs—both investment and other programs—that are a real strain on the economy, this will show up as a major balance of payments problem, and a worsening of our position in the world economy. The upshot will likely be an extreme policy of retrenchment and a broad-axe cutting out of many programs, and so on, which does not make good in economic development and stabilization for this country.

Senator THORVALDSON: I wonder if Senator Carter would allow me to ask a supplementary question on this point, so that we do not have to come back to it.

Senator CARTER: Certainly.

Senator THORVALDSON: I am going to suggest at this point, Dr. Slater, that it is quite understandable, as it seems to me, that you cannot take a doctrinaire position on problems of this kind when you look at the practical position of various investment possibilities and problems in Canada. May I give you an example?

Several years ago, you know, the Government of British Columbia decided to go on with the Peace River development alongside the Columbia River development. You cannot, as I see it, simply stop a program of that kind, and, consequently, you cannot have a doctrinaire policy with respect to it. I noticed recently that the Province of British Columbia put out a huge bond issue, which I think they financed in New York and which had to be at high prices, despite the fact that probably all the prices in regard to the power development on the Peace River was based on money at 4½ and 5 per cent. You can multiply that by the development on the Fraser River which itself will take hundreds of millions of dollars, and which you cannot stop. You can also add the power development in Labrador, and so on.

What inhibits the thing particularly is the fact that you have several provinces which have different policies and projects, you have the federal Government, and you have all the corporations in Canada which planned five or ten years ago the projects they are engaged in now. Would you say that that is the reason why you simply cannot control this at the top?

Co-Chairman Mr. BASFORD: They floated that bond issue, Senator Thorvaldson, at the same time as they were telling us we were debt free.

Dr. SLATER: I think one does not ever want to exaggerate what might be done in influencing the timing and phasing of these things. I think the council takes the view that a little could be done and it is worth doing, even if you could

speed up some investment sometimes by 10 per cent in a year, or slow it down by 10 percent in a year. That is a marginal difference that matters. You cannot rely on that as the only element of your policy, but there are some possibilities here of speeding up or slowing down that are worth exploring.

I think the council takes the view that we could do better than we have done. I can cite counter examples to you. People in Ontario begged the Government to anticipate its university developments from 1955 on, and suddenly in 1961 or 1962 for the first time we got a response. In all that period from 1957 through to 1961 when this country was just desperately concerned with the slack in the economy, and saying: "What can we do?", et cetera, et cetera, you could not look at the problem; there were not enough resources.

The point is, in this counter example that the inertia was all the other way; you could not get the program of investment started even though it made sense. We should not expect miracles, but I think the council's view is that significant marginal improvements could be had and they are worth going after. I think that would be their position.

It is very interesting that the spring budget last year contained an explicit timing scheme on the corporate profits and also on the timing of depreciation write-offs. This built in a kind of "turn-it-off, turn-it-on" policy regarding private investment, a type of experiment in policies which other countries have used with considerable success. You are fundamentally right. I think I would insist that there is something that should be done at the margins.

Co-Chairman Senator CROLL: Mr. McCutcheon.

Mr. MCCUTCHEON: Mr. Chairman, Dr. Slater, I know my question can be answered briefly. The question is this. A reference was made in your remarks to tariffs having cut down productivity. Would you be specific and give me an example? I am just a farm boy.

Dr. SLATER: Well, I suppose one of the examples that is in a sense the subject of change at the present time would be the Canadian automobile industry. As one goes back into the history of the combination of tariffs and Made-in-Canada arrangements, which were inter-related to tariffs and amounted to very considerable protection to the industry, it will be found that we tried in Canada to produce a very great range of automobile products, each one of which was on a comparatively small scale.

I think the general belief about that situation was that that was a situation which gave us comparatively low productivity in automobile production. The astonishing thing is that we had costs of production of automobiles which were higher than in the United States, but were not all that much higher. In the kind of rough and crude numbers people talk about here, we had productivity in our automobile industry of say 30 per cent below that of the United States, we had wage rates which were, let us say, 20 per cent below rates in the United States. That meant that our cost of production of automobiles was maybe somewhere between 10 per cent, 11 per cent and 12 per cent higher than in the United States. The tariff in effect was higher than that. This would be an example.

Now, the central proposition of the automobile agreement, and it is a tangled story, is that if we can get a Canadian automobile industry which is more specialized it will be an automobile industry with a very much higher productivity than it had before, and by the agreement the hope is that we will get more production of automobiles, a bigger share of North American production, lower automobile prices, and higher wages for the people in the automobile industry. There is a specific example, which I think is generally accepted of what the tariff and the associated structure did in giving you low productivity in a Canadian situation.

Mr. McCUTCHEON: Thank you very much. That is not exactly what I had in mind, the point being that the automobile pact is a *fait accompli.* I was concerned about other industries that are currently affected by tariffs.

Dr. SLATER: Then I misinterpreted your question. I thought you wanted an example.

Mr. McCUTCHEON: No, you made a charge, and I would like you to tell me of an industry that in your opinion is behind in productivity due directly to Canadian protective tariffs.

Dr. SLATER: Years ago I did some work on the Canadian electrical manufacturing industry. I think there is not the slightest doubt that the Canadian electrical manufacturing industry has a lower productivity than the American industry; and I do not think there is the slightest doubt but that when we try to do and are encouraged to do something by virtue of the Canadian tariff for protection of the Canadian Industry, we try to do so many things on small scales. And that is a factor in the lower productivity and is directly encouraged ty the tariff.

Mr. MCUTCHEON: May I call your attention to another area of free trade, the farm machinery industry. What about the productivity there?

Dr. SLATER: My understanding of that industry is as follows, that with regard to the productivity differentials, it is probably true that there is somewhat lower productivity, but we can in a sense compete with the somewhat lower productivity still because we have somewhat lower wages. From what I know of that industry, and this is not nearly enough, the degree by which the productivity in the Canadian agricultural implements industry falls short of the productivity, let us say in the United States agricultural implements industry, is distinctly smaller than it would be in a lot of other tariff protected industries.

I am not saying that the tariff is the only thing that bears a productivity differential. What is important, and I think it is relevant to answering your question, is that when one has done a careful, sophisticated handling of the evidence, do there appear to be smaller productivity differences? I think the record on the whole would support that position.

Mr. McCUTCHEON: I agree. You referred to higher prices in Canada, and of course that would be logical coming from an industry protected by a high tariff. I presume that this will no doubt disappear in our automobile free trade pact as time progresses. My next question has still to do with productivity, and I would ask you what in your opinion is the role that our educational system has had to play in maybe being at the root of some of our productivity lag with the United States?

Dr. SLATER: I think the best short answer I can give would be the following, sir. The Economic Council of Canada, in its Second Annual Review, gave a lot of attention to this, and it had a special study done. The Bureau of Statistics has also recently published a special study done by a former student of ours.

The story appears to be (a) that the level of educational attainments of the Canadian labour force in general is less than it is in the United States. The lower level of educational attainments—we are not just talking of university degrees, but about grade schools and everything, technical training, and so on—appears to be a significant factor in the lower productivity in Canada.

The Economic Council in their Second Annual Review, came out with numbers like this: if you think of the differential productivity between Canada and the United States as 100 points, then 20, or somewhere between 20 and 22 points of it—by their way of counting the thing—they thought could be explained by the lower level of educational attainments of Canada. They leave, beyond that, 78 or 80 points worth to be explained in some other way.

Mr. McCUTCHEON: In other words, with the greatest respect, we put too much emphasis on academic education and not enough on, shall we say, practical work.

Dr. SLATER: That does not necessarily follow, because in this day and age it turns out that some of the most high productive—and high rates of growth in productivity—situations arise from things which start in the most esoteric ways. Just take a look at what has happened in modern electronics.

I would say that the Economic Council's view on this is absolutely clear, and so is every other piece of evidence that seems to be worth while. The idea that our educational problem is just a problem of getting more people into college, is a lot of nonsense. We have lots and lots of educational problems other than that. But that is not to say that getting people into colleges, into technical colleges, universities, and doing a higher level of work in universities, is not also a relevant part of a total educational thrust in this country. The evidence in this country seems to be pretty clear that we have jobs to do in every level.

Mr. McCUTCHEON: Dr. Slater, you are saying exactly what I am thinking, and I pass. Thank you.

Mr. ALLMAND: Many Canadian consumers are suggesting that we need a price review board. We have put this question to other economists and I would like to get as much opinion on it as possible and would like to know what your opinion is on a price review board.

Dr. SLATER: Can you give me an example in some other situation of a price review board, so that I have a standard of comparison? Are you thinking, for example—well, go ahead.

Mr. ALLMAND: By your question, do you mean that you do not know what I mean by price review board?

Dr. SLATER: Yes.

Mr. ALLMAND: That is a very good answer to my question, because neither do I.

Dr. SLATER: I am not trying to duck.

Mr. ALLMAND: The point is that we get many briefs here before this group which suggest a price review board, and I have not yet found a good definition of what it is. There seem to be many views, which range from price control down to what this committee is doing.

Dr. SLATER: Well, yes.

Mr. ALLMAND: What about price control, general price control?

Dr. SLATER: In extreme situations, price control, in which the central administration controls not only the level of prices but the structure of prices, is just too tough. It is too tough except in wartime circumstances or some extreme emergency. In my judgment, it is also an exercise in kidding yourself, in that you really have to go at the fundamentals and the environment and the general policies, which is where the heart of the thing lies, and you might as well get on to that and not kid yourself that a price review board will do much for you if you do not get the fundamental inflationary situation straightened out.

When you look back at our postwar experience, we had, by the standards of the world, one of the outstanding records of price control in anti-inflationary policy in Canada during the Second World War. In retrospect, all we really did was delay inflation. We did not make all that much difference to the overall inflation results in the economy. We did that, as I say, with an astoundingly successful performance. It may be that it made a tiny bit of lasting difference to price levels. What we should really be concerned about, to some extent, and your committee was concerned with it, was the following sort of question. Has the Canadian economic structure changed in the last ten years in a way that, when

you get an inflationary circumstance, in a sense you have created a situation in which there is more discretionary power on pricing in the hands of businesses now than used to exist. Does this show up most clearly when you have general inflationary circumstances, when you have a chance to take advantage? Is that the lesson of our recent experience?

I am not a good enough student of industrial organization to provide the answer to that. All I can say is that there are leading students of industrial organization in Canada who are very worried about the lack of a really effective industrial organization policy, combines and related policy, in Canada over the past years. A price review board, no; but a very careful review of the exercise of the discretionary power of price setting, yes.

Co-Chairman Senator CROLL: How? How, professor? Let me just say to you that the evidence, the description you give fits exactly the sort of evidence we heard. How do you fix prices, no one can tell us. How do you fix markets, no one can tell us. It seems there is some mystical way, but how do you deal with administrative prices, controlled prices, and all the rest of it?

Dr. SLATER: I have to defer to my colleague, Professor Skeoch on this. He was up here before you and I think he said that there is no simple answer. You go ahead and do studies. If you somehow encourage studies in depth in competitive structures and the use of competitive structures, and the way in which the competitive structures are operating, then out of these studies in depth there should emerge a clear view of the changes that are taking place.

Co-Chairman Senator CROLL: We have that view. What do we do with it? We are getting fundamentally into the business, and there you have to take a second look. That is what is troubling all of us a bit. We have got the opinion, or we think we have. We are not suggesting that anybody is guilty of anything. What are we doing about it?

Dr. SLATER: It is not very helpful to you; but the ways in which one can go at undue limitations on competitive structures, I think, are partly through redesign of one's combines legislation and treatment of the issue of mergers and possibly the development of a new approach to dealing with this subject so that it becomes much less a kind of a situation where, well, you are either a criminal or you are a white lamb, and perhaps in part through some sort of administrative court which reviews mergers and related subjects and develops an expertness in this field.

Perhaps some twists and wrinkles in the industrial development policy of the Department of Industry, twists and wrinkles in your tax structure and changes in the tariff might help, but I do not think there is any single magical formula here. But I think that, if you believe that a competitive pricing structure and competitive industrial organization is needed and that some improvement is required, then you, having come to that decision, get a lot of little things together working for you in that direction. It seems to me that maybe there is a lesson—though we do not know what the results of the lesson will be—to be learned from the banking legislation in this respect.

Clearly the banking legislation has taken the view that the way to both provide an efficient financial structure in Canada and protect the public is to combine a strong impetus towards a competitive structure along with certain new things in public policy. But the idea of actively promoting competition by a variety of means is central to the conception of that bill.

Maybe the same sort of thing has to be applied elsewhere. You have certain sectors where you believe there are inadequate competitive structures, and then you get four or five things working in them to improve the situation and they will support one another.

This is a subject in which I have to plead comparative innocence, however, in the sense that I am simply not a good enough student in the subject and have not read enough to be able to give a satisfactory view.

Co-Chairman Senator CROLL: I must assure you that we share that innocence with you.

Dr. SLATER: You have responsibilities that I do not have, though.

Mr. ALLMAND: What, then, is your opinion about the guide lines theory for incomes, profits and prices? In your opinion, is that something which might be worth while?

Dr. SLATER: I am going to suggest that you put that primarily to Dr. Smith this afternoon. He has an expertness that I do not have on this matter. My impression is that quite apart from any of the political and administrative difficulties of sorting out the guidelines, everybody who has tried the guidelines approach has had two fundamental difficulties, one being that guidelines are averages and the world is made up of a lot of things that differ from averages and ought to differ from averages, and there is a problem of reconciling the specific and the general, so that it is very difficult to apply any guidelines approach. The second point is that it appears as if the best contribution you can ever get from guidelines by themselves is rather minimal. You may be getting a little out of them, but not very much.

Dr. Neufeld, who was before you in the fall, is very much in favour of the guidelines approach. But I think he is in favour of it predominantly because he thinks that it will force us to review our experience in a systematic way, and that out of that review there will come (a) a better understanding of what is going on, and (b) some kind of restraint whereby people will know that their position is going to be reviewed but that they cannot hide in a corner. So he thinks he will get quite a lot out of this. Well, you may get a little but not a great deal. I am not really very optimistic about any guidelines approach.

You see, the British had just awful trouble. They tried very carefully to use something in the nature of a guidelines approach, the sort of guiding light approach. Their approach, remember, was that they tried to establish certain guiding light standards. Then industries were free to set their own arrangements which were going to be reviewed afterwards, and the theory was that having set the guidelines, coupled with an after-the-fact review, you would in fact blend together the general wage considerations and the specific things in a suitable way.

It was a very nice idea. But when they came to do the reviews of the things that had been changed, they found that to untangle the special factors related to a particular industry, settlement and so on, it was extraordinarily difficult.

So that anybody who is going to try to administer and run a guidelines approach has to face that. You cannot just come along and say, "I am going to set down a guideline and therefore everybody is going to follow it, plus or minus one per cent." That is just a lot of "baloney," and it would be quite a silly approach in general to the running of an economy like ours.

You know the guideline is there and it is plus or minus eight points either way. That might be the sensible thing for an economy as complicated and as changing as ours, but I am not at all confident that you are going to get very much out of the guideline side.

What I do feel and support very strongly—and sometimes I wonder if I had anything to do with the phrasing of the thing, because I sounded off a couple of times on the subject—what I do support very strongly is the council's view that where you get settlements in public wage disputes or public agreements, as we did in 1966, which are big changes you know, it is extremely important that the special features of the situation be pointed out clearly so that the people can understand and will not take these special things as the general pattern.

That is not guidelines, but it is a careful consideration of what your situation is, and I think that is very important.

Co-Chairman Senator CROLL: Goodness knows, enough people tried to explain it but certainly could not.

Mr. MACDONALD: Professor Slater, I would like to ask a question about rates of productivity and parity of wages. Do I gather that it would be your view that, until parity of productivity rates is achieved between Canada and the United States, parity of wages can only put Canadian production at a disadvantage vis-a-vis the Americans?

Dr. SLATER: Well, I think what I would want to do, Mr. Macdonald, is add one very important footnote to this proposition. At any given time you have got an average productivity differential and there is a whole range of differentials around that, and, of course, if you have got certain sectors much closer in productivity then they can tolerate parity much easier than other sectors, and so on.

My guess is that you have to consider two things: First, as we approach parity in productivity, Canada versus the United States, we will do it with certain sectors being, as it were, in the forefront. And the rate of gap closing will go a lot more quickly for them than for others, and those sectors will improve their competitive position in the world market and their competition with imports more than others. They will expand more than others and you will likely therefore have approaches to parity in wages and price come more quickly in some sectors than in others. I do not think we should view this thing just in global terms, but then you have to go to the global side of the thing, and see what is fair. We can not expect, as an overall Canadian story, to have comparable levels of living without comparable productivity. If we are in the situation that we are sufficiently open, that our price levels for goods and services are essentially tied into North American trends, you get the same as an overall story. But I think it is important to keep in mind the possibility of piecemeal stages in movements towards parity and productivity in wages, but I think it is proper to say that in the situations in which we have got comparatively high productivity in Canada now—

Mr. MACDONALD: Could I suggest some industries—automobiles and steel.

Dr. SLATER: In my view steel is one of the most interesting Canadian industries to look at, and in many ways it is one of the most hopeful and promising of Canadian industries. The story of the Canadian steel industry is essentially this. Through its structure and the improvement in its technology, its rate of productivity has been better than that of the United States steel industry over the last 45 years, and significantly better. Out of this has come the following: the protection of Canadian steel today is less than it was 45 years ago. The share of the Canadian steel market supplied by Canadian steel producers is higher; the proportion of protection used is smaller, and the productivity differentials have narrowed and the wage differentials have narrowed. This is exactly the combination which gives you an indication of what can in fact emerge.

Mr. MACDONALD: I apologize for interrupting again, but carrying that through to its conclusion, you would say that that is an example of an industry where the differentials are sufficiently slight that the Canadian economy would not suffer in the case of a union drive for parity of wages?

Dr. SLATER: The steel industry has a core where there is extremely high productivity, but then there are peripheries of operations where you don't have adequate markets, and where you don't have this high productivity situation. By and large, Canadian wages in any industry ought to be set primarily in terms of overall Canadian employment conditions, and not in the parity of a particular industry. The parity of a particular industry is a significant secondary consideration. My guess is that we are in the stage in the steel industry where parity in

wages could still leave us with parity in costs in a part of the central core, but what it would do is to make us uncompetitive in those things which are out on the shoulders of the situation. I think you have to play this as a kind of a half-way house. You take your improvements partly in closing the gap in wages and partly in picking up improved competitive positions in other situations.

Mr. MACDONALD: I can summarize it by saying partly in higher wages and partly in higher rates of investment.

Dr. SLATER: Yes, that is fair, and in the replacement of imports by Canadian production.

Co-Chairman Senator CROLL: I may be wrong in this, and if I am you can correct me, but I understood that in the last agreement made between the industry in Hamilton and labour that in the overall it was somewhat better than the similar agreement in the United States.

Dr. SLATER: This could be. The counting of apples and oranges in this game is tricky.

Mr. MACDONALD: I wonder if I could shift to another question. Using your own term "the incipient world food crisis", is it a valid conclusion from the fact that it continues to exist and will continue to exist—I think the United Nations studies indicate a critical point about 1980—will this exert an upward pressure on our Canadian prices whether we are talking about imports or exports?

Dr. SLATER: I would think if one takes the world market price for cereals, for example, over the next ten or fifteen years in comparison with world prices of manufacturers or world prices of minerals—I would except that there would be a relative increase in the world price of food products. My guess is that this will hit us not solely in terms of prices of flour and bread, but the place where it will hit us particularly is in the prices of livestock products and meats and so on. My guess would be that while there would be some ebbs and flows in this field we will in fact have higher food prices on the average in comparison with other things. This will affect us both as an importer and an exporter because we are food importers and exporters. My guess is that it will do us more good on the exporting side than on the importing side, subject to the qualification that one does not know how underdeveloped countries will be able to pay for their imports. My guess is that the pressures to set up aid programs will be rather extreme on those of us who are relatively well off. The spectacle of famine will appear periodically, and I think we simply will not resist that plea. That does not mean to say we will give the stuff away, but we will have to increase our aid in some way.

Mr. MACDONALD: I noticed a reference to UNCTAD in your article in the *Canadian Banker*. Arising out of its aims I presume that the higher prices to the less-developed producers must inevitably mean higher prices to the developed consumers?

Dr. SLATER: I would think that is fair. One of the worries that UNCTAD has had has been about a long-term downward drop in the prices of export products of underdeveloped countries in contrast to those of the developed countries. This has been a perpetual source of worry. However, I think the situation will be reversed, and it will be very important that they use anything they can get, since they are food exporters as well as food importers and are in a situation in which they are going to face such an extreme problem of needing increases in income.

Mr. MACDONALD: In terms of their income, another objective of UNCTAD is to increase the market for their manufactures in the developed countries. Correct me if my analysis is wrong. This could mean lower prices in those manufactures in the developed world, but it could also mean dislocation for certain industries —perhaps textiles and other goods—which would be put at a disadvantage.

Dr. SLATER: I think this is a very important long-term problem. If you look at the record in the world, the growth in the trade in manufactures has been great in comparison with primary products, and that growth of trade has been primarily among the developed countries. One of the bothersome things about world trade has been slow development of exports and manufactures by the developing countries. The question is: Is that because we have kept their exports and manufactures out? That is what a lot of people allege. Or is it because they have not really opted in effectively enough into the production and export of the things? There is something on both sides as far as one can make out. My guess is that if you get a development of exporting by those people, both because we do something to encourage them and they themselves opt in and have effective exporting and production policies, undoubtedly there are going to be some selected industries in our country and other developed countries, and this could hurt them. I think that is part of the story, and the approach that appears to be important for us and which, in our more hopeful moments, we take, is this: we say, "Look, that is all right. Let us not take it too quickly. Let us phase these things out. Let us assist the people, and so on, to get out of these industries on a gradual basis. Let us have an adjustment." We respond that way rather than say, "No, don't ever put any more of your textiles in here." I think this is the sort of approach we, in our better moments, take.

Mrs. MACINNIS: I would like to come back to the purpose of this committee, which was to look into the high cost of living and the factors affecting it. I believe you made a statement earlier that we are not dealing altogether with averages, that the incidence of the high cost of living bears much more heavily on low income groups. As a matter of fact, there was a letter sent to this committee not too long ago from the National Pensioners and Senior Citizens' Committee which goes on record recommending that the Government institute price controls and rent controls. In your opinion, what can be done to smooth out the bumps, to lessen the impact of the cost of living on certain income groups? I am thinking now of the low wage earners, if you like, but even more important the people who have no access to income except in so far as they are given it by state agencies and other sources.

Co-Chairman Mr. BASFORD: If I might just interrupt, Mrs. MacInnis, I invited that group to appear before us in Regina—

Mrs. MACINNIS: Good.

Co-Chairman Mr. BASFORD: —but I have not received a reply from them yet.

Dr. SLATER: I am very sympathetic to this question because I recollect some of my dear and esteemed senior colleagues who retired five or ten years ago from universities on pensions which had been built up on salaries and prices of the thirties and wartime levels, and retired in situations of salaries and prices of the sixties. It shakes you when you see what these people have in fact been put through. In fact, our university had to go to work and build up a supplementary pension arrangement to try to improve the position of these people. We had to face the question of: Do you introduce a means test in a university pension plan? This is getting pretty close to very difficult and tough territory.

The council seems to take the view that as a society, by our institutions, our policies, the way our monetary authorities react to signs of unemployment, our approaches to settling our international payments, and so on, the whole claptrap of these things, we have got ourselves locked into a system in which we are inevitably going to go through increases in prices.

The Economic Council, in its review to 1970, said—I think, though, they were being pretty optimistic—we will figure on 1.4 per cent per annum increase in price levels. They are, in effect, expressing a judgment about the way our society is organized and what we are, in general, prepared to do about inflation. This is the implication of what we are prepared to do about monetary policy; of

what we are prepared to do about tax policy; of what we are prepared to do about running our unemployment insurance fund, and so on. If you are into that situation, the question is, could you by supply policies, better phasing of the construction spending in the country, better forecasting and planning, reduce the rate of inflation from 2 per cent per annum to 1 per cent per annum? That is the kind of question. You do not really have the option, as the Economic Council seems to put it to us, of having no inflation.

The council, in effect, takes the view that what Canada can do is not very much, given the degree to which inflation in this country is generated from external forces. I think Professor Eastman's impatient criticism of the council's view on exchange rates really stems from that, because the one thing you presumably have as a means of doing a degree of insulating of your economy from external inflationary pressures is to manage the exchange rate a bit. The council rejects that and says we are locked into inflation, most of the inflationary pressures are outside, and you cannot do much about having inflation very much less, but you can do a little.

What they do is attempt to point to some of the things you might do: if you could get better phasing of construction spending; if you could get better retraining policies; if you could get better methods of moving labour around; if you could improve productivity—these things will permit you, in a sense, to cut the degree of inflation down a little, but you are not going to get out of it.

The upshot is this. If you can make considerable improvements in cutting down the average degree of inflation, then that lessens a little the sort of problem you mentioned. But it does not remove it, and you are going to have to cope with that directly. You have to face the extremes of problems, and you are going to have to face these things, I suspect, in a rather generous way. Society is doing this to people for things society itself wants and, presumably, society has to live with its own product. If we are unsuccessful in keeping the rate of inflation down to reasonable levels or fairly low levels, then, of course, the upshot is we have to do a great deal more to take care of these problem situations.

To be just slightly personal, I want to give you an indication of this sort of thing. I am locked into a university pension plan that puts every nickel of my pension money into bonds. I do not like it one little bit because I know what is going to happen in some degree to my pension is exactly what happened to the pensions of my colleagues who have retired. I hope it is not going to be as bad, but it is there. I fight about this, but I cannot get anywhere.

The changes in our old age pension program, the Canada Assistance Plan, the escalation features of the Canada Pension Plan—all of these things, I think, are a reflection of the fact that this is what life is likely to be for us in the future.

That is an unsatisfactory answer, Mrs. MacInnis, but I think those are the dimensions of the thing.

Mrs. MACINNIS: Does the answer not lie along the lines of not so much sloughing away these things on an individual basis as much as considering that when people reach the stage of depending upon them of considering, as they are beginning to consider in the United States, a minimum income for all people regardless of any categorization? Is that what we have to face?

Dr. SLATER: I think you have to do a lot of things in a lot of different situations. In a university pension plan the thing we are interested in is getting ourselves locked into a government scheme under which the Government will tie our pensions to our incomes over the last five years no matter what we put in. The burden of adjustment then is on the Government. That is a perfectly sensible thing for us to do, and I am sure a lot of people would like to do this.

I suspect that in dealing with these problems there is a great deal to be said for looking at new instruments and new devices, like negative income taxes and things of that sort.

Again, I hope you will not think I am trying to duck the questions, but this is not my territory in a sense that I have any real expertness in this subject. But, my guess is that we ought to look very actively at a lot of adjustment devices. There is no single magic formula here either. My guess is, however, that a price control board which attempts to freeze prices is not the answer, because that really, I suspect, will not do you very much good. It attempts to protect the people in one way which, while it is a way that might do them a little bit of good, has side effects so bad that you end up running something that is pretty ineffective from the overall and social point of view. I think you have to go at this in quite different ways.

There are two things I would say on housing. The first is that I think we have used housing far too much as a balance wheel in this economy. That really means that we have used it so much because we have not had other things to use effectively.

Co-Chairman Senator CROLL: Housing or construction?

Dr. SLATER: Well, housing particularly. What I mean, sir, is that in situations where we have had pressure we have tried to relieve the pressure of spending by cutting down spending on new houses. We can really see that by the way in which our interest rates policy has been running. We have used the housing industry far too much as a balance wheel. Certainly I think there are some aspects of housing, particularly housing for older people, which we have handled miserably in this country.

Co-Chairman Senator CROLL: You could add public housing to that.

Dr. SLATER: Yes, but that is a tricky one because when you are talking about public housing you have to know whether you are talking about public housing as an enterprise or a subsidy scheme, or both. I went through this years and years ago with the Children's Aid Society in Kingston.

Mrs. MACINNIS: May I come at it from another angle? When you mention an enterprise like Weston's you realize that there are other Westons around. Is it not rather foolish at this stage to talk about Canada's being a free competitive economy? What I am getting at is precisely this, that if you have got a whole series of large monopolies running affairs—you talk about competition being necessary, and everything else, but, first of all, we have not got effective competition now. We are talking nonsense when we talk about it being a free competitive economy, in my opinion. I want to ask you if you see it at all in that light. What is going to be done to provide this competition, or are we talking about trying to lock the stable door after the horse has gone?

Dr. SLATER: Well, one of the most salutory lessons we can receive when we say we do not have a competitive economy is in looking back to the growth stocks people picked out ten years ago, 20 years ago, and 30 years ago. It turns out that enterprises do go up and down, and in ways that people do not anticipate. What I am saying is that using that as a symbol—although not entirely as a symbol—in the long haul there is more competition about still than people frequently and generally acknowledge.

After all, who would have though eight years ago that Canadian Breweries would have been a stock that would have fallen as badly as it has on the Canadian market? Eight years ago people talked about Canadian Breweries as though Canadian Breweries was the king of the castle, and it just tolerated anybody else in the beer business. They knew everything, and they were everybody, and so on. They have fallen on evil days, comparatively speaking, and they are having to retrench and re-work their position. I think this is an example of there being competitive forces which undermine things that look to be in the position of the king of the castle.

Are we really so sure that Weston is going to be the king of the castle ten years from now in the grocery trade? I am not nearly as sure as some people are,

especially when I look back at the rise and fall of enterprises in the competitive struggle. They are very considerable.

Who would have said a few years ago that the Douglas Aircraft Corporation would have been in trouble? They were a kind of a king of the castle along with Boeing in the United States. Look where they are now. They have recently merged with Macdonald Aircraft.

In other words, I would begin by saying that there is more competition in the economy viewed properly in the long term than one would think. There is more competition for investment, more competition for first rate people, more competition for ideas, and more competition for matters than we frequently judge when we look at the thing in the short haul.

The second thing I would say, of course, is that in Canada and in other countries, we have situations where we have a lot of competition, a bit of competition, and very little competition. In the sectors where we have got very little competition we do have to ask ourselves: "What about that? Do we want to make more competition there? How we do it" In an other situation we have to ask: "Is it inherent here, that the competitive route has no possibility at all, and if so should we do it in some other way?" We do have regulated industries. We do have nationalized industries. We are going to have regulated and nationalized industries to the end of our days, and we ought to have.

So, I do not regard the existence of competition as something which you either have or do not have in the sense of completeness. But you have a whole series of gradations of problems of public policy in competition. Sometimes I think that we have got far less competition in Canada than we should have, that the American economy is a very much more competitive economy than ours and that part of the productivity and higher levels of living—we may not like all the things that go into it—are attributable to the competitive environment, which has generated out of their size, their traditions, and a whole series of things.

I simply do not know enough about the food industry. You people are, comparatively speaking, experts in the organization of the food industry now.

Co-Chairman Senator CROLL: Thank you, doctor. Don't call us as a witness, will you?

Dr. SLATER: My understanding is that there have been developments in the industrial organization, that the food marketing and processing sectors look to be situations of the development of less competition than appears to make sense from a number of points of view. You are going to have to make a judgment on two things. First, is there something temporary, and will some of these fellows overstep themselves. Secondly, if you want more competition, what can you do about it? A merger policy, combine policy, tariff policy, periodic inquiry policy, and so on, probably make the difference here.

I do not think that the central cause of the high cost of living is the trend of development in the organization of the food production processing and marketing industry.

The fundamental cause of the high cost of living is the general state of our economy, the general working of our economy rather than the foregoing. I think the council's review is more equivocal on the significance of industry bargaining power than is probably appropriate, but I would agree with their putting the proper emphasis on other than the industrial structure.

Mrs. MACINNIS: I have one question. What effect does Canada's regionalism have on the productivity of this country?

Dr. SLATER: Mrs. MacInnis, that sounds like the categorical kind of question I ask at a Ph. D. oral examination.

Mrs. MACINNIS: Perhaps you can give a short answer, anyway.

Dr. SLATER: I think the fundamental thing is that those pieces of the Canadian economy which are fully integrated in terms of flow of ideas, capital,

people, etc. etc., have essentially the same productivity experience in the sense that they do comparable things about equally well. The sectors of the Canadian economy, the regions of the Canadian economy which have low productivity, particularly the Atlantic provinces, have low productivity in part because they are a region not fully integrated in every sense into the Canadian economy. When you are poor, it is hard to get out of your poverty. It is a combination of things, the educational situation, the peculiarly heavy incidence of the tariff on the cost of living in the Atlantic provinces compared with other places. All of these things have combined to give those areas a lower productivity. I take it that people are rather more optimistic at the moment than they used to be about that sort of thing being changed significantly.

Co-Chairman Mr. BASFORD: You have mentioned from time to time, Dr. Slater, that in certain respects you felt the council was equivocal on certain points. I am wondering about the structure of the council, which seems to me to be an analysis by concensus of a divergent group. I am curious as to how sound you think an analysis arrived at in that way is.

Dr. SLATER: Well, I think only the people who are pretty intimately in touch with the whole of their processes could satisfactorily answer this question. My impression is that the central responsibility of the analysis lies with Dr. Deutsch and the other two commissioners to carry the pre-eminent responsibility. The role of the council is not in sense to make the positions, but to act as a check on the ideas that are put together by the research staff and the full-time commissioners. I think they regard this as a very important thing, in that there is the notion that the council is going to build up a degree of independence.

It is a very peculiar structure in many respects. Here you have a government creation that in certain senses is a critic of government. If the council is to have a degree of independence it needs to have a base that is outside the government. The council in a sense as a representative body gives it a bit of a base. If these men were just stuffing chairs it would not be any good in this respect. The council then, has to build up a kind of a support from crucial groups of the public, and I think this is an element of its independence.

The council is dealing inherently with things which involve social judgments. They do not want to play God. They want to be in a position in which the ideas they put forward are in touch with the beliefs and values of the Canadian people, with a sense of the priorities of the Canadian people. The council's structure is related to this, as also are its public activities related to it. The very fact of this review taking the form that it does is related to this.

I suppose really the fundamental question you must satisfy yourself on is whether having that kind of vehicle, in effect supported by government money, is a sensible thing. Clearly they regard themselves to some extent as a kind of conscience, a channel for appraising, reviewing, telling the story, criticising, etc. etc., Canadian economic development and policy.

On the whole, I think it has been a success thus far, in the sense that I do not think the council has frequently either become and impossible nuisance to the people who are charged with political responsibility. They have attempted to call things straight, and their work on the educational aspect was an example of this; but it is hard to say whether the great personalities are the reasons for the success rather than the formal structure.

Co-Chairman Mr. BASFORD: You have said a good deal this morning about tariffs. I understand that, under the United States Trade Expansion Act, under which the United States has entered into the Kennedy Round, there are specific provisions to protect capital and those productions which might be affected by tariff reductions. I am not aware of any similar technique in Canada. Do you think it would be possible to work out such a technique so that those workers

affected by tariff reductions, naturally concerned about their jobs, would have some assurance that they would be looked after?

Dr. SLATER: As I recall, the particular thing in the Trade Expansion Act is the provision about fairly elaborate and impressive adjustment assistance programs whereby, if the tariffs are reduced substantially and if the structure of industry is changed substantially, there is a whole variety of industries and regions which can get assistance under an adjustment program. We have a couple of those things in Canada.

Co-Chairman Senator CROLL: This was the Swiss watch principle.

Dr. SLATER: I think the American pattern in the Trade expansion Act is derived from earlier American experience, which is very important, the Housing Act of 1949 and its approach to urban redevelopment. Areas were given support and encouragement, financing, through workable programs, and this formed the basis of the redevelopment scheme.

Then the American regional development policies, later, in the 1950s, brought this kind of approach of throwing up a workable program of adjustment and redevelopment, and the Trade Expansion Act built essentially on that experience, and similar sorts of procedures are involved.

On the Canadian side, first, we do in fact, right at this moment, have one interesting pilot project of this sort, the adjustment assistance side of the automotive agreement which, where there is considerable change related to the tariff and trade policy, assists adjustments.

As I understand it, the thinking is that if in the Kennedy Round, if we do a few big deals, or in the post-Kennedy Round of our trade development policy we do a few big deals, that we will have to face this readjustment problem, and we will face this partly by the phasing of the change, which is like the pattern in the European Economic Community, where they do it by a schedule over a number of years; and partly by a variety of adjustment assistance schemes. Therefore, my guess is that there is a connection between that American experience and our own pilot projects.

I am not in any way in a privileged position to know the Government's thinking but I would take it that we are fairly heavily committed to Government programs of retraining, adjustment assistance, and so on, where we, as a matter of Government policy, impose changes regionally or industrially on our society.

Co-Chairman Mr. BASFORD: Thank you. I was wondering what your view was, in connection with tariffs, on a North American free trade area as recently urged by one of our major parties.

Dr. SLATER: I am an idealist, Mr. Basford, in this, and I think much the best thing from Canada's point of view would be a really significant reduction of trade barriers, not only with the United States but with Western Europe also. It seems to me that this is still the ideal we ought to have an eye for.

I realize that some of your western friends regard people like myself, who take such a view, being in favour of motherhood and not much else, having been chided by two or three of them in just precisely these terms.

I think there is no question but that from an economic standpoint a further degree of integration of the North American economy would be beneficial in terms of productivity, levels of living, and so on, in Canada. There is no question about that.

I am optimistic about the possibility of very substantial manufacturing and related industries of a high productivity and of a sophisticated kind and of high productivity growth, being located in Canada.

I never understood why people regarded the north side of the Great Lakes as being worse than the south side of the Great Lakes as an industrial setting on

this continent, or why not Vancouver as compared to Seattle, and things of this sort.

Therefore, I am really optimistic about these things but I realize you have to work at them. It is probably true that if we went into a free trade area with the United States and said we are both going to do this, we are going to chop everything off, and that is all we are going to do, and we are not going to have a bunch of ancillary policies, phrasing and this sort of thing—I do not know that we would obtain good results for Canada.

If we have a substantial degree of integration, along with appropriate related policies, preferably in a setting where we could get a multilateral reduction of trade barriers, I think it would be very good economically. The political issues in relation to the United States are in the specialty of you people more than mine.

Mr. CHOQUETTE: I have a supplementary question on that. What would you think about the separation of Quebec from the rest of Canada?

Dr. SLATER: That is a very long question. Again, I guess I am an idealist on this. I really believe that all we regard as essential diversities in social and economic policies can be managed within the framework of Canada. Therefore, I would rather regard separation as not necessary for the things that really matter.

On the other side of the thing, I would say that separation would have costs for all of us but people pay costs for things that they believe matter enough for them nowadays. My own view is that the economic costs of separation are not nearly as large as some people sometimes suggest, but I really am very much an idealist about this subject.

Senator CARTER: I would like Dr. Slater to tell us a little more about Dr. Eastman's view on tariffs and exchange management. When Dr. Deutsch was before us we raised a question of parity, he said that, if we suddenly achieved parity without comparable improvement in productivity, the exchange rate would take care of it immediately. Also, with regard to prices, the ultimate controlling factor is the balance of payments. So I was just wondering how you can, within these limits, manage your change.

Dr. SLATER: I do not think we are talking about real things, if we talk about parity in the sense of overnight changing.

Senator CARTER: We are talking about wage parity.

Dr. SLATER: If we are talking about wage parity overnight, we are not talking about a real thing at all, in the sense that I cannot conceive of any situation or policy for which that would happen. Now, I think what Dr. Deutsch is pointing to is that, if you were to do something of this sort or were to go halfway or a third of the way, and were to do this without the changes in the productivity gap—which is, after all, a long term phenomenon—you would have to work and peck away at this, making a little improvement year by year as you went along. In effect, what you are doing is attempting to make the external value of the Canadian dollar something that it cannot possibly be at this point, and you end up with one of two things: either you have to have extremes of controls, run your tariffs up, and your quotas, etc., or you have to run a policy like that which India has run throughout much of the post-war years, which is in effect a *de facto* devaluation of the Canadian dollar. Or else you would have to devaluate the Canadian dollar explicitly.

You cannot, in effect, change the numbers in one place without having to change the numbers in the other place.

I think this is the sort of thing that Professor Deutsch was pointing to. Now, the sort of comment that Professor Eastman would be putting to you would be completely different. He is talking about real things. He is talking about managing the Canadian economy year in and year out over a five year period, one year

after the other, and he is really pointing to the fact that it would be extremely attractive for a Canadian government to have the possibility of moderate variations in its exchange rates to include from time to time this one element in a total policy program. Because there will be situations in which you have a balance of payments problem to cope with and certain kinds of domestic unemployment-growth-price problems to cope with simultaneously, and, to be able to change your exchange rate as well as to adjust your monetary policy and fiscal policy and so on would give you a far better chance of bringing off these many things that you are interested in than if you were to throw out one of your instruments.

As I said in my notes, the problem as I see it is that you are going to have problems of that sort anyway. The principal deficiency of the council's report of this is, in fact, in not pointing out to you that you are going to have to do the jobs that the change of exchange rates will do for you anyway. You have to do it one way or another, and you might just as well face the fact that you are going to have to do it one way or another.

Maybe we are living in the kind of world in which you will not have open the options on exchange rates that you will like. That is a question of judgment of the kind of monetary world we live in.

All right. That is what the council seems to be saying. But then you have to go the next step and say, "Well, then, in the event that we arrive at the point where we would like to have used this exchange rate, what are we going to use?" What are the dimensions of the problem then? These are real problems. They are not things where you are sort of changing your wage rates by 30 per cent overnight. That is not the sort of situation at all.

Senator CARTER: Thank you.

Co-Chairman Senator CROLL: Dr. Slater, you came to us with a very high reputation in your field of economics, and I can tell you on behalf of the committee that you have certainly justified it. As the result of listening to you I can assure you that it is going to be a little easier for us to discharge our responsibility, which we feel is a very heavy one indeed. It is people like you to whom we have to look for assistance in this field. Sure, you can give us the advice, but in the end it is our responsibility to pass it on to some other body.

For the assistance you have given us this morning we are most thankful and grateful.

The committee adjourned

Upon resuming at 3.00 p.m.

Co-Chairman senator CROLL: I see a quorum. We have with us this afternoon Dr. David C. Smith, Professor of Economics, Queen's University.

Dr. Smith studied at McMaster University and took his M.A. at Oxford University, England, and his Ph.D. at Harvard University in the United States. He was an assistant professor at the University of California, Berkeley, from 1958 to 1960. Since 1960 he has been at Queen's University.

This year he joined with a team of ten United States economists to do a major study, sponsored by the Brookings Institute into British economic problems.

Dr. David C. Smith, professor of economics, Queen's University: Mr. Chairman and members of the committee, thank you for the invitation to discuss a recent special study I did for the Economic Council of Canada entitled *INCOMES POLICIES: Some Foreign Experiences and Their Relevance for Canada.* The conclusions I reached are contained in the final chapter of that study. Since I understand you have copies of it and since the chapter is rather long, I propose only to summarize briefly here a few major points I made in it.

2. There has recently been considerable interest in many western countries in the advantages and disadvantages of trying to develop and implement a set of

official criteria or guides for prices, wages, and, sometimes, other non-wage incomes. Many titles have been used to describe this general approach, the most popular being incomes policy and wage-price guidelines.

3. An incomes policy is usually discussed from the standpoint of its usefulness as one approach to tackling the problem—which has been bothering many countries—of reducing inflationary pressures at high employment levels Other approaches to this problem are, of course, being discussed in most countries. First, there has been the search for greater economic knowledge of the difficult choices that have to be made in the aims of economic policies and of the relative costs of pursuing one economic objective at the expense of another. During the past decade, West European countries have accepted significantly more rapid rates of general price increases than Canada or the United States. Second, much attention has been given to the possibilities of improving on the past use of monetary, fiscal and exchange rate policies. Third, there has been a growing interest in many western countries in policies to facilitate the adaptability of the economy the changing economic conditions, such as labour market policies, improved commercial policies, better competiton policies.

4. Like the term economic planning, incomes policy, however, can be defined so loosely as to include things that all governments have long been doing or so rigidly in terms of controls as to frighten most people. Sometimes incomes policy is used to represent the whole broad spectrum of policies influencing the distribution of incomes, including taxes, subsidies, transfer payments, and so forth. But I have followed what appears to be the current, more restricted meaning of incomes policy or wage-price guidelines in widespread use in such countries as the United States, the United Kingdom and the Netherlands. Here, incomes policy is an anti-inflationary policy, the distinctive features of which are the development by governments of specific criteria or guides for incomes and prices and the attempt to gain adherence to them through various forms of public pressure. A combination of three steps would be involved. The authorities have to formulate a target for the desirable movement of the general price level. Next, given this general target, criteria for individual decisions affecting prices, wages, and, perhaps other forms of money income need to be specified. Finally, devices that can be expected to encourage or compel compliance to the criteria must be developed. Considerable variation is, of course, possible in all these three steps, and, thus, it is not surprising that those countries that have recently experimented with an incomes policy—and the number is not as great as much popular opinion supposes it to be—have differed significantly in the forms the policy has taken.

5. My study attempted to set out carefully the arguments that have been advanced on both sides of the case for an incomes policy and to examine them in the light of the experiences of five countries.

6. In all the countries I examined incomes policy is currently in an unsettled state. In the United Kingdom, the results from an approach based largely on moral suasion were disappointing and last year there was a swing to rigourous controls, which were introduced on a temporary basis but which still leave unresolved the longer-run form of the policy. In the United States the wage-price guideposts have been seriously weakened recently and, if they are to be strengthened in the future, there will probably have to be new features to them. The Netherlands is the only western country where a strict form of incomes policy has existed over most of the postwar period, but the policy was unable to contain the wage explosion, beginning in 1963, that sent average wages up by about 38 per cent in three years. In France there has been a greater interest in incomes policy in the last few years, and it has taken the form, in part, of trying to secure agreement on the distribution of returns projected in the medium term plan. But, so far, there have been difficulties due to the opposition to the policy of

important labour and management organizations. In Sweden, contrary to much popular opinion outside the country, the government has not tried to develop a incomes policy so far, although there has been a kind of national wage policy that has evolved largely through the private highly centralized labour market institutions, and it too faced more serious difficulties last year.

7. Despite the problems that have emerged with incomes policies, there is a great deal of discussion in most countries about what should or should not be done in this area. I believe there are serious issues involved which cannot be summarily dismissed as of no importance for Canada. For Canadian discussion of incomes policy it appears to me to be important to assemble information on the following four questions: What are the advantages or benefits that may be claimed for an incomes policy? What are the disadvantages or costs that may be encountered? Are there special features of the Canadian economy that would make such a policy more difficult to develop and perhaps less important? Are there other approaches that would gain some of the benefits with fewer costs and be more suited to the Canadian economy?

8. There may be many points I have not considered under these questions, but I shall suggest a few that were listed in the conclusions to my study.

9. Among the advantages that may be suggested are:

(i) If a country is in a severe national economic crisis, a policy aimed at curbing directly wage and price increases may help until more fundamental economic policies are brought to bear on the situation. Under crisis conditions there is likely to be a greater response to government appeals, and the short-run nature of the policy will make less urgent a solution to the awkward questions about appropriate criteria for relative wages and prices in the longer run.

(ii) Under more normal economic conditions, an incomes policy may be viewed as an important educational device for increasing public knowledge of the interrelationships among wages, profits, productivity and prices, for reducing conflicts about the appropriate primary distribution of incomes, and for exposing and moderating the development of protective devices and abuses of market power.

(iii) The guides of an incomes policy may assist in reducing uncertainties about future wage and price movements and keeping expectations about these movements more closely in line with underlying economic conditions.

(iv) The policy may provide the basis for a more rational approach in economies where a high degree of state intervention and a considerable degree of centralized economic planning already exists. The greater the involvement of the government in other means of influencing specifically the allocation of labour and capital, the more attractive will be a planning of direct returns to labour and capital.

(v) An incomes policy may be useful as part of a political strategy to win support for a broader set of government policies and to allay unrealistic fears of a serious inflation. The announcement of guides for prices and wages may be reassuring to a public apprehensive about inflation or concerned about the economic power of large businesses and unions.

10. Some modest effect from an incomes policy—the available evidence on foreign experiences indicates it has had a modest effect at times and has been a failure at other times—would make it worthwhile if there are not costs which offset the benefits. Both will be influenced by the form such a policy takes and the skill with which it is administered. But there are examples in foreign experiences, discussed in my study, of the following dangers:

(i) There is the danger that the government in order to gain public support for the policy will have to launch a major publicity campaign about the merits of such a policy, and this may tend to divert public attention and weaken support for other more important economic policies. It has been argued that an incomes

policy may consume too high a proportion of the political resources for economic leadership in relation to the potential benefits of such a policy. Some argue, for example, that unrealistically high hopes about the effectiveness of an incomes policy in the United Kingdom weakened support for more fundamental policies to deal with the recurrent balance of payments problems, that anti-inflationary measures were more difficult to introduce in the Netherlands in recent years because many felt the incomes policy made them unnecessary, and that in the past the administration of the United States wage-price guideposts consumed too high a proportion of the time of the President's Office.

(ii) A period of wage and price restraint that has had some effect in the short run has frequently been followed by a wage and price explosion. This has occurred because the policy may only suppress for a while the symptoms, not the causes, of inflationary pressure. For example, this was the result in the Netherlands after 1963, and in the United Kingdom at the beginning of the 1950's. It is currently a problem for the coming year in the United Kingdom.

(iii) There may be discriminatory effects since some forms of income and some prices are easier to restrain directly than others. This point has been a source of concern with the United States wage-price guideposts. Despite the comprehensive form of Dutch incomes policy, a factor that contributed to the weakening of the policy in recent years was the view that some incomes were not being controlled as much as other incomes.

(iv) Because an incomes policy, if it has an influence, will affect the wage and price structure and because economic knowledge of the criteria for an appropriate structure is deficient, there is the danger of introducing new rigidities that will impair economic growth.

(v) Some abroad have expressed concern that an incomes policy tends to make wage and price decisions much more susceptible to political pressures.

(vi) The original intention may be to rely simply on moral suasion for implementing the policy, but lack of success here may lead to much more detailed intervention in the economy. This has recently occurred in the United Kingdom.

(vii) A serious attempt to develop an incomes policy may be opposed by some on the grounds that it reduces the freedom of workers and employers in making economic decisions.

11. I have discussed some points under the first two questions on the advantages and disadvantages of an incomes policy. The third question was: Are there special features of the Canadian economy that would make such a policy more difficult to develop and perhaps less important? The government could announce wage-price guidelines and appeal for an acceptance of them. But in relation to many other countries present conditions in Canada are not as favourable for an attempt to gain adherence to an official set of criteria for money incomes and prices. A few can be noted without suggesting any ordering of them in importance:

(i) The degree of centralization of labour and management institutions can affect the ease and the importance of obtaining general support for the criteria from labour and management, but a distinctive feature of the Canadian economy is the relatively greater decentralization of union and employer organizations than in many other western countries.

(ii) Public acceptance of official criteria will be influenced by the extent of national economic cohesion and willingness to sacrifice personal gains in order to surmount a severe national economic crisis or to win a war. The Dutch postwar reconstruction problems, the British balance of payments crises, the United States military involvements abroad, have all been factors in support of incomes policies in those countries, but they have not been ones that have recently been important in Canada.

(iii) The large regional economic differences in Canada and the degree of economic integration of factor and product markets with those of the United States would complicate the problems of formulating and applying an independent set of criteria for money incomes and prices.

(iv) Of greatest importance to many people is that Canada's federal structure severely limits the central government's powers on labour matters and on the regulation of prices and that it would make the problems of implementing an incomes policy more serious than in all other countries that have recently experimented with incomes policy.

12. Finally, there is the question of whether there are other approaches that would be more suited to the Canadian economy. The focus of my study was on the relevance of some foreign experiences with incomes policy, but I concluded with a few observations on other possible routes for trying to tackle some of the issues that have stimulated an interest in incomes policy. Instead of coming at the complex issues through a simple set of government criteria for incomes and prices—undoubtedly there are at least weak forms of an incomes policy that could be tried in Canada under present conditions—it seems to me that the evidence points to the desirability of a broader, more flexible system of public evaluation and action on income and price developments.

13. While a variety of specific steps may be consistent with such an approach there are three principal sources of benefits from better policies in this area. The first is to improve the factual and analytical bases to our understanding of the determinants of money incomes and prices in Canada. I believe this requires doing something about the present weak support for high quality economic research in Canada. The second is to raise the level of economic discussions and debate in the country in order to try to remove some of the myths surrounding controversies over wage and price developments, to help prevent expectations from getting out of line with underlying conditions, and to provide good critical evaluations of the current appropriateness of institutional arrangements and concentrations of economic power that affect money incomes and prices. The third is to seek improvements in the use of the great power of governments not only in developing broad aggregative policies affecting the general movement of money incomes and prices but also in developing specific policies for the wage settlements in which governments play a role, for the control of the abuses of economic power in product and factor markets, and for facilitating economic adjustment processes where wage and price signals are inadequate.

14. One specific step here that was discussed in the conclusions to the study was to stimulate through a high quality independent research body a deeper analysis and better general understanding of the issues. Depending on how it was established, it could, I believe, be one device to promote some of the research needed in the area. With respect to affecting public debates and government policies much will depend on the quality of work in private and governmental institutions. But the body could play some role through helping to bring to public attention problem areas in income and price developments and through being a source of irritation to provoke labour, management and governments to re-think constantly wage and price policies and to develop better analyses, reviews and proposals of their own.

Co-Chairman Senator CROLL: Senator Carter, you are always ready with a question when we start talking about money.

Senator CARTER: Yes, Mr. Chairman. Dr. Smith, I gather that as a result of your study, you do not think too much of an incomes policy for Canada at the present time. Some time ago we had an economist from the University of Montreal appearing before us, and he held much the same view under the present circumstances, but I gathered that he felt that we should be working

towards such a policy, and that in, say, ten or 15 years' time circumstances would be such that an incomes policy would be almost necessary. Would that be a projection of your study.

Dr. SMITH: Let me say that I thought the main purpose of the study was to set out the arguments on both sides of the case for an incomes policy. There are many economists in many countries that I visited who would support an incomes policy, and I think it depends upon how you would weight the various factors which I tried to set out. I have tried to state the case very carefully. You are quite correct that in my judgment and in my conclusions, when trying to weight the various factors, I did not come out in support of incomes policy in the present conditions. I did indicate that there are some special types of conditions when it would be much more favourable in the Canadian case. One in particular was that if you are in an economic crisis conditions where it is terribly important to get the rate of increase of money, wages and price increases down quickly there is something to be said at least for the temporary use of incomes policy on a strict basis.

Senator CARTER: I believe you referred to the effect of economic research on the forces at work in our economy, and you suggested that a body might be set up to do this. Are you thinking of a government agency to be set up for this special purpose, or do you think it might be done just through universities?

Dr. SMITH: What I outlined in the conclusions was a type of body that would be quite independent of the government and specific labour and management organizations, that would perhaps funnel a lot of research funds to universities, and that would be free to delve into very controversial areas in wage and price developments. For the last reason in particular it would be important for it to be as independent as possible from governments.

Co-Chairman Senator CROLL: Can you give an example of such a one in the United States?

Dr. SMITH: Yes. There are a number of research organizations in other countries to which we do not have any counterpart in Canada. In the United States you would have the Brookings Institution and the National Bureau for Economic Research.

Co-Chairman Senator CROLL: Is that independent?

Dr. SMITH: Yes. In the United Kingdom you have the National Institute for Economic and Social Research. I think in relation to other countries we are rather weak in our support of independent economic research.

Senator CARTER: I think you mentioned in your brief a study about the body that they have in France that sets out goals as well as studies. Is that a government body?

Dr. SMITH: They have a planning body in France which is closely linked to the government. It is not a research organization as such, it is a kind of planning body. It has representatives of labour, management, and the government, and it seeks to get agreement on five-year projections for the economy. It is more than simply forecasting; it is trying to reach agreement on increases in output in many sectors over five-year periods. It is more of a planning body.

Senator CARTER: Do you think something like that could be had in Canada; could such a body be feasible here?

Dr. SMITH: This was discussed more fully in another study which Professor Skoech and I did on planning. We did not come out in favour of the kind of specific planning that the French planning body was currently engaged in for Canada but I think our Economic Council of Canada would be viewed by many as providing some of the functions of such a body, at least in setting out broad goals

for the future. So I suppose the Economic Council of Canada already fills part of the functions of a body which you are asking.

Co-Chairman Senator CROLL: May I ask a question? Have you ever done a study, any research on the amount of research that is being done in Canada?

Dr. SMITH: No, I do not have the figures on that. If I remember correctly Dr. Reuber in his presentation to you mentioned that any major university department of economics in the United States has more research funds to distribute than all the departments of economics in Canadian universities together.

Co-Chairman Senator CROLL: Yes, we heard that.

Senator THORVALDSON: I have a supplementary on the research question. I was rather amazed when you said, Professor Smith, that we in Canada are weak on research in economics and economic policy. Of course, I know that Brookings Institute in the United States is a famous organization and has done a splendid job for that country . I would also think that certainly in this field we can gather useful information from research done in other countries, such as Great Britain, France, the Netherlands and the United States. Furthermore, I suggest to you that the Economic Council of Canada must be doing work in regard to this subject. Indeed, of course, you presented a fine statement on this in your booklet which we received a few days ago. Would you say there is a lack of research in Canada, and why?

Dr. SMITH: Indeed, first let me agree with you that we do draw on research that is being done in other countries. Secondly, there is economic research being done through a variety of organizations in Canada, including the Economic Council. What I was suggesting here was that in relation to say the United States, on a proportional basis, we are very much weaker in our support of independent economic research. I think there is much to be said for trying to channel research funds to permit independent work, to get into some very controversial areas which governmental organizations, labour and management organizations, may be hesitant to venture into. I felt that it was the shortage in this area that we might do something more about.

Senator CARTER: If the Government doubles its grants for economic research, do we have the physical plant and competent personnel to carry out the work that has to be done?

Dr. SMITH: Well, I think the two things go together—that if you have more research funds you will attract better people to do their work in Canada. I think there is the very important question of how do you channel funds so that they go to people who have the competence to do research work. I think this is a very difficult question. We certainly are doing a great deal through the Canada Council which is important, but there is the real question of how do you channel the funds to those that will do high quality studies. It is a very difficult question.

Senator CARTER: You mention in your brief and also your study about the difficulty of working out appropriate targets and how that difficulty is compounded in Canada because of our regional differences. How can we in Canada work out a target in that way to be appropriate for Central Canada and for say the Maritimes? I realize this would be based on averages, but averages are made up of components, and how would you divide or break down those components?

Dr. SMITH: I think that it is useful to have projections made of what you think, for the next number of years, the increase in output, employment, and prices, is likely to be in Canada as a whole, with perhaps some regional breakdown.

Our present state of economic forecasting suggests that there is likely to be considerable error here. It is useful, however, to have these exercises done, to get

people thinking about the kinds of factors which can affect the rate of economic growth and the unemployment rate in the future.

In this discussion of incomes policy, the problem, however, has been that if you tie your specific criteria for wages and prices to some fixed target for the future, and that target happens to turn out to be not too accurate, considerable unrest can build up.

In the United States, the wage-price guideposts were derived from a trend estimate of national productivity. It was estimated that the growth of productivity had been about 3.2 per cent in the past, so that if you had money incomes increase at approximately the same rate, you would have approximate price stability. The economy, however, does not move smoothly along that trend rate of increase in productivity. In this past year, in the United States, a rate of increase in money incomes in excess of 3.2 per cent has been building up. Probably, if your guideposts were not flexible enough to permit these variations to take place, there is a danger that either they will break down or the Governement to back them up will have to take special measures.

The other broad approach has been taken by the Netherlands. Instead of saying that they know what the trend rate of increase in productivity for the next few years will be, they have had a regular national economic planning exercise, where they take a look a year ahead, make some estimate of what appears to be the room for wage increases, and then try to convince labour and management in wage negotiations to keep within those limits. This is more flexible, but it imposes a problem of how to secure agreement each year and this raises administrative difficulties which more fixed rules would not.

Co-Chairman Senator CROLL: My information is that the Netherlands have a history and tradition in that sense and that this is a follow-up. Is that correct, or is this new?

Dr. SMITH: It is correct, certainly, since World War II. They have had quite extensive economic planning, because their economy came out of World War II devastated. Their output in per capita terms was about half of what it was in 1939. In this state of the economy at the end of World War II there was a need for quite extensive planning to get the economic resources allocated again, so that from the early post-war period they had quite extensive economic planning.

Senator CARTER: Has there been any regional economic studies in Canada, by various regions, as a breakdown of the economy as a whole, as an integral part of the whole economy. We must have about ten different economies, all developing at different rates?

Dr. SMITH: There are many studies of regional economic problems. I am not sure about which specific problems you are referring to.

Senator CARTER: Productivity, growth, G.N.P., wage-prices, and so forth —these problems we have been dealing with here.

Dr. SMITH: Yes. This I understand is an area in which the Economic Council is doing work but in addition there are many academics who have been doing research. I am sure many other private and governmental institutions have been doing research work in this area.

Senator THORVALDSON: May I suggest, too, that every government in Canada, every provincial Governement, has its economists, both in the Departments of Finance and in the Departments of Commerce and Industry, and there is a continuous study, I would think, of the economic problems of regions. I know that in Manitoba there is probably a score or more of economists engaged by that province and they are continuously in the field, making these studies and also I would agree that a tremendous amount of study is being done in the academic field in the universities of the various provinces.

Dr. SMITH: I would agree that there has been a great increase in the last five years among provincial governments.

Senator MCGRAND: At the bottom of page 10 of your brief you say it would be well to raise the level of economic discussions and debate in the country in order to try to remove some of the myths surrounding controversies over wage and price developments. What evidence have you that there are myths unexposed and what are these myths?

Dr. SMITH: One example frequently cited by defendants, say, of the United States wage-price guideposts, is that in setting them out some misconceptions may be straightened out. If you say that wages on the average should increase at about the trend rate of increase in productivity, it is pointed out that many people will then say "What happens to profits, does this mean you are going to squeeze profits?" There is a little bit of arithmetic here which some argue has been set out quite nicely by the guideposts—that is, if you have wage increases of 3.2 per cent on the average, profits can increase at 3.2 per cent on the average without either wages or profits growing relative to each other. This point has been stressed in defence of the guideposts. I think you can get some of this education across in national debates, without committing yourself to a rigid formula that at times may be inappropriate.

Senator MCGRAND: Have you been able to develop a sort of formula in which a certain percentage in the cost of wages and a percentage in the cost of living and the cost of prices, or can you suggest a formula, because I wondered what you mean by exposing myths.

Dr. SMITH: Could you explain what you mean by formula?

Senator MCGRAND: In this study you mentioned, 3.2 per cent in the cost of wages and corresponding increase in the cost of profits, have they been able to produce any suggestions that there is a formula which could be adopted which would permit an increase in the cost of wages, not too much of an increase in the cost of commodities, and at the same time maintain a fair return in profits?

Dr. SMITH: Yes. The figure I used was 3.2 per cent. The argument is that there is an arithmetic truism, which my be called a formula, by which you would have wages grow at the same rate as the trend of productivity, and profit would grow at the same trend rate. If you believe that the distribution between profits and wages is fair now, this would roughly perpetuate it.

Usually there is a list of exceptions that are given to such a formula; that is, there may be special cases in which in some industries wages should grow more rapidly than this national figure, or that profits should increase more rapidly than is suggested by this national figure. It means that you could have some change over time in the relation between wages and profits, depending on how the bargaining in the individual industries worked out.

Senator HOLLETT: On page 186 of your book you say that the distinctive feature of an incomes policy is the development by governments of specific guides for incomes and prices and the attempt to gain adherence to them through various forms of public pressure. Is that not a step away from free enterprise and more towards the Russian doctrine of living, communism in other words?

Dr. SMITH: I think the argument here is no—that it would not mean necessarily very detailed legal controls in your economy, but that you might set out what you regard as useful rules or criteria for wages and price behaviour.

Senator HOLLETT: Where is public pressure to stop or ease up?

Dr. SMITH: It depends then on how seriously you want to implement sanctions.

Senator HOLLETT: I studied economics in Oxford nearly 50 years ago, but they did not have those doctrines then, did they?

Dr. SMITH: This policy seems very recent, but you can go back as far as the middle ages and think of St. Thomas Aquinas' just wage—

Senator HOLLETT: Fifty years ago is not the middle ages.

Dr. SMITH: We did have war time price-wage controls. What is being suggested here is that perhaps you could have forms of exposure that would not go much beyond moral suasion—perhaps a kind of public stocks form of punishment where you would point out that this industry did not seem to have the pricing or wage behaviour that seemed to be in the national interest and you would merely expose it. Some feel that this is sufficient to implement an incomes policy. So I do not think it needs to go altogether in the direction of wage-price controls.

Certainly the United States wage-price guide rules have not come to this point.

Senator HOLLETT: Are there any automatic checks being put on by government?

Dr. SMITH: This depends on how the policy is set out. I think one of the dangers that I point out in my conclusions is that you may believe moral suasion will do the trick, and then lack of success may force you a lot further along the road. This happened in the case of the United Kingdom, where a few years ago no one would have dreamt that you could have the extent of government wage controls that now exist in the United Kingdom.

Senator HOLLETT: Would you say today that there is a little bit too much government interference with free enterprise?

Dr. SMITH: That is a very broad question.

Senator HOLLETT: I know.

Dr. SMITH: Are there some specific aspects you have in mind?

Senator HOLLETT: No. I am glad to hear that at least Senator Carter said he was not quite a believer in this income policy.

Dr. SMITH: No.

Senator HOLLETT: I hope you are not.

Dr. SMITH: I believe my conclusions come out on the negative side. This is their direction but I do think it is important to set out both sides of the case, because there are very many people who believe there is something here, and I think that one should then try to work out what weighting is being given to these various arguments.

Senator HOLLETT: It is dangerous, in my opinion, but of course I am only one person and I do not know too much about economics today, but I think it is a dangerous thing. I may be wrong.

Co-Chairman Senator CROLL: You had a grounding in economics that a great number of people did not have, so you may be right.

Senator HOLLETT: Well, they have different economics today from what they had then, I believe.

Co-Chairman Senator CROLL: It has not changed too much. Mr. Olson, have you got a different economic point of view?

Mr. OLSON: I do not know, Mr. Chairman. I would like to ask Professor Smith for some amplification of what he says on page 7 of his brief. He says that it has been argued that, if you give too much attention to this wage-price relationship, this can cloud the issue of getting at some of these fundamental

problems that really can be expected. I hope I have read this paragraph properly. You say, for example, that:

> Unrealistically high hopes about the effectiveness of an incomes policy in the United Kingdom weakened support for more fundamental policies to deal with—

some of the other things. Could you tell me in your opinion what some of those fundamental policies were that did not get enough attention?

Dr. SMITH: In the case of the United Kingdom?

Mr. OLSON: Yes, that is the one to which you refer here.

Dr. SMITH: In the case of the United Kingdom there were higher hopes for what an income policy could do, since the beginning of 1960, than did actually materialize. I believe there was some effect in 1961-62, but it was very small. Certainly there have been some effects since you put on controls, but the belief was that you could have a significant effect without serious sanctions on wage price movements.

Mr. OLSON: I think that is the kind of illusion that this committee is under at the present time, or at least some of the members in this committee. Go ahead.

Dr. SMITH: This means that, faced with recurrent balance of payments problems, should you have taken stronger deflationary measures over a longer period; should you have had some exchange rate adjustment? These questions were perhaps not debated as seriously in the public because there was the unrealistically high hope of what you could do with the incomes policies.

Mr. OLSON: Do you think that the economy and people responsible for it, people in the administration, under those conditions then were under an illusion that more was going to be done than was done, and they neglected other things as a result? I ask this because you go on to say that the wage-price guideposts in the United States are probably consuming too much of the time of the President's Office with the result that there is negligence of other policies or the development of other policies that would be effective. What are those other policies that you think are not receiving enough attention?

Dr. SMITH: I think it is a common criticism in the United States that there is no formal machinery for trying to administer the United States guideposts. There was largely an *ad hoc* intervention by the President's Office in particular cases.

Starting with the steel industry intervention in 1962 there have been periodic examples of Presidential pressure to try to get a wage or price rollback. Given the enormous time pressures on the President's Office, it is felt that you could not continue to have a serious administration of the guideposts because of a whole range of other policies.

I am not thinking of any specific one here, but just that it took an awful lot of time of the President's Office. The President's Council of Economic Advisers advised him on the administration of the wage-price guideposts, but that is a small body having to advise him on the whole spectrum of economic policies. Here, too, then, they were more limited in the amount of attention they could give to other policies, if you have to spend quite a bit of time on the wage-price guideposts. So right now they are thinking in such terms as: Can the President's labour management advisory committee at least try to pick up some of the educational aspects of the guideposts?

Mr. OLSON: Do you have any opinion as to what they should have given more attention to at the time that would have been more effective than the intermittent or periodic intervention of the President's Office in support of these wage-price guideposts?

Dr. SMITH: I did not have anything specific in mind in the case of the United States. I am not as familiar with recent developments. I have heard it argued that the belief in the effectiveness of the wage-price guideposts may have weakened support for taking a little tighter fiscal policy measures a year ago and that it would have been helpful to have had a little tighter fiscal policy over a year ago combined with a little easier monetary policy in the United States.

Mr. OLSON: You go on to say that a period of wage and price restraints that has some effect in the short run has frequently been followed by a wage and price explosion. When you are talking about restraints are you talking about restraints imposed by law or restraints imposed by moral suasion, if you want to use that phrase for it?

Dr. SMITH: It may be either. In the case in the United Kingdom in 1948 there was an agreement by the labour leaders to have a wage pause. A number of very prominent labour leaders helped to convince the unions that because of the crisis in the United Kingdom there should be a wage pause. This seems to have had some effect in the short run. Britain was in an extreme crisis, and there was an appeal to everybody to help out by accepting this wage pause. But the evidence was that this was having an unfair impact on some people because some others were getting wage increases and prices were not being kept down as much as wages. It led to a lot of pressure building up, and at the beginning of the 1950s wages rose at a very rapid rate. Statistical studies suggest that wages rose at a faster rate then they would have done otherwise, and this was because of this pent up restraint. This is what you might call a wages explosion following a period of voluntary restraint. Normally it would be a case of fairly severe sanctions holding up increases, but then the pressure builds up and there tends to be an explosion when you let the controls go.

Mr. OLSON: So we are really playing around with dynamite if we try to impose some control on this inflation by moral suasion or imposing some sanctions by law, at least according to the statistical record.

Dr. SMITH: I think that is true if you have a period of fairly severe restraint. In the case of the United Kingdom and the Netherlands in 1963 it was a case of severe restraint. The hope of many people dealing with incomes policies is that if you introduce it on a very moderate basis then you don't have these pressures building up that lead to an explosion.

Mr. OLSON: And then on the next page, page 8 at paragraph (vi) you say:

> "The original intention may be to rely simply on moral suasion simply for implementing the policy, but lack of success here may lead to much more detailed intervention in the economy."

Have there been any places where this has seriously been tried by government—the simple use of moral suasion and have these been successful without having to resort to the other more severe sanctions later on?

Dr. SMITH: I think the United Kingdom has been a leading example of this until this past year.

Mr. OLSON: It didn't really work there, did it?

Dr. SMITH: From statistical studies I think there were two short periods when it had an effect; in 1948-1950 it had an effect followed by an explosion and again in 1961-62.

Mr. OLSON: These were short run and were followed by escalating prices immediately afterwards.

Dr. SMITH: Certainly in 1948-1950, but it is harder to see this following 1961-1962. The latter was an appeal for a wage pause which the government led in applying it to the public service. There was a wage pause in the public service. Whether this is moral suasion or not is another question. It seemed to have some

short run effect. There was not then a wage explosion; there was only a moderate effect followed by a period when they used moral suasion. And then recently they turned to controls.

Mr. OLSON: When Professor Neufeld was before us a few months ago he suggested—I don't want to say that he said things which in fact he did not, but I think he suggested that any of these price controls either by persuasion or moral suasion or even by rigid price control in our economy in the long run does not really do anything except temporarily hide the inflationary pressures that build up anyway. Do you agree this would happen in Canada if there was an attempt to bring in price controls—that the pressure would build up and would be followed by an explosion?

Dr. SMITH: I think it is true that if you did impose price controls you are only hitting at the symptoms and not at the causes. You simply bottle it up. I think the view of those who stress moral suasion today is that it can provide some additional information and—

Mr. MACDONALD (*Rosedale*): A standard of reasonableness.

Co-Chairman Senator CROLL: If you can define it.

Mr. OLSON: It is pretty general that most of the people who have studied the problem and who have checked on the imposition of controls feel that it isn't effective over the long term, and there is probably more turbulence in the economy when they have to come off because of the pressures built up than if you had never imposed them in the first place.

Dr. SMITH: You are speaking about this in general.

Mr. OLSON: Yes.

Dr. SMITH: No, there are many people who would argue that in some crisis situations it may be important to have while getting other economic policies in line and that this can help temporarily. If you are talking about the long run, it is hoped that you don't need to go that far.

Mr. OLSON: They are hoping that, but I am asking you because you have made this study. With the two exceptions in the United Kingdom in 1948 to 1950 and 1961 to 1962, is there any other practical application that has proven successful?

Dr. SMITH: The United States guideposts were introduced in 1962, and they were advanced largely as an educational device without the suggestion of sanctions to back them up. Soon after they were announced there was presidential intervention, particularly in the steel industry, and there were efforts to try to get some industries to follow the guideposts. There was a threat of a number of sanctions such as shifting government contracts and anti-trust investigations. In this way they tried to get adherence to the guideposts and I think the guideposts had some effect.

Mr. OLSON: This would indicate that the cost of living index and the wage-price increases were something less for a year after the guideposts were introduced than before or is that not a fair way of measuring the success of the guideposts?

Dr. SMITH: Yes, this is the procedure the studies have used. They have worked out the relationships that have existed in the past between, say, the unemployment rate and the rate of price increases. This relationship has been better since 1962 than it was prior to 1962. There are other hypotheses that have been advanced for this better experience, but it is consistent with the guideposts having had some effect, though not a large one.

Mr. OLSON: Would you have any explanation from the results of your studies as to why we had an accelerated increase in the cost of living index from

the beginning of 1965 through 1966 compared to what we had in the years immediately prior to that?

Dr. SMITH: Yes. I did not go into that in my study; I was studying foreign experiences and their relevance for Canada; but I think many factors have been advanced. I think we have had a substantial rise in demand and a reduction in the unemployment rate during the last few years, and this generally builds up stronger pressures on the price side. At the top of the boom relatively more rapid wage increases and greater pressure on the price side occur.

Mr. OLSON: Surely, these wage demands followed the accelerated price index, did they not? They were not there prior to that. In other words, it is a question of which followed which, but it seems to me the demand for significant wage increases and perhaps substantially larger wage increases than in the past followed this period of the substantially accelerated cost of living index, did it not?

Dr. SMITH: I think the rate of increase in the cost of living index does have some effect on wage movements, but the main effect on wage movements comes through the demand in the labour market.

Mr. OLSON: The relative demand between the two?

Dr. SMITH: If you use the unemployment rate as a proxy for demand conditions in the labour market.

Mr. OLSON: Do you think these rather large demands in so far as new labour contracts are concerned are motivated more by the labour market than by the cost of living index or the consumer price level?

Dr. SMITH: I think the movement of the consumer price level has some effect, but I think the main effect comes through the demand in the labour market.

Co-Chairman Senator CROLL: As I recall it, Britain had full employment for a considerable length of time and her trouble was not inflation, was it?

Dr. SMITH: Britain has had a rate of price increases higher than in Canada. It has not been exceptionally high in terms of western European experience, but due to the recurrence of the balance of payments crisis it has been serious. Thus, the inflation problem has been one that they have been trying to tackle more seriously in order to improve the balance of payments side.

Co-Chairman Senator CROLL: It seems to me that if there is not one problem there is another; it does not make any difference. As a result of the questions it follows there must be some solution. What is it? Is it a number of things?

Dr. SMITH: A number of things have been suggested. One is that the United Kingdom has in the past been operating at a very low unemployment rate in relation to say, Canada, and if you had a little less demand pressure over a period of time this would help; this would moderate somewhat the increase of prices and make your products more competitive on the international market. There are others who have suggested that the rigidities, the problems of economic adjustment mechanisms in the United Kingdom, need to be dealt with; that more flexible economic adjustment mechanisms would help them out of the problem. There are a number of alternatives.

Co-Chairman Senator CROLL: When you look around this room and see these parliamentarians here, every one of them has spent a lifetime believing and telling themselves and their constituents that the answer to the problem is full employment. That is what we have been saying. I spent a generation speaking about that; and along comes full employment and it is not the answer to the problem at all, but causes more problems of a different kind.

Dr. SMITH: It depends what you mean by "full employment" and the nature of the problems. The United Kingdom has had a very low unemployment rate and has not a bad growth rate in relationship to its historical average. We hear a great deal about the problems of the British economy, but these have largely been balance of payments problems. Some may argue the United Kingdom has not done too badly in the post war period; and that, indeed, there have been problems, but they are certainly far less serious than they were in the inter-war period. It is better to operate your economy at quite low unemployment rates and to try to handle you balance of payments difficulties when they emerge.

Co-Chairman Mr. BASFORD: Dr. Reuber discussed with us at some length the other day the conflict between the objective of relatively high employment and price stability. I find it hard to see how a government can follow any policy but one of relatively high employment.

Dr. SMITH: I think this is what you have to make a social judgment on. High employment is an extremely important objective. How high is high employment? I think Dr. Reuber's work has been trying to work out what are the costs of getting your unemployment rate, say, down from 4 per cent to 3½ or 3 per cent in terms of rate of increase of prices which would occur if you did this.

Then there is the problem of balancing the benefits and the costs. You gain something by reducing your unemployment rate, but what is the cost of the higher rate of increase of prices? There are choices to be made here, and one needs to try to work out as objectively as possible these benefits and costs. Most of us have argued that possibly in the past there has been a tendency to underweight in public policy the importance of achieving a low unemployment rate.

Co-Chairman Senator CROLL: I am shocked when I see that Britain, which normally had 100,000 unemployed, now has 600,000 unemployed, and to say this is the solution to our problem—I am with Senator Hollett, our economics are just out the window. It just does not make sense to me, and what is wrong with me? Should it make sense?

Dr. SMITH: I do not think there are many people in the United Kingdom who would argue for as high an unemployment rate as we traditionally have in Canada. When they are talking about a moderately higher unemployment rate they are talking about moving from 1½ to 2 per cent unemployment rate in the way they gauge it. It may be very hard to make the adjustments to a comparable basis, but it would still be below 3 per cent in terms of Canadian unemployment rates.

Mr. SALTSMAN: This is a very discouraging theory you advance, but presumably it is one you have given a lot of thought to, and it seems to be the one held by most of the people who appear before us here.

In a period of rising prices we have been told how reallocation takes place between those with a fixed income and those able to adjust their income. Is there also a similar sort of situation even within the group of those who can adjust their income? In other words, some can adjust their income more than others, and in a period of rising prices tend to get a disproportionate benefit in that period than other groups. Therefore, some injustice may be taking place in terms of allocation of rewards within this group that is theoretically supposed to have their incomes adjusted. Do you see this sort of thing taking place?

Dr. SMITH: Yes, I think it is important to distinguish here between a rise in price increases and a situation in which a country has adjusted to a steady rate of price increase of, say, 1½ per cent a year over a long time. Many of the adjustments may have already taken place in pension planning and planning for retirement, and so forth. The problem, it seems to me, is when you have varying rates of price increases. You then have to jump to a higher rate of price increase,

and this has more serious distributive effects on those who are on fixed plans and fixed incomes and who are expecting a lower rate of price increase. There is then, a more serious distributive effect.

I think a number of studies have shown that the seriousness of the distributive effect may not be as large as we had thought; that a lot of social welfare legislation of governments of many countries has tended to adjust those on fixed incomes to better positions when prices have increased unexpectedly. So, the statistics have not shown on an overall basis as serious distributive effects as many would have thought, but nevertheless there are distributive effects on some groups, as you suggest.

It is important also, I think, to consider the distributive effects on unemployment. If you hold down the rate of increase in prices and create a little more unemployment you have to consider what groups will be hit a little more heavily by this type of policy.

Mr. SALTSMAN: And in what districts of Canada.

Dr. SMITH: Yes, what regions, what people, what level of skills, what race, and so forth. I think it is very important to look at the distributive effects of unemployment.

Mr. SALTSMAN: Senator Croll has indicated his concern—and it is a concern which I share—about measures for reducing unemployment. The big lever in obtaining stability in price increase is, of course, fiscal policy and monetary policy and, let us say, adjustments to the exchange rate. These are not very selective, and they do not seem to completely solve the problem to the extent that we can say we are going to use those instruments. Is there nothing we can do of a more selective character than use just the big levers. In other words, can we find a way of getting as close to full employment as it is possible to get and find selective ways of evening out the bad allocations that take place under those circumstances?

Dr. SMITH: I think the big levers are terribly important to get you into the right range. We have not always done very well with them in the past and I think it is important not to underestimate them. Once we are in a reasonable range of unemployment and rate of price increase there are then more specific types of policies that can help us. I think here there is much interest in what labour market policies can do, what improved commercial policies can do, and what better competition policies can do. So, it seems to me the big levers get you into the right range, and then there may be a few more types of policy, such as labour market policy, to help you more.

Mr. SALTSMAN: Is there room for more selective price programs in respect of certain industries which by their very nature become quite monopolistic, and not subject to international competition for one reason or another, and which tend to exert more market strength or have more market strength than other industries? Is there any validity in looking into industry and saying that we are going to pick out a number of industries in our economy which fall into this category, and see if we can impose some price restraints, or make an examination of what is going on there?

Dr. SMITH: Yes, I think the combines policy does in fact try to do what you are suggesting. I think that you need to look at industries, as the Economic Council of Canada suggested, like the construction industry. You might even out more the expenditures on construction, particularly through the public expenditure side. This will help correct the series of ups and downs we have had on the construction side, and this may help a bit. This is an industry which has had marked fluctuations, and you could get a better price performance if you evened out some of those fluctuations. I think these are some of the specific types of policies one must think of.

Mr. SALTSMAN: But you see no use in selective price controls in selected cases?

Dr. SMITH: The question is how are you going to set it out. Are you going to have some sort of objective rules by which you judge what is a bad performance? I think if you had some overall comprehensive rule you are into an incomes policy, and I have grave doubts about moving in that direction. I would rather see a valuation that takes into account the complexities of the individual cases without specific price controls on particular industries, rather than to rule what is a good price by some overall formula.

Mr. SALTSMAN: We have a tendency to do this to some extent in the control that the Board of Transport Commissioners exercises over the Bell Telephone Company. They do it on the basis of return on invested capital.

Dr. SMITH: Yes.

Mr. SALTSMAN: They work backwards from the return on capital, and say what the price is to be. Can this sort of thing be done with the steel industry? We have not had a chance of looking at the steel industry, but we have heard a lot of criticism about it. I am not prepared to say how valid that criticism is. We have also heard statements that it is a sort of bell-wether in the economy and that it tends to set the pattern. If the price of steel goes up then that has an effect throughout the entire economy. My question is: By attempting to regulate some basic industries of this type can we cut down inflationary forces in our economy that arise from price increases?

Dr. SMITH: It is a very important argument that has been advanced in most countries that have experimented with an incomes policy,—that you can identify a few key industries where the wage settlements or the price changes provide a lead to other industries and that therefore you do not have to have a very comprehensive policy. You can pick out a few industries and see how their wage and price decisions affect the whole economy. This has been very important in formulating the United States wage and price guidelines. You could pick out the steel industry and the aluminum industry, and if you hit them you found you had an effect on the whole economy.

In all the countries I visited I was very anxious to look at the research that was being done on this. In all countries I found that there were studies which have cast doubt on just how fixed these kinds of relationships are. You just cannot pick out in advance the industries that are going to be those that lead. This is not something that is known as well in advance. In other words, this is very much more in doubt than many people thought a few years ago.

Mr. SALTSMAN: I have had doubts about it myself, but it is frequently used as an excuse. For instance, the minute the price of steel goes up you find a whole procession of industries saying that they have to raise prices because of the increase in the price of steel, or because of the increase in the price of aluminum, or because of the increase in the price of copper. One can suspect that these increases are somewhat disproportionate to the increase in the costs of the actual raw materials, and they frequently appear to be an excuse.

Can we not remove part of this? In other words, can we cut down on these inflationary pressures by looking at the situation and making an attempt to select those industries—I know how difficult it would be to tackle the whole economy, but could we in a selective way take those industries and project them along this line, if only as an experiment, to see how it would work out?

Dr. SMITH: We have on occasion seen that particular industries seem to lead. I am not sure that we know in advance which will be the key ones. I am not convinced that we know in advance what is a good price or what is a good wage in a number of these industries. This I think is the real problem in doing this.

Co-Chairman Senator CROLL: You have been investigating the wrong industry, Max.

Mr. SALTSMAN: No, I am asking questions, not providing solutions. Have studies been made to take a look at various industries that have a greater effect than others in determining the conduct of prices?

Dr. SMITH: I am familiar with the research in the United Kingdom of postwar wage negotiations that tried to figure out which ones created a pattern and these studies suggested that sometimes there were key settlements that did have a spreading effect, but it was not at all clear that you could predict these in advance. It may be a relatively minor settlement that seems to have a spreading effect. It is not at all clear that you know in advance, if you had some policy affecting two or three key industries, that you would get at what you are suggesting here.

Co-Chairman Mr. BASFORD: Some of my questions have been asked, but I was wondering if you would mind reviewing, because of the questions about price regulation of one sort or another, the type of machinery that you found that the different countries have employed for price regulations.

Dr. SMITH: Through an incomes policy?

Co-Chairman Mr. BASFORD: As part of their incomes policy. You have said in your report that governments often find it more easy to control prices rather than wages.

Dr. SMITH: This has differed greatly. In the United States, as I mentioned, there has not been the development of formal machinery. It has largely been ad hoc intervention with the President's economic advisors investigating cases they thought were important. In the United Kingdom it has become much more formally instituted through the National Board of Prices and Incomes. In the United Kingdom's case there is a separate board that has been established which will look at wage and price decisions, prepare reports on whether they think a wage price change has been justified, and publish its report.

Initially, when the national board was set up after the Labour Government came into power in the fall of 1964, its function was simply to make reports, to get the information on what it regarded as the key factors influencing wage and price decisions in the cases referred to it by the government and then it would publish the report.

Co-Chairman Senator CROLL: *Post facto.*

Dr. SMITH: Yes, that is right. Then there was a move to have an early warning system whereby labour and management would have to notify the government in advance of what the settlement was going to be on the wage side, on what was going to be the price change, and the government could request a delay of this change until the national board had reported.

Now, of course, with the legal controls, the freeze, there has to be formal permission through the board to any change.

In the Netherlands, it is a very complicated procedure. There is a statutory wage system there so that all wage contracts must formally receive approval of the government. There is a board of government mediators, that has veto power.

Co-Chairman Senator CROLL: Could they go on strike if they didn't like it?

Dr. SMITH: No. The contract has to get the approval of the board, which can fix the wages that should be paid, and that is the government's part of it.

Co-Chairman Senator CROLL: That is the end of it?

Dr. SMITH: That is right. Now an attempt has been made, not to use this so much as to try to get through the labour-management organizations some agreement on what major wage changes should be. There has been an attempt,

through the social and economic council, to provide some setting for what the movement in wages and prices are likely to be in the Netherlands for the next year or so. So there are a number of bodies that are inter-related trying to work out a process without too much government intervention directly.

Co-Chairman Senator CROLL: Going back to unemployment, it has just occurred to me that in the United States they were trying to achieve a four per cent unemployment. We in Canada were trying to achieve a three per cent unemployment, to keep us honest. Now, are we too low in our figures or should we try to go beyond three per cent, beyond four per cent, and why?

Dr. SMITH: I believe the United States Council of Economic Advisers said in 1962 that there should be an interim target of four per cent, and they emphasized the word "interim" on the grounds that it would be desirable to get below four per cent. I am not sure that one could argue that their goal is very different from ours on the basis of this.

Co-Chairman Senator CROLL: You think that our goal, then, is about right, three per cent?

Dr. SMITH: It has been suggested by the Economic Council that three per cent would be a desirable goal. I do not think you can fix a specific figure as to what you expect to achieve every year because of the fluctuations in our economy, which will be higher in some periods than others. Whether or not three per cent is better than three and a half per cent depends very much on the kind of economic conditions you are in, and these can vary from year to year.

Co-Chairman Senator CROLL: The point is that the Economic Council raised a half per cent on us in the last report. Normally, it was two and a half per cent and that was the limit you could tolerate. All of a sudden they come out with three per cent and they say that is the limit you can tolerate so as to keep honest.

Dr. SMITH: I thought the first report said three per cent.

Mr. SALTSMAN: It seems to me that from the report I read of Denton and Ostry, it was three per cent, based on the fact that some people were going to be in and out of jobs and there would be a certain amount of seasonal unemployment, and that three per cent was an attainable figure.

I want to ask whether the Swedish experience is not a form of guideline as well, where you have the major groups, the federation of labour and the federation of employers meeting to lay down general guidelines. Was this not a form of incomes policy which for a long time was fairly effective?

Dr. SMITH: They were very anxious to say they have no incomes policy, and I think it is more than a semantic issue here. There has been an attempt to come at the problem, not through having the Government set out criteria for wages and prices, but by trying to have these evolve through the private institutions. I think there is a fundamental difference here. It has not been through the Government that they try to adopt the criteria, but through the highly centralized private negotiations. I think this is an important distinction. It depends on how you define income policy. I regard this as a different approach.

In Sweden they have highly centralized unions and national organizations, as you point out. It becomes very important, I think, when you have such centralization in your labour-management institutions, to try to work out criteria that make sense. The existence of highly centralized institutions often means that wage earners, for example, do have a much more common view on what is a fair wage structure. In Sweden there has been a great deal of emphasis on the idea of wage solidarity of the workers—that is, to have their wages move more closely together.

The settlements, however, which have been made in Sweden have not been terribly important for the actual movement in earnings. There is the important phenomenon of wage drift. What is decided in the centralized wage negotiations

has often meant very little to what is happening to earnings in general. Because the actual eearnings paid to the workers depend on what happens at the plant level, the wage drift has sometimes been greater than the wage increases agreed upon in the wage contracts.

Co-Chairman Mr. BASFORD: We have heard a great deal about the system in Sweden, particularly when Professor Deutsch was here. I wonder if you would care to say how it might develop in Canada. Could there be a more centralized system of labour-management negotiations and, if we could have it, would that be desirable?

Dr. SMITH: In relation to Sweden, we have very different conditions that would not make one feel that highly centralized labour-management negotiations will take place in the forseeable future. It seems to me that it is important to have some of the kind of economic debate which takes place in Sweden at the time when wage negotiations are on—where you do have labour organizations, management organizations,—independent research bodies and the Government putting forth their ideas as to the prospects for the coming year. Perhaps we could do more of this than we do right now. I do not really think, however, that our conditions are such that one would expect very highly centralized labour-management institutions to evolve along the Swedish lines.

Co-Chairman Mr. BASFORD: Could I throw a hooker at you and say the problem is, however, complicated in Canada by having the degree of international trade unionism we have.

Dr. SMITH: I think this does make a difference. Professor Crispo, however, is the one who has made a study in this area.

Mr. OLSON: Is that the one just published?

Co-Chairman Senator CROLL: Yes.

Dr. SMITH: This is one of the factors which contributes to our situation being very different from the Swedish one. We are always very enamoured of the Swedish situation—

Mr. OLSON: Some people are.

Dr. SMITH: But it is a different country.

Co-Chairman Senator CROLL: I lived through Parliament here when New Zealand came out of both ears as to what they were doing and how wonderful it was about social services. A friend of mine went over and said that all they are doing is sharing poverty, while we are sharing wealth. I could never understand it. He said "It is a different country".—And it is a different country.

Co-Chairman Mr. BASFORD: Mr. Saltsman and I spent six weeks in New Zealand together.

Mr. SALTSMAN: Six happy weeks.

Co-Chairman Mr. BASFORD: There is one question I missed in your brief, although it was discussed in your paper. It would seem that the American guideposts related to productivity trends. It seems to me there is a terrific problem in determining any sort of accurate measurement of productivity on a national basis.

Dr. SMITH: There are problems which the United States guideposts have encountered, in deriving the famous 3.2 per cent figure. They have taken a five-year moving average, an average of the previous five years, and indicated that it came out to be approximately 3.2 per cent. Last year, when they dropped one year and added another year, it came out to be 3.6 per cent. They were faced with the dilemma: do you revise the guideposts or stick with the old 3.2 formula. In fact, they decided to stick with the 3.2, but this caused a lot of trouble, especially among unions in the United States.

The United Kingdom took a different approach. They said what is important is the trend productivity that you expect in the future. The National Economic Development Council, which had made a projection for the United Kingdom, suggested that productivity would increase at say X per cent and that was the figure which the United Kingdom had used for the trend in productivity. There are the problems that your productivity series can be revised, as the Canadian series was revised last year, and this leads to some difficulties. There are difficulties regardless of how you manipulate the date to get agreement on the same trend estimate.

Mr. MACDONALD: To refer to the senator's *cri de cœur* about full employment I presume that Harold Wilson thought about this, after he thought about his life-long wishes to obtain full employment for the people, and the question of Government policy to create some traumatic experience over there. I wonder if in some ways Great Britain was not as useful to us as an economic model in this area.

You made reference to the balance of payments and specifically because they have a balance of payments problem that we do not have, in that they have to manage a reserve currency, so that reserve currency can be a problem for them, which is a problem we do not have here, and therefore it commands a higher degree of unemployment.

Dr. SMITH: Yes, I think the balance of payments problem there is a more dominant one in the United Kingdom, and is affected by their special role in international finance. At the same time, there have been stronger public pressures in the United Kingdom to keep the unemployment rate lower than has been the case in Canada. Some argue that this is because there was a longer period of serious unemployment in the United Kingdom in the inter-war period than we had in North America. We had a much higher unemployment rate in the depths of the Great Depression, but it was much more short-lived. The high unemployment period was much longer in the United Kingdom and that has had some effect in convincing public leaders that it was more important to keep unemployment low.

Mr. MACDONALD: This is a fairly valid generalization, that, even with a relative centralization even of the United Kingdom, they can operate a lower level of unemployment than we could. We have the great expanse of Canada which tends to decentralization and therefore a higher rate of unemployment.

Dr. SMITH: I think this might be argued. There are enormous regional differences within the United Kingdom in the unemployment rate and this may be another factor in the public pressures to prevent the unemployment rate from rising. It is very unevenly distributed—in Scotland and in Northern Ireland the unemployment rate is very high. They have great differences. Around the London area the rate is extremely low.

Mr. MACDONALD: At the year end the economist of the Bank of Nova Scotia suggested that 3 per cent unemployment at the national level in Canada was equivalent to less than one per cent in some of the most active trades and active areas so that should not be high enough. It should be up around 5 per cent. Would you agree with that?

Dr. SMITH: That the national unemployment would be 5 per cent? My own personal view is that it should be substantially lower.

Co-Chairman Senator CROLL: You would have a hard time getting elected, if you advocated that.

Co-Chairman Mr. BASFORD: The Bank of Nova Scotia does not have to get elected, though.

Mr. MACDONALD: That is right. Did you have any experience in the wage policy system that you studied such that one group would try to restify what it considered a structural disadvantage and thereby set off a spiral of wage claims? To use the same expression further, what criteria do you have to decide how much different vocations should have, for example, how much civil servants should have and railway workers should have and members of Parliament should have?

Dr. SMITH: This is what is so extraordinarily difficult about an incomes policy. How are you going to work out criteria for the different kinds of occupations? There has been a tendency in most countries to suggest that maybe all wage rates should move approximately at the same rate, with allowance for some exceptions in cases where there is an excess demand which is very clear in some areas to promote movement of labour to those areas and where wages are for historical reasons exceptionally low in some occupations. But, given some of these exceptions that have been set out both in the British white papers and the United States guidepost in the last five years, it is extraordinarily difficult to identify the exceptions in practise, so the tendency has been to argue wages should all move at the same rate.

Mr. MACDONALD: Relative to the Swedish experience, do you have the experience of having one group say that they should be at a higher plateau?

Dr. SMITH: Yes, all the time. Major wage negotiations have tried to get all the wages moving closer together, but because the actual earnings worked out at the plant level differed substantially, the movements of earnings have been very different for different types of occupations. Some suggest that really they have not been very different from what a freer market would have led to.

Mr. MACDONALD: I apologize if you already answered this question before I came in, but in your paragraph 14 you refer to an independent research body to which you also referred in the conclusions of your study. Are you thinking in terms there of a body other than the Economic Council of Canada? Could the Economic Council perform this role that you are suggesting?

Dr. SMITH: Well, I did not set out too specifically what the body could be. My understanding of the terms of reference of the Economic Council of Canada was first that it dealt with medium term and long term issues, and there are issues here that are short term. Secondly, I had in mind something that would funnel research funds to academics that would permit quite a wide range of problems to be tackled, and my own view would be that it would be better to have something separate from the Economic Council to do this.

Mr. MACDONALD: Thank you.

Co-Chairman Mr. BASFORD: Do you feel that that is comparable to the recommendations of an institute made by the Council in its Third Annual Review?

Dr. SMITH: I am not too clear on the exact wording of their recommendations of the institute, but my understanding was that it would be a short run body. My suggestion here is that we need an examination of problems which could not necessarily be classified by time periods. There are some problems that are short run, some that are medium run and some that are long run in this area. So I was not suggesting something that was classifiable by a time period.

Mr. OLSON: I have just one question supplementary to the area which Mr. Saltsman was looking into, the distributive effect of income policies. I suppose that full employment in Ontario, for example, or in central Canada does create greater wage demands in such areas as the Maritimes, even though there is not full employment there in a country such as Canada.

Dr. SMITH: I think this is true, yes.

Mr. OLSON: It would also follow that full employment in Ontario would probably raise prices in the other parts of the country where there is not full employment. The reason I put this is that I happen to think that this is so, and I wondered if you would agree. If it is so, some of the emphasis should be changed on to the point of moving the unemployed to the areas of employment opportunity rather than trying to create work projects such as the designated area projects and the like.

Dr. SMITH: Yes. There are several points here. First of all I would agree that, if you have wage-price increases in one region, there are links among regions that would tend to have wages and prices move in other regions of the country. They may not move exactly in line, but there is a tendency for some sort of link to be established. Now, if you are saying that one region is expanding in terms of employment opportunities relatively more rapidly than another region, then is it best to try to move the workers or is it best to try to move some of the demand and some of the employment opportunities to those regions? I think here you can make argument both ways.

First of all, if you promote the movement of labour, you may leave in a more depressed state some areas where there were employment opportunities that you could have encouraged. This is a very important issue in the United Kingdom right now. Employment opportunities are higher in the London area; but are there not social costs to over-building in the London area. Is it not better even from an economic standpoint to try to have some of your industry move away from this focal point?

I think that the problem here is to try to promote the adjustment of the economy. If there is greater surplus labour in some areas, that information should be better known to management and to workers to influence their location in economic areas. So I think you need a bit of both.

Mr. MACDONALD: Thank you, Mr. Chairman.

Senator CARTER: I have a supplementary, Mr. Chairman, arising out of the reply just given to Mr. Olson and the statements made by Mr. Macdonald here. If you set a national goal of 3 per cent, that means that in central Canada your unemployment rate is one and a half per cent. That creates pressures so fast that it not only increases wage demands and prices for the Maritimes but id does not give them a chance to develop their own resources.

Would it not be better if we had a target of 5 per cent instead of 3 per cent? This would mean that it would probably be around 2½ or 3 per cent in the Maritimes and in central Canada. Then the whole pressure would operate so much more slowly that the Maritime provinces would have a chance to develop their own resources and industries.

As it is now, everything happens so fast in central Canada that we get the raises in price all right because most industry is centralized in central Canada, but this happens so fast that the restrictive measures have to be taken and they take effect everywhere. So that when we are just beginning to get started to develop in the Maritimes we are cramped again.

Now, if we had a higher rate or higher goal, say 5 per cent instead of 3 per cent, would that not give the Maritimes a better chance?

Dr. SMITH: I believe the national unemployment rates tend to move together and when the national averages are high the regional averages are high. And when the demands are lower in, say, Ontario, for example, then tend to be lower in the other regions as well. Surely it is evident that it is of advantage to the other regions to have a lower rate of unemployment than they now have. But the suggestion is that the rates in Canada must move reasonably close together. Secondly, are you suggesting that if expansion of the economy tends to be distributed among the regions, it isn't to the advantage of the Maritimes to have

prosperity throughout Canada and that the Maritimes would do better if Canada generally was kept more at a lower level?

Senator CARTER: But the point I am making is that we never get the opportunity to build up, because when the pressure builds up in Central Canada and restraints are imposed, they are also imposed in the Maritimes and they take effect everywhere. The restraints are not needed in Newfoundland and the Maritimes, but once the tight money policy becomes necessary in Central Canada we have to take it even when we don't need it.

Dr. SMITH: But perhaps it is better not to get the kind of solution that we raise the unemployment over all the rest of Canada. Surely it is better to handle it through adjustment policies that give the lowest unemployment rate.

Co-Chairman Senator CROLL: My co-chairman Mr. Basford tells me he has two brilliant questions.

Co-Chairman Mr. BASFORD: I would not say they are brilliant. In the various incomes policies you have studied what has been done with the problem of division of the distributive share between wage and non-wage incomes?

Dr. SMITH: It is suggested in the United States by the guideposts that these would move roughly together. The criteria spelled out in the United Kingdom prior to the wage freeze last year were really very similar to those used in the U.S. guideposts. They are not calling for a major shift in distributive shares between wage and non-wage incomes. In both the Netherlands and Sweden there is very much less concern about trying to affect the price and profit side than the wage side. They are highly open economies and the argument used is that international competition will tend to take care of the prices and it is the wage side they have focussed their attention on in recent years more than in the past.

Co-Chairman Mr. BASFORD: One other question; having worked for the Economic Council of Canada, are there any changes you would suggest in the structure of the Council?

Dr. SMITH: My study was really done independently of the Council. I was merely supported in this study so I did not really work in the Council.

Co-Chairman Mr. BASFORD: "Worked for" was really the wrong expression, but having supplied research material to the Council?

Dr. SMITH: I think I should say my working knowledge of the Council is not very great. I think Professor Skeoch and I set out in a book on economic planning several things which we thought were useful on a national level. One was a major research body. The second was a body that would help on the educational side, and promote a greater consensus on economic goals in society. The third was the area of better co-ordination of government policies within the government. These were the three functions that we extracted from the foreign experience with economic planning. I don't think one can expect the Economic Council to fulfill all these functions, and certainly not the last. This is an area in which one would not expect the Economic Council as presently constituted to do very much. I think it is fulfilling much more the second function, that is, helping to achieve a national consensus on desirable goals, providing better economic information and doing a very important job of public education. How much it can do on the research side still remains to be seen. There are so many areas where it strikes me it is important to have more economic research in Canada that it is doubtful if one can expect one body to fill this role.

Co-Chairman Senator CROLL: What disappointed me about the Economic Council was the fact that there was very little comment on research, and in our hearings, if you look at the record, you will find that there is no American subsidiary which does any basic research in this country. I thought that would have been a matter for comment by the Economic Council, and they missed it

completely, or was it intentionally, do you think? Would they know that, or do you know?

Dr. SMITH: I know nothing about the extent of research by U.S. subsidiaries. I have not studied that.

Co-Chairman Mr. BASFORD: Walter Gordon discusses that at length in one of his books.

Co-Chairman Senator CROLL: I have read it. It is still surprising to me. I should mention that I don't share all of Gordon's views, by the way. But I find after sitting through the hearings I am not able to tell you how they fix retail prices. Do you know on what basis these are fixed?

Dr. SMITH: Who?

Co-Chairman Senator CROLL: Well, the retail stores. How do they do it? Is there a percentage mark-up? Who says "this will sell for so much and so much?' Is this part of your study?

Dr. SMITH: No, I didn't go into that.

Mr. BOULANGER: I want to ask a general question and it may sound silly. When we talk to the people on the street—I am not an economist—I have not too high a schooling—but I like to hear common sense from the people. When we talk to them and I am sure if there were some of them here today they would be lost anyway. But what they seem to want to know from us is how does Canada stand in the picture in comparison with other countries? What is wrong with us according to these prices? They want to know are we doing badly in this country as some politicians would lead us to believe. How do we stand in the picture compared with others? You have an argument to say white and also an argument to say black. How do we stand in the picture of economy around the world? Is Canada bad or good? Is it as bad as others or as good as others?

Dr. SMITH: I think we stand very well. If you take real income per capita we are a wealthy nation, either second or third after the United States, depending upon how you measure income in Sweden and Canada. Are our increasing prices out of line with western countries in the past decade? No. We stand very well. Our unemployment rate is good in relation to the United States, and it is rather higher than in relation to other western European countries. We are doing better now than we did five or six years ago.

Mr. BOULANGER: When we hear some politicians in this country we wonder.

Co-Chairman Senator CROLL: You are listening to the wrong politicians.

Mr. BOULANGER: You know who I mean, I suppose.

Co-Chairman Senator CROLL: No, I don't.

May I, on behalf of the committee, say to you, doctor, that it has been a delightful, engrossing and profitable afternoon. In discussing these problems with us in this way you have let us pick your brains, and they have been well worth picking. You have given us a broad understand of some of the matters involving economics, and you have brought a few of us up to date. We are very grateful to you.

It is pleasant for me to say to you that we are able to call on universities and almost ask for the kind of people we want, and they come down here and talk to us and try to help us parliamentarians who have a responsibility, in the final instance, to make a judgment. You have been very helpful and we are very appreciative. Thank you very much.

Dr. SMITH: Thank you very much. It has been a pleasure to be here.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966-67

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICE)

No. 27

THURSDAY, FEBRUARY 16, 1967

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Mr. Monty West, Chairman, Canadian Association of Sales Companies;
Dr. Brian Dixon, Assistant Professor Commerce and Business Administration, McGill University.

QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

First Session—Twenty-seventh Parliament

1966-67

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 37

THURSDAY, FEBRUARY 16, 1967

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Mr. Monty West, Chairman, Canadian Association of Stamp Companies; Dr. Brian Dixon, Assistant Professor Commerce and Business Administration, McGill University.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25752—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Cook,	Inman,	Thorvaldson,
Croll,	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,	Horner (*Acadia*),	McLelland,
Andras,	Irvine,	Morison,
Asselin (*Charlevoix*),	Leblanc (*Laurier*),	O'Keefe,
Basford,	Lefebvre,	Olson,
Boulanger,	Macdonald (*Rosedale*),	Rideout,
Choquette,	MacInnis,	Saltsman,
Code,	Mandziuk,	Smith,
Crossman,	McCutcheon,	Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract from the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

25752—1½

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(*For text see Interim Report in Committee Proceedings No. 27.*)

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C. moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.,:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(For text see Interim Report in Committee Proceedings No. 27.)

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, February 16, 1967.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The honourable Senators Carter, Croll (*Joint-Chairman*), Hollett, Inman, McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*).—6.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, Choquette, Macdonald (*Rosedale*), MacInnis, McCutcheon, McLelland and Smith.—9.

In attendance: Dr. R. Warren James, Special Assistant.

The following were heard:

Mr. Monty West,
Chairman,
Canadian Association of Stamp Companies.

Dr. Brian Dixon,
Assistant Professor of Commerce and Business Admin.,
McGill University.

At 1.00 p.m. the Committee adjourned to the call of the Joint Chairmen.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

MINUTES OF PROCEEDINGS

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

Ottawa, THURSDAY, February 16, 1967.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: Members of the committee, come to order, please.

Appearing before us this morning is the Canadian Association of Stamp Companies represented by Mr. Monty West, the Chairman of the Association and Vice-President of Gold Star Sales Limited. He is seated on my immediate left. Next to him is Dr. Brian Dixon, Associate Professor and Director of the Management Development Institute at the Graduate School of Business, McGill University.

Without further ado I will ask you to present your brief, Mr. West, after which you will be questioned by the committee.

Mr. Monty West, Chairman, Canadian Association of Stamp Companies: Thank you, sir, with your permission I will proceed to read this submission, and we will carry on from there. The Canadian Association of Stamp Companies (CASCO) is a trade association of the major trading stamp companies in Canada and includes among its members; Gold Bond Company Limited, Gold Star Sales Limited, Lucky Green Stamp Company, Pinky Stamps Limited, Richelieu Groceries Limited and Commercial Specialties Inc.

The association, with offices in Toronto, acts in the same way as any other trade association, working in the mutual interest of those engaged in the trading stamp industry in Canada.

CASCO has more than 100 associate members who are manufacturers of products used as merchandise by the stamp companies.

You will note from the list Appendix "A" that these associate members represent a broad segment of the Canadian manufacturing industry and we feel this demonstrates very graphically the impact of the industry on Canadian manufacturing by providing an additional outlet for millions of dollars in Canadian manufactured products each year.

The brief, which we are to present to you today, will establish that the Canadian trading stamp industry is a worthwhile industry, providing an outlet for Canadian manufactured products which would otherwise not exist and a definite promotional service to retailers, corporate and independent.

We plan to list a number of studies made of the trading stamps industry and to also establish that trading stamps do not have an adverse effect on food costs within the areas of Canada where they are distributed. We will show that trading stamps constitute a true discount to shoppers patronizing stores where stamps are provided.

At the outset, let me say that trading stamps have now been established in the Provinces of Ontario, Quebec, Manitoba, the Maritimes, and Newfoundland for a

period of several years and as the cost of trading stamps to the retailer has not increased since their inception, it is very illogical to suggest that trading stamps have, in any way, contributed to the recent marked increase in food costs which has been suggested has taken place over the past one or two years.

Trading stamps are just one of the many consumer attractions food retailers have adopted for their stores during the past fifteen or twenty years. But stamps are the only promotional program which returns a dividend to each and every customer—not just a few contest winners. Trading stamps are, first and foremost, a discount for cash payments. Such discounts are a customary practice in many levels of business—but until the trading stamp was created—about eighty years ago—there was no unit small enough to reward a customer for all retail purchases however small the amount, by an average of a 2 per cent discount. Purchase of a 10-cent item results in the same discount, through a stamp, as purchases of many dollars.

Competition has narrowed a storekeeper's profit margin so much that reducing his price to nine cents on a ten-cent item would be more than he could economically afford. The stamp is his way of giving his customers a discount on every purchase, a discount that he can afford. With a value of one-tenth of a cent each the trading stamp is the lowest practical method of giving discounts.

Merchandise incentives are almost as old as civilization itself. In no field has the merchandise incentive a longer or richer history than in retailing. Some retailers redeem cash register tapes for dishes and cookware. Some redeem newspaper coupons for popular records or other items. Some give away television sets and automobiles in lucky-number drawings. Some offer free tickets for local attractions. Trading stamps are only one variety of the almost endless assortment of plans collectively known as merchandise incentive. A retailer will use trading stamps or some other promotion when it pays to do so, and will eliminate them when he finds something more useful and more desired my the shopping public. But win customers he must; and until a new system of business is invented he will do it through promotion. That is a basic part of the nature of our free market system.

Competitive Retailing:

Why do merchants add new stores—widen assortments of merchandise—place more newspaper advertising—give trading stamps or other customer attractions? Why do they not simply cut prices instead?

The answer lies in three concepts:

(a) Heterogeneous customers: There is no "typical" consumer. The prospective market for any store is made up of men and women, each with a unique combination of wants and needs. This combination is affected by the size of a household; the tastes and values of its members; by the fact that virtually all households have limited incomes; and by the fact that few can buy without considering prices; and by the fact that all households have only limited information about what offers are available in various stores, and about comparative prices.

(b) Competitive Advantage: No one retailer can offer a combination of attractions that will satisfy all prospective shoppers. A location convenient for some is inescapably less convenient for others. Rich variety in assortment which is pleasing to some buyers is simply confusing and unnecessary to others. Minimum services and low prices to attract some customers may mean losing the favour of others. In the same way some customers like trading stamps; other do not. Thus any conceivable assortment of attractions is a compromise from the standpoint of the shopper and the retailer.

In choosing their assortment of shopper attractions merchants strive to maximize their competitive advantage—first by finding attractions which are appealing to many of the consumers in the trading area, and second by finding customer

attractions which are not likely to be imitated immediately or exactly by rival firms.

(c) Profit Erosion: The profit any competitive advantage creates for any particular retailer tends to disappear in time through the processes of imitation and retaliation. Profit erosion takes place in one of three ways—through price cutting, through non-price attractions which lead to higher operating costs, or through loss of sales to competitors which forces up the average operating cost per dollar of sale.

The only way a merchant can overcome these tendencies towards profit erosion is through continuing innovation—finding more effective ways to please ever-changing customers and customer demand, staying one step ahead of the relentless pressure of competing customers alternatives. This is what competition is.

The Role of Trading Stamps:

As one of the competitive attractions trading stamps have many advantages.

1. In representing an average of a 2 per cent discount to every customer, they reward everyone on an equal basis.
2. They serve the small retailer in competing against the chain stores, in the same way they serve the chains in competition with one another. A significant fact in Canada is that there are about 12,000 small independent retailers using them in addition to some of the chains. These small retailers have not the money to spend on large stores, heavy advertising, parking lots and other advantages of the chains —but many thousands of them find that trading stamps give them an effective competitive advantage.

But beyond these immediate advantages, trading stamps mean much to the Canadian economy, in the stimulation of production among Canadian manufacturers. In 1965 about 5.7 million merchandise premiums valued at more than $23 million were redeemed by Canadian Stamp Companies. Over 90 per cent of this merchandise was purchased from the 400 odd Canadian manufacturers who are suppliers to the stamp companies for merchandise displayed in their stamp catalogues.

As noted, in addition to this figure of $23 million for Canadian merchandise, and its impact in increasing direct employment, many thousands of dollars are spent, and many jobs created and sustained as a result of the industry's subtantial purchases, as well, through shipping and freight requirements and its large orders for catalogue and stamp production, including photography, art work, printing and other promotional materials. The stamp industry, in a very real sense, is one which expands markets and creates jobs for Canadians.

Moreover, manufacturers who supply stamp companies say that stamp catalogues are a prized advertising medium and that stamp catalogues stimulate the purchase of matching items through regular retail outlets.

Merchandise Incentives Often More Effective Than Cash:

While some stampgiving stores redeem trading stamps for groceries if the customer wishes, experience has shown that in the great majority of cases consumers prefer merchandise premiums described in the catalogues. The main reasons for this are:

1. Merchandise incentives offer more total value. The average cash redemption value in groceries of a book of stamps is about $2.00-$2.50. However, when redeemed for premium merchandise, the book is worth at least $3.00, often more in value, based on what one would have to pay for the item at leading department stores. Thus one factor in the success of merchandise premiums is the ability to give more retail value than the cost of the premiums to the users.
2. Through stamps, consumers can save for items they might not normally be able to buy, and are able to obtain worthwhile merchandise at a

very low cost to the issuer. One stamp costs the store which issues it a small fraction of a cent. But the stamps mount up rapidly for thrifty consumers over a period of time enabling stamp redemption for valuable merchandise.

3. The stamp plan offers a wide choice of premiums for consumers. The four-colored catalogues illustrate many thousands of items, most of them requiring from one to fifteen books.

4. Customers generally take pleasure in receiving stamps in the anticipation of receiving the merchandise of their choice, and in filling of stamp collector books with a sense of achievement. There is, too, a clear sense of thriftiness. There is only one practical use to which a customer can put stamps. They can't in a weak moment take them out of the piggybank and spend them for a movie or a chocolate bar. They can't be frittered away. So stamps become a painless way of saving for nice merchandise that consumers would like to have but ordinarily wouldn't, or couldn't go out and buy. They are viewed by many thousands as a Christmas club saving plan.

5. Receiving their choice in merchandise is, of course, the all-important satisfaction to customers. Most of the merchandise redeemed is linens, lamps, dishes, silverware—item—that are used constantly and have "remembrance value". Frequent exposure to quality merchandise obtained with stamps is a continuing reminder that the consumer has achieved something worthwhile by saving as she spends. Moreover, it should be remembered that for many thousands of housewives, stamps savings represent the only savings at their disposal to spend, on what they would like to have, apart from the strictures of the family budget.

6. The consumer who shops at a store where stamps are given receives many benefits: As noted, she receives the equivalent of a 2% discount on all her purchases, large or small. She doesn't get "something for nothing"—but she does get something instead of nothing. Actually she gets something for something—trading stamps for her patronage. Thus consumer liking for stamps is a rational one. Indeed all consumers benefit from trading stamps whether they like them or not, because of the increased competition they foster.

The Evidence That Stamps Do Not Raise Prices:

A simple assumption is that when trading stamps come into a store prices and gross margins immediately rise by the cost of the stamps. The weight of evidence, as we will show, is that this is not valid or typically true. This is because it fails to account for the fact that a service or promotional expense which stimulates sales volume spreads heavy fixed costs over more sales dollars, so that the added expense can be offset.

It must be noted that stamps are not a substitute for any of the basic merchandising strengths—competitive prices, clean stores, good quality products or courteous employees.

Experience indicates that the volume increase necessary to cover the cost of a stamp programme is 10 to 15 per cent depending upon the type of business. To suggest that all stamp-giving retailers automatically increase prices is to say that all retailers are equally efficient or inefficient; that prevailing profit levels cannot be adjusted; and that there is no scope whatsoever for introducing cost-reducing methods into distribution; or that no retailers can expand their turnover to compensate for the cost of stamps.

Stamps, like all advertising and promotions, have one objective; to win for the retailer a profitable share of the market. The more successful the promotion, the higher the volume and the lower his prices can be in the competitive arena.

The basic and undisputed principles of retailing, and the best available studies to date, both confirm that the charge that trading stamps raise prices simply does not square with the facts.

Should Trading Stamps Cause Prices to Become Uncompetitive—or Affect Quality or Service—The Very Purpose of Trading Stamps, an Increase in Sales, Would Be Defeated.

A second fact which must be considered in judging the relationship between trading stamps and prices is the combined result of all consumer surveys on the subject to date. The conclusion would have to be that there is absolutely no ascertainable, documented evidence that trading stamps ordinarily raise the price of food, gasoline, or any other product.

Actually, most of the best governmental and academic evidence to date indicates that stamps may help to hold prices down, and in some cases serve to lower prices in general. The reason for this favorable effect on prices lies in the competitive nature of both trading stamps and the retailing business itself.

Competition means, by definition, that retailers must continually strive to offer their customers, and prospective customers, more and more in terms of total benefits received. Consequently, where competition is greatest, prices tend to be lowest with quality and service highest. Where competition does not exist, prices tend to be highest, with quality and service lowest.

Obviously, any competitive technique involves a cost to the retailer. The retailer who moves his store to a more attractive location pays more rent. More advertising costs more money, as does air-conditioning, free delivery, credit service, special promotions—and trading stamps.

Therefore, a logical question can be asked about the trading stamp merchant and his prices; How is it possible for him to spend some promotional money for stamps, without increasing prices as a result? Certainly there would be no reason for him to issue stamps if he merely deducted the cost from his normal profit.

There are basic reasons why a good trading stamp plan can be used without price increases.

1. The additional sales created by stamps permit a merchant to make maximum efficient use of his existing facilities and manpower. Most retail store costs are more or less fixed regardless of sales. Such expenses as rent, light, fuel and power, heat, management and other labor costs do not increase significantly, even though sales may be doubled.
2. Stamps may often be used as a partial and usually more effective substitute for other types of promotional expenses. Special, short-term promotions such as premium giveaways and in-store drawings for prizes are just a few examples of such limited appeal promotions.
3. Other savings that offset the cost of stamps, at least in part, are fewer bad debt losses and credit collection costs since stamps are only given for cash payment. Then, too, savings in spoilage on fresh produce and meat often result from the increased patronage encouraged by a good stamp plan.

Research on Trading Stamps and Prices:

In Canada a number of research projects have demonstrated that there is no factual evidence that stamps raise prices. Surveys have shown that food prices are not higher in areas where stamps are given than in areas where they are not. Moreover, studies reveal that there is no clear-cut pattern on prices as between stamp-giving stores and non-stamp giving stores.

(a) Canadian Facts Company Ltd. carried out price studies in cities across Canada, on a comparative basis between stamp and non-stamp chains over a six month period. Stamp stores were sometimes a little

higher on certain items; just as often, non-stamp stores were sometimes a little higher on certain items.

(b) Chain store advertising in Canadian city dailies was studied on a single day and a comparison made between prices on comparable items in stamp and non-stamp stores. Again the evidence showed that non-stamp stores were in some cases higher than stamp stores, and vice versa.

(c) A quarterly report for the Ambler Pricing Service was assessed on items in four chains. Again the same results were produced—no evidence that stamp stores were higher than non-stamp stores. On some items they were higher; on others lower. In the majority of cases they were the same.

(d) Students at the Faculty of Commerce at the University of Sherbrooke, P.Q., carried out a survey on trading stamps in Canada. It involved not only research into the history and operation of stamps in Canada and the U.S. but actual shopping expeditions in three Canadian cities. Their conclusion, as published in their association periodical "Commerce Sherbrooke":

"Stamps provide some kind of direct return to the collector, a characteristic not common to most other forms of promotional activity. Our conclusions are that trading stamps are not detrimental to the public interest so long as they are handled with integrity".

Canadian Economists:

Several Canadian Economists have studied the trading stamp industry.

Dr. David S .R. Leighton, Associate Professor, School of Business Administration University of Western Ontario writes "Stamps do not hinder; they reflect and stimulate competition. This is surely desirable and should be encouraged."

Dr. Lloyd I. Barber, Assistant Professor of Business Administration, University of Saskatchewan "In many instances the introduction of stamp plans has been met with significant price cutting by the opposition. This has produced a much more competitive market resulting in benefit to the consumer. . .It must be kept in mind that the incomes of many families are such as to preclude saving out of current expenditure for desired luxuries. Trading stamps are one alternative to expensive credit buying of coveted items. Saving in advance is to be preferred to costly credit purchasing. Stamps are basically no different from other kinds of competitive devices. They do not threaten the fabric of society. They are not immoral of fraudulent. Their economic value, their effectiveness, their importance should be decided in the market place, not in the legislative chamber."

In Great Britain: Trading stamps were found not to have affected grocery prices in a survey conducted by the Consumer Association in Great Britain and the survey's results were published in the Consumer publication "Which?" In carrying out the survey, members of six local consumer groups in Barnsley, Brighton, Crawley, Reading, Swansea and Swindon bought goods from a list of frequently purchased products on four weekends over a period of six months from July 1964 to January 1965. A total of 120 shops were included in the survey, some giving stamps, and some not giving stamps. The survey showed that while prices were not affected by stamps, there was plenty of evidence to show that the competition a store faces in its own market area is a very important factor in determining prices. For examples, prices in town centres where competition is most keen were found to be lower than prices in out of town stores.

Two other studies, one by Conrad Jameson in June 1964 for the British Consumer Council and another by Christina Fulhop in an Eaton Paper published by the Institute of Economic Affairs in April 1964, concluded that, from the evidence, no real conclusion could be drawn as to the impact of stamps on prices. In October 1963 Mr. Frederick Errol, then President of the Board of Trade, said

that the Ministry of Labor, which compiles a retail price index had found no evidence of price increases because of stamps.

In the United States:

A vast amount of research into the impact of trading stamps has been carried out in the U.S. and their findings are pertinent to the present study on the matter by the Committee. A list of governmental and academic studies is included in the appendix. There is a wealth of evidence among them to indicate that stamps do not raise prices and, because of increased competition, may even have tended to hold general price levels down. To list just a few:

The U.S. Department of Agriculture traced the price trends of stamp and non-stamp supermarkets in 21 cities, and found a tiny gap of six-tenths of one percent in favour of non-stamp supermarkets. But the value of premiums customers get with stamps was valued at about 2% of the expenditures—a 1.4% saving to the consumer. Even this small difference of 0.6, said the Agriculture Department's report "may well have been caused in part by non-stamp stores lowering food prices to meet the competition of stores adding stamps."

The U.S. Department of Labor, studying the impact of stamps on food costs over a fifteen year period recently concluded that any price changes resulting from stamps were so insignificant that they did not justify inclusion in the Consumer Price Index.

New York State Legislature, after its joint legislative committee on commerce and economic development had completed an extensive study on trading stamps, concluded that there was no evidence that the use of stamps in the state had significantly affected the price of retail goods either in those stores giving stamps or in their non-stamp competitors.

Harvard Business Review 1957: Dr. Eugene R. Beem, then Assistant Professor of Business Administration at the University of California wrote a trading stamp article which was published in the Harvard Business Review. In it Dr. Beem said: "Analysis of the price data gathered by the Bureau of Labor Statistics is the clearest indication that stamps have not forced up food prices in general. In fact these data suggest that stamps may have held prices down, a tenable hypothesis in light of the fact price reduction has been the dominant strategy used by non-stamp stores to counter stamps."

Indiana University Study: Another report made by Professors Haring and Yoder of Indiana University reached about the same conclusion. This study was based on prices in 28 stamp and non-stamp food stores in Indianapolis. Results showed no evidence of higher prices in stamp stores; in fact if it suggested anything, it indicated the reverse. It reported "The general conclusion must be that this method of analysis strongly indicated that if (the food retailer) uses, or is planning to use trading stamps, he will be unable to recoup their cost from increased prices; rather the stamp retailer must rely on increased volume or decreased costs to make trading stamps a sound venture for his business.

Midwest Research Institute, Kansas City, Miss.: Verna A. Bunn, Operations Analyst of the Institute, studied the relationship between trading stamps and food prices in Kansas, Missouri, Oklahoma, Montana and Wyoming. This gave a comparison on prices as between states in which the use of trading stamps had been eliminated or severely curtailed by legislation and compared them to prices in neighbouring states where stamp use was unrestricted and pervasive. He reports: "No study reveals any evidence that the use of trading stamps, even on a widespread basis, leads to higher retail food prices. In fact, the price level in the cities where stamps were in use was, in every case, actually a tiny bit lower than in the similar cities of neighbouring states where stamps were banned or restricted. When the retail value of merchandise with stamps is taken into account, the consumers in the states allowing unhampered stamp utilization received significantly more value for their food dollar, than those in the restricted states."

Thus, it can be stated, with authority, that there is no evidence produced by the legislative and academic studies on trading stamps to indicate that stamps raise general price levels. Where there is a suspicion that, on occasion, prices are fractionally higher in some stamp-giving stores, the conclusion of the experts is that the value of the premium more than offsets this for the consumer.

Profile of an Industry: In the short span of less than a decade, the Trading Stamp industry in Canada has become a substantial factor in the retailing community.

In 1965, for example, the industry issued about 15 billion stamps and distributed more than 5 million high quality merchandise premiums valued at about $23 million at retail prices—compared to about 15 million dollars in 1963.

A study conducted by Canadian Facts Co. Ltd. in 1963 revealed that approximately 1,600,000 Canadian households save stamps and redeem them for a wide variety of quality goods. Our estimate is that some 4,625,000 adult Canadians are saving trading stamps.

The stamp industry has continued to grow steadily, indicating a substantial increase in popularity. There is strong evidence that this acceptance is at its highest levels in areas with a long history of stamp distribution and use.

Thus most stamp savers live in Ontario and Quebec and the majority of people familiar with stamps have a liking for them.

	Total men and women 18 and over	Those who save stamps	%	Say they like stamps—%
Maritimes	914,000	144,000	16%	55%
Quebec	3,156,000	2,231,000	71%	64%
Ontario	4,065,000	2,119,000	52%	57%
Manitoba	609,000	130,000	21%	51%
Total	8,744,000	4,624,000	53%	59%

The stamp industry currently provides direct employment for approximately 600 men and women. Thousands more are indirectly employed, as noted earlier, as a result of the industry's purchases of Canadian merchandise, and its heavy use of printing service, freight, trucking, etc. More than seven million four-colour catalogues alone were printed and distributed in 1965.

It is estimated that stamp companies contributed close to one million dollars in taxes to various levels of government in 1964 and paid two and a half million dollars in wages and salaries.

More and more merchants, both large and small are using stamps in their promotion plans. Today, approximately 13,000 retail outlets operate stamp plans. Of these, about 12,000 are independent merchants and 1,000 are chains. It is reliably estimated that 95 per cent of the stamps issued are redeemed by consumers who save them.

Because of the trading stamp business, manufacturers have increased production and many men and women who might otherwise have been "laid off" have stayed at work. Some plants have found it necessary to hire additional personnel. One supplier, for example, reports that it used to close down in the winter months and employees then went on unemployment insurance. Now, because of trading stamp orders, it works full time and has added employees. Another states that in its first year of manufacturing for stamp orders it tripled both its payroll and its contribution to Federal taxes.

These are important stories because they also include reports from firms which, encouraged by stamp orders, upped their volume to a point which allowed them to compete in price on foreign markets, allowed some to double output, and over and over again we see change, because of stamps, from lay-offs to increased production.

Some typical comments from suppliers to The Canadian Association of Stamp Companies:

Employment Up: "We employ at least 25 per cent of our total of 400 employees because of the stamp and premium programs."

—Jack Cooper, President, Cooper-Weeks, Toronto.

Extra Business: "Purchases made by stamp companies from us mean an additional full employment of approximately 30 workers in our plant all year round. We do not believe this substantial additional production would be replaced by normal purchases if stamps were discontinued, due to our conviction that our products reach a segment of the consumers who would not be in a position to purchase these goods through normal channels."

—Walter W. Levy, President, Diwalt Sales Ltd., Toronto.

Production Stabilized: "Trading Stamps stabilize production. In contrast to seasonal orders resulting in high and low peaks of employment, the steady firm orders of stamp companies permit long range planning, more efficient production, and better financing, to the advantage of both manufacturer and the Canadian consumer.

—Jack Setton, President, Maple Leaf Cutlery Co. Ltd., Montreal.

Good Relations: "We have found the companies purchasing merchandise for stamps are of the highest calibre and their volume buying has created more jobs in our plant. Also our sales to stamp houses do not interfere in any way with any of our regular customers."

—N. Milner, Vice-President, Milner Leather Products Ltd., Toronto

Suppliers Aided: "The many thousands of dollars worth of orders we receive for stamp premium merchandise adds considerably to our production, maintaining a high level of employment in our factory. In addition, the raw materials we purchase for stamp premium business results in many additional months' employment for our suppliers."

—R. E. McDermott, President, McDermott Metal Products Ltd., Rexdale, Ontario.

All Benefit: "The stamp companies' policy of buying in Canada has been a contributing factor in keeping our help working steady without layoffs. We in turn purchase materials used in the manufacture of our products, which are supplied almost completely from Canadian sources, thus helping to maintain a higher level of employment through the allied industries."

—Leon J. Slan, Vice-President, Dominion Luggage Co. Ltd., Toronto.

Expands for Export: "The aggressive promotional work of the stamp companies has resulted in a tremendously increased demand for our products so their sale has greatly increased through the normal retail outlets in Canada as well as to the stamp companies. Due to the increased volume, we have been able to lower prices and enter the export market which, we believe, will supply us with several hundred thousand dollars of sales this year."

—J. A. McMaster, Vice-President, A. R. Lite Manufacturing Co. Ltd., Montreal.

Buy Canadian: "Many distributors and retailers will pay lip service to the "Buy Canadian" theme but only do so if the price is lower, and some apparently prefer the import at an equal price. On the other hand the stamp companies advertise the fact that they support Canadian industry and, what is more important, have the courage of their convictions and actually do so."

—J. D. Lang, President, Samson Dominion Limited, Toronto.

I thank you for your attention and will now ask Dr. Brian Dixon, Assistant Professor of Commerce and Business Administration at McGill University to present a further statement.

Dr. Brian Dixon, Assistant Professor of Commerce and Business Administration, McGill University: Mr. Chairman, Honourable senators and members, it might be

useful to you if I explained how I got here in the first place. It is perhaps a funny route but it is worth explaining.

While working on my Ph.D. in the United States I was very much concerned with the relationship between governmental regulations and promotional activity of commercial firms and in this connection did both study and work with a number of people particularly concerned with this area of activity, particularly with Professor Oppenheim who is probably one of the outstanding people in this area and with Professor Griffin of the Attorney General's Committee to study the Anti-Trust Laws. So over a period of four years I was embroiled in this relationship between government and promotional activity. I returned to Canada and ran into a considerable amount of agitation to outlaw trading stamps. This was in 1959. I wrote an article on the subject in which I suggested that this should not be done. This was printed in the *Canadian Commentator.* As a result of that article I was called to be an expert witness in a case in Edmonton, and I was asked to be on Telepol once to comment on trading stamps and the Canadian Association of Stamp Companies asked me to be here today.

I wanted to give this description because that is the extent of my association with trading stamps. It really extended to the writing of one article and it has lived with me ever since.

Co-Chairman Senator CROLL: It looks as though it has haunted you.

Dr. DIXON: Once in every three years is not too bad. But I do feel very strongly about this position between governmental activity and promotional activity in a competitive economy. I would like to make a number of points with regard to trading stamps. I do not see them as being in any essential degree different from any other promotional activity or device. The firm always has a variety of alternatives to use whether they be trading stamps, wider aisles, larger parking lots, or air conditioning.

Trading stamps constitute one of these alternatives and their use does not materially differ from any of the others, to the extent it does differ, it seems to me as one who is rather more concerned with the comfort of the consumer rather than the comfort of the competitor that they do offer a possibility of benefit to the consumer which a fairly large number of non-priced promotional activities do not. I think this is a general matter of concern in the kind of economy we have today where, given the income levels at which we operate, very little of what we buy is bought for physical reasons. Most of the things we buy have a psychological hooker, if you will, of some kind. This is, I suppose, the easiest definition of an affluent society. The clothes we wear are not physically necessary or they are in excess of what is necessary, and most of the food we buy is in excess of what is physically necessary. This would tend to show a consumer reaction to promotional activity rather than price.

What strikes me about trading stamps is—at least with this promotional activity and given this environment—that the consumer does get something that is physical and that does have a tangible reward. That may be my second point.

The third point is a comment about the effect on prices. Here I think that I must preface my remarks by saying that looking at most of the studies that have been done, the first comment is that this is a very confusing and difficult thing to try to research, because to the extent that one can look at the evidence it would appear that either stamps do not raise prices at all, and if they don't this would appear to be logically explained in a mature economy by one of two reasons. One is that they are a substitution for other forms of promotion: in other words, the retailer has made an assumption that he will spend a certain amount of money on promotional activity, and if he uses stamps he will not use anything else.

The other explanation in a mature economy, and by that I mean where stamps have been used for a long time by a lot of retailers, and here the sales increase methods, of course, do not work. In the United States many merchants

have been operating with stamps for a long time, and price increases did not seem to take effect and this seems to indicate that there is some squeeze in profit margins. It is a form of competition which results in the profit margin of the retailer being pushed down. This seems to explain the lack of increase in prices. Where studies have shown an increase in price—the most complete being the United States Department of Agriculture study a number of years ago—they do show that price goes up less than the cost of the stamp plan. This may not be a very happy state of affairs to the retailer, but surely it is not an unhappy state for the consumer. It is not too unhappy for the retailer either if he is strong, but it does put him under more pressure than would otherwise be the case. It seems that trading stamps increase rather than decrease the amount of competitive pressures with a resulting net benefit possible to the consumer. That is all I have to say at the moment.

Co-Chairman Mr. BASFORD: Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Perhaps my remarks may be addressed to either witness or to both. One of the primary concerns of this committee is for people who must buy for physical reasons, and judging by the widespread support of supermarket boycotts, it seems to me that the group which finds itself in this position is even larger than statistics would indicate.

It seems to me that the first philosophical argument against trading stamps is that the customer feels he is getting something for nothing. A secondary argument is that certain customers are, in effect, without the trading stamp vehicle because their options are limited, are being compelled to purchase or are being seduced into purchasing principally hard goods which otherwise they would not have purchased and are using that portion of their assets they might have used to buy better food to purchase, shall we say, hard goods which perhaps they might not need.

To what extent is it general that the consumer is allowed to apply the trading stamps that he gets for a particular purchase against the cost of the goods he buys so that the cash purchase price at the counter may be reduced? Is this done by all the plans?

Mr. WEST: I think it is pretty generally accepted the consumer can redeem his stamps for merchandise in the retailers' store or a certificate with which the consumer can, in turn, go and buy a product off the shelf. I think this is pretty generally accepted at the retail level.

Mr. MACDONALD (*Rosedale*): What about the situation where, say, my wife goes into a store and spends $25 on groceries? I do not know what value of stamps she would get, but let us say she gets a dollar's worth of stamps. In all the plans, will they permit her to tender that dollar's worth of stamps in either a reduction on the cash purchase price, or give her back a dollar?

Mr. WEST: I do not think they would give her back a dollar, but I believe they would probably give her something for the value, the retail value of the stamps, yes.

Mr. MACDONALD (*Rosedale*): You are not absolutely certain about this. I take it it is not a general practice?

Mr. WEST: It is not a general practice, only because the consumer, in most instances, would prefer to accumulate her stamps and get something from the gift catalogue, but there are instances where the consumer does prefer to redeem her stamps or cash register tapes, or whatever they may happen to be, for merchandise in the store.

Mr. MACDONALD (*Rosedale*): She may not have the option under a particular store plan, and may be compelled to take it in the form of catalogue goods?

Mr. WEST: I do not think so.

Mr. MACDONALD (*Rosedale*): What would you say if this committee proposed a mandatory provision of law that every trading stamp plan must include the option of applying stamps against the cash purchase price at the time the purchase is made? Would you object to that?

Mr. WEST: No, I do not think I would object to it, but I think it is something that is being done at this time. I do not know if it is widely advertised, but I am sure the consumer is not refused this privilege.

Mr. MACDONALD (*Rosedale*): So you would not object to it.

So as to get the names of the suppliers straight, we have here the Gold Bond company. Which supermarket is that?

Mr. WEST: It is not a supermarket; it is a stamp company.

Mr. MACDONALD (*Rosedale*): Obviously Lucky Green stamps are not sold in Dominion stores—I know that from shopping there. The Gold Bond company must be related to one particular retailer or chain of retailers?

Mr. WEST: I think they are related to different retailers. I think here in Ottawa they supply the I.G.A. stores.

Mr. MACDONALD (*Rosedale*): Lucky Green stamps, I think I am right in saying, is Loblaw's is it not?

Mr. WEST: Yes.

Mr. MACDONALD (*Rosedale*): Pinky stamps, I think, is Steinberg's?

Mr. WEST: Yes.

Mr. MACDONALD (*Rosedale*): Gold Star Sales is whom?

Mr. WEST: It is the Canadian stamp company that services approximately 7,000 independent retailers from Newfoundland to Ontario.

Mr. MACDONALD (*Rosedale*): Independent from Independent Grocers' Alliance? In other words, it is not I.G.A.?

Mr. WEST: We do service some I.G.A. stores.

Mr. MACDONALD (*Rosedale*): I think I am right in saying that Dominion Stores has no trading stamp plan?

Mr. WEST: They have a trading stamp plan in the Province of Quebec only. I think the name is Domino.

Mr. BOULANGER: I know they are giving out stamps, but it does not seem they are a member of your association.

Mr. WEST: No, they are not a member, Mr. Boulanger.

Mr. MACDONALD (*Rosedale*): I was interested in your reference on page 14 to a study made by the University of Sherbrooke and particularly the final line of the third paragraph:

> ... so long as they are handled with integrity.

That seems to indicate there is a lack of integrity in applying the plan.

Mr. WEST: I think half a century ago there was, but I think today the trading stamp companies and the corporate food operations who run their own trading stamp companies operate with much integrity.

Mr. MACDONALD (*Rosedale*): Would the Sherbrooke study indicate any instance of want of integrity?

Mr. WEST: Not to my knowledge.

Mr. MACDONALD (*Rosedale*): Then why did they mention it?

Mr. WEST: I think they were going back over the years when, as I say, at the turn of the century there were some people who did come into this country, sold trading stamps and ran away without redeeming them. I think that is the only thing they were referring to.

Mr. MACDONALD (*Rosedale*): On page 13 you refer to:

In Canada a number of research projects ...

What research projects were those?

Mr. WEST: Well, I think we are referring to the study made by *Canadian Facts*, the study they did over a six-month period, where they found there was really no difference in stores giving stamps as against stores not giving stamps as far as cost was concerned. Then there was the study that was done on the advertising in dailies, and this report by the Ambler Pricing Service, along with the University of Sherbrooke study, I think that is what we are referring to.

Mr. MACDONALD (*Rosedale*): Who was *Canadian Facts'* client in making that particular study?

Mr. WEST: I am sorry; I do not know.

Mr. MACDONALD (*Rosedale*): Presumably they had someone who did that.

Mr. WEST: Presumably they did, but I do not really know.

Mr. MACDONALD (*Rosedale*): Does Professor Dixon know?

Dr. DIXON: I do not.

Mr. MACDONALD (*Rosedale*): Who commissioned the study of the city dailies?

Mr. WEST: Again, I am sorry, I do not know.

Mr. MACDONALD (*Rosedale*): Or the Ambler Pricing Service?

Mr. WEST: I think we, as a trading stamp association, did the one of the Ambler Pricing Service.

Co-Chairman Mr. BASFORD: Mr. Boulanger, I did not quite understand whether you wanted to say something at the beginning or not; I am sorry.

Mr. BOULANGER: I am Canadian French-speaking and a Quebecer. I thought it was in order for me to start by saying that after reading your brief you deserve commendation for this nice idea you have of bringing us a brief both in French and English, which is exceptionally appreciated by us. I wanted to commend you on that, because we have received many briefs, but not very many took the time to present it both in English and French.

I also have a few questions to ask, if it is my turn to do so now.

Mr. WEST: Thank you, Mr. Boulanger.

Mr. MACDONALD (*Rosedale*): Oh, just one more question. What about the existing provisions of the Criminal Code? Are you happy with those, in so far as they apply to trading stamps?

Mr. WEST: I cannot say I am happy with them. I guess I would have to say I am satisfied with them.

Mr. MACDONALD (*Rosedale*): You have to live with them?

Mr. WEST: Yes.

Mr. MACDONALD (*Rosedale*): Have you any specific suggestions to make as to changes to those provisions?

Mr. WEST: I would like to see the stamps made interchangeable.

Mr. MACDONALD (*Rosedale*): I do not know if Professor Dixon has anything to add.

Dr. DIXON: I am not talking in the legal sense but the economic one. I think transferability would be an asset rather than a liability. I think the original intent of non-transferability was to prevent fraud, which apparently did exist at the turn of the century, with companies coming in, handing out stamps and then disappearing. I think the advantage transferability would give would be primarily an increase in competition between the stamp companies which clearly exists in the United States; and any time competition goes up, I am in favour of

it. I am certain this would lead to a continuing pressure to improve the quality of premiums for the customer. Also, I think it would make it more possible for the consumer to utilize the stamps in a better fashion. I do not see that it is accomplishing any economic good at the moment. There may be some legal things it is accomplishing, but I am not competent to comment on that.

Mr. MACDONALD (*Rosedale*): Thank you, Mr. Chairman.

Co-Chairman Senator CROLL: Were you asking who Canadian Facts Limited are?

Mr. MACDONALD (*Rosedale*): No, I asked who their client was in making that particular study.

Mr. BOULANGER: Mr. West, according to you in a considerable number of countries and in Europe trading stamps are very popular, and yet in this country people seem to be strongly opposed to them. There are people here who are strongly opposed to trading stamps?

Mr. WEST: Mr. Boulanger, percentagewise I do not know who is strongly opposed to trading stamps. The Canadian Association of Stamp Companies did a recent survey in Ontario in which we found that 53 per cent of the households that were contacted saved trading stamps, and some 73 per cent of the people who were asked about them in the same questioning said that they thought trading stamps were a good thing.

Mr. BOULANGER: 73 per cent?

Mr. WEST: Yes, I think those are the figures. There was something like 11 per cent of the people who actually said that trading stamps should be banned. 17 or 18 per cent had no thinking on the subject one way or another. But, over 70 per cent of the people contacted—I did not do this contacting; it was done by a research team—said that stamps were a good thing. I do not know about the 11 per cent. From my point of view they are probably just misinformed.

Mr. BOULANGER: I have heard it mentioned several times that it is a question of the—you will excuse my English, I hope—

Co-Chairman Mr. BASFORD: You may speak in French, if you wish, Mr. Boulanger.

Mr. BOULANGER: No, I am all right, Mr. Chairman.

Some people say that a percentage of these trading stamps are given out and are redeemed. How do you establish that figure? How can you give us a figure on that?

Mr. WEST: In our presentation we said that 95 per cent of the stamps issued are redeemed. How do we arrive at this figure?

Mr. BOULANGER: Yes.

Mr. WEST: I think we arrive at it through experience and the best accounting practices that are known. The 95 per cent redemption figure is accepted by the Government income tax people because they certainly study this. They look at it very closely.

Mr. BOULANGER: The income tax people?

Mr. WEST: Yes.

Mr. BOULANGER: The federal income tax department?

Mr. WEST: Yes, they accept this and they use the best accounting methods, and the experience over the years. Quite frankly, we believe that our redemption is higher than 95 per cent, and we are in the process of increasing our redemption revenues to 97 per cent.

Mr. BOULANGER: Did you say it is higher, or that it is going to be higher?

Mr. WEST: We believe it is higher than 95 per cent. We have come to this conclusion in the last couple of years.

Mr. BOULANGER: Mr. Chairman, I still have a few more questions, but I would like to come to them later on.

Co-Chairman Mr. BASFORD: Thank you. Mr. Allmand?

Mr. ALLMAND: Mr. West, to begin with, you have several references in your brief beginning at page 13 and following, and then at page 22 and following, to quotations from different people in different studies. I think you should give us the full references of those quotes. I think if our research staff wants to check up on them they should have the complete references. For example, you say that professor so and so of such and such a university said—and then you have a quote.

Mr. WEST: Yes.

Mr. ALLMAND: But you do not give the name of the book or booklet, or paper from which these are taken.

Mr. WEST: I do not have them with me at the present time, but we can certainly make them available.

Mr. ALLMAND: I think you should.

Mr. WEST: Yes, we will be pleased to do this.

Mr. ALLMAND: I would like to ask you as to when the stamps—

Mr. BOULANGER: Excuse me, but did you say that you will do that?

Mr. WEST: We will make them available to the committee, Mr. Boulanger. I do not have these complete studies with me at the present time.

Mr. ALLMAND: I think they should all be foot-noted in one copy for the chairmen.

Mr. WEST: Very well.

Mr. ALLMAND: When does a supermarket or a store that has stamps for distribution buy them? When does the store pay the stamp company for the stamps? Do they receive so many books of stamps and pay for those stamps immediately, or do they only pay the stamp companies when the books of stamps are redeemed for a gift? Is it at the time that the stamp company reports to the store that it has redeemed so many stamps that the store must pay for them? It makes a difference, because if the supermarket pays for the stamps when it receives them then the stamp company makes the profit; if it pays for them when the stamps are redeemed then the supermarket makes a profit. How is it done?

Mr. WEST: Generally speaking, when a retailer buys a trading stamp promotion, when he makes his purchase of stamps, he is in fact buying the merchandise. He does not know what item he wants because he does not know whether Mrs. Jones would like a tea kettle or a coffee pot, so he has a credit for X number of dollars, and he can draw from stock. Actually, the merchandise belongs to him.

Mr. ALLMAND: Does the supermarket buy the merchandise, or does it buy the stamps?

Mr. WEST: They are buying the stamps, they are buying the catalogues, they are buying the saver books, and they are buying the merchandise as well.

Mr. ALLMAND: When do they pay the stamp company for all these things? Suppose Steinberg's receives one million stamps from Pinky Stamps Limited. For accounting purposes does Steinberg's pay the Pinky Stamps Limited—Pinky Stamps Limited already has an account receivable for those stamps that go to Steinberg's?

Mr. WEST: I would think that that is the way they handle it.

Mr. ALLMAND: You are not certain?

Mr. WEST: I am not certain when it comes to Steinberg's accounting.

Co-Chairman Senator CROLL: Make it general.

Mr. ALLMAND: Yes, I wanted to make it general, and I gave an example. Is it done differently from store to store, and from stamp company to stamp company?

Mr. WEST: It may be. There are some people who buy a stamp promotion whereby they actually buy the catalogues, and they buy the saver books, and they buy the point of sale material, and they buy the stamps, and they buy the merchandise. They may buy all these things at different levels. Then, there is the other form of promotion which is basically a stamp plan where they purchase the stamps—they are buying a complete package. It can happen the other way. I do not know whether I am confusing you or—

Mr. ALLMAND: No, I just wanted to know if there was any set pattern.

Now, on page 21 you have a quotation in which it is said that 95 per cent of the stamps isued are redeemed by consumers, and then it says "who save them". This is quite different from what you told Mr. Boulanger. You said that 95 per cent of the stamps issued are redeemed.

Mr. WEST: Yes.

Mr. ALLMAND: But that is different from what is said here. What you have here is:

> It is reliably estimated that 95 per cent of the stamps issued are redeemed by consumers who save them.

For instance, they have made money on me for years, because I have never saved these stamps. I find them an inconvenience. I have thrown them away. I did not have time. I was not married, and I did not have the time to go home and put the stamps in a book. I just want to make certain that this means that the 95 per cent redemption is only by those consumers who save the stamps, because you said something different to Mr. Boulanger.

Mr. WEST: The thing that I know is that 95 per cent of the stamps that are distributed by retailers to the consumers come back to the retailers to be redeemed for merchandise. I assume—

Mr. ALLMAND: That is more than what you have on page 21, because the words "who save them" indicate that the figure of 95 per cent refers to the people who actually take the stamps and put them in books.

Mr. WEST: I think the people who save them bring them in for redemption.

Mr. ALLMAND: There is a difference between 95 per cent of the stamps that are issued or which are given out, and 95 per cent—

Mr. WEST: This is what I am talking about. 95 per cent of the stamps that are issued at the retail level are redeemed for merchandise.

Mr. ALLMAND: But here you have the words "by consumers who save them", and the percentage of consumers who save them may be small compared to the percentage of those to whom they are issued.

Dr. DIXON: This refers, I think—although I did not have anything to do with the preparation of the brief—to those who redeem the stamps.

Mr. ALLMAND: A lot of people who do not save them give them away to others, I understand.

Dr. DIXON: Those are the five per cent that don't come back.

Senator CARTER: As a supplementary, a lot of people take the stamps and give them to somebody else because they are not interested in them, so it does not follow that 90 per cent of the people are saving them; they give them to somebody else who has a book.

Co-Chairman Mr. BASFORD: But 95 per cent of the stamps issued are redeemed.

Mr. WEST: There may be a percentage who do not use them.

Mr. ALLMAND: At the top of page 11, underlined, you say:

> Should trading stamps cause prices to become uncompetitive—or affect quality or service—The very purpose of trading stamps, an increase in sales, would be defeated.

Mr. WEST: Yes.

Mr. ALLMAND: So it occurred to me, and I may be wrong, that if nearly all of the supermarkets go into the stamp business there cannot be much advance for a promotional scheme and you do not gain anything by keeping it. It seemed to me that the reason for keeping it is not because it is still a promotional device but because they are actually making money on the many who do not redeem over and above cost, such as people like me, who go to a service station, and I get my stamps with my credit card, and drop them on the street. Every time I do that, I realize now—

Mr. WEST: Every time you do that you would be part of the five per cent of the stamps originally issued that didn't come back.

Mr. ALLMAND: That is the reason perhaps why the stores would keep them even though they were no more a promotional thing.

Mr. WEST: I don't think this would have any bearing on it at all.

Mr. ALLMAND: It must increase their profit.

Mr. WEST: No.

Mr. ALLMAND: To give out stamps that are not redeemed.

Mr. WEST: The fact that they know they are not redeemed they probably don't pay for those stamps in the first instance.

Mr. ALLMAND: That is why I asked you in the first place who makes a profit when they are redeemed, the stamp company or the supermarket. It seems to me the stamp company does because they get the—

Mr. WEST: This is correct. Due to the fact that we do know that a percentage of these stamps don't come back, in our original selling price we take this into account and discount them.

Mr. ALLMAND: You say this five per cent is a discount on the price?

Mr. WEST: In most instances, I would say so, yes.

Dr. DIXON: I would say if there is competition between the stamp companies they would be forced to bring it back into their normal stamp structure, that the only way they could keep this as an extra profit would be if there was no competition, and this is why you get the example that the price is adjusted to take recognition of the fact, that there is a certain non-redemption rate, and surely one stamp company could undercut the other one and make a profit.

Mr. ALLMAND: That leads me to another question as to how much competition is in the stamp company business. Mr. Macdonald started to ask some questions, and he asked about what supermarkets are associated with these different companies you list. I would like to know who owns these different companies. For example, who owns Gold Bond Company, what company owns or has a controlling interest in that company?

Mr. WEST: I don't know, I think it is a Canadian company, Commonwealth Premiums Limited is the name of it. Gold Bond Company Limited, I don't know who owns it.

Mr. MCCUTCHEON: May I ask a supplementary. I want to ask whether Gold Bond Stamp Company is not a subsidiary of an American concern.

Mr. WEST: Yes, they are sir.

Mr. MCCUTCHEON: What others are also in that category?

Mr. WEST: None that I know of. Gold Bond, I understand, is a subsidiary of an American company. It may be a wholly owned Canadian company. Really. I haven't gone into the background of the corporation but there is an American Gold Bond Stamp Company.

Mr. BOULANGER: Of all of those companies, is that the only one?

Mr. WEST: It is the only one I know of that has an American affiliate.

Mr. BOULANGER: And what about the other companies?

Mr. WEST: To the very best of my knowledge they are wholly-owned Canadian companies. Pinky, for example, is owned and controlled by Steinberg Grocery Company, I believe; and I think that Lucky Green Stamps are owned and controlled by the Loblaw people. I think this information came to me only after they presented it to this committee.

Mr. BOULANGER: Does that mean that this rumour we hear, and I have heard it many times, that 90 per cent of these companies are all owned by Americans, is not true?

Co-Chairman Senator CROLL: One question, if I may. In view of the fact that the first paragraph lays before us a large number of companies about which the witness does not seem to know too much, because he is not involved, are we not bound to call these companies before us in order to ascertain for ourselves what is their status?

Mr. ALLMAND: It would seem to me; but I had further questions if this witness did not have the answers, yet I think we would have to, even now. I was asking these questions because Dr. Dixon said there was competition among the stamp companies. We know Pinky Stamp Limited is controlled and owned to a certain extent by Steinbergs?

Mr. WEST: So I understand, yes.

Mr. ALLMAND: And Lucky green stamps, owned and controlled by Loblaws?

Mr. WEST: Yes.

Mr. ALLMAND: And Gold Bond we know come from I.G.A. stores, and it is said that it is controlled and owned by Loeb Company Limited.

Mr. WEST: I don't think they are. I think it came out in this committee that Loeb had no connection other than as a client.

Mr. ALLMAND: And Gold Star?

Mr. WEST: Gold Star is a wholly-owned Canadian company.

Mr. ALLMAND: What about Richelieu Groceries Limited?

Mr. WEST: Richelieu Groceries Limited is a trading stamp plant owned by Richelieu Groceries Limited; it is a Quebec wholesale grocery operation.

Mr. ALLMAND: And Commercial Specialties?

Mr. WEST: I understand it is a wholly-owned Canadian company.

Mr. ALLMAND: In what stores are they used, and what is the name of their stamp?

Mr. WEST: May I ask a question from the audience? Is that permitted? I will ask Mr. Shadley.

Mr. SHADLEY: They are all independent.

Mr. WEST: All independent, and primarily in the Province of Quebec.

Mr. ALLMAND: What is the name of their stamp?

Mr. SHADLEY: Three Star.

Mr. ALLMAND: What is the name of the stamp used by Richelieu Groceries?

Mr. SHADLEY: Richelieu.

Mr. ALLMAND: Do you happen to know what is the profit margin of these stamp companies?

Mr. WEST: No, I don't know what the profit margin is. These are all privately owned companies, and I have no idea.

Mr. ALLMAND: On page 7 you say:

> The average cash redemption value in groceries of a book of stamps is about $2—$2.50. However, when redeemed for premium merchandise, the book is worth at least $3.

I was going to ask you why there would be more value given to the book of stamps when the person redeems it for one of the gifts in the catalogue as opposed to groceries?

Mr. WEST: I would think the answer lies in the fact that on most of dry goods, soft goods, and things of that nature, the gross margin of profit is considerably more than that in the grocery field, so that there is a wider span then, more can be given for the same cost, for example. You might find that you have a 40 per cent margin of profit in the textile business—I am not saying that this is the profit, but you may find it is 40 per cent—whereas in the grocery business they have a 20 per cent margin of gross profit.

Mr. ALLMAND: It would not be because the company makes a greater profit off the distribution of gifts than it does off the distribution of groceries?

Mr. WEST: They can get more, because the gross margin is greater, yes.

Mr. ALLMAND: With respect to the cash returns that Mr. Macdonald (Rosedale) was asking about, if they could return the trading stamps for cash—

Mr. WEST: I do no not think they could.

Mr. ALLMAND: It is against the Criminal Code. We had a man from the Department of Justice and he said that it is against the Criminal Code.

Mr. WEST: Yes.

Mr. ALLMAND: But if we were to recommend that the Criminal Code be amended tso that shoppers, if they wished, could have an immediate reduction in the price of their groceries, so that if the bill came to $20, the stamp value would have been so much, and the shopper could say she would like to get cash. This is the objection of many consumers, even if it is a small minority, that they cannot get cash. If we made that change in the Criminal Code, would the stamp companies have any objection?

Mr. WEST: I do not think so. I have seen advertisements for Loblaw's and Steinbergs, and I.G.A., I think—

Mr. ALLMAND: They redeem for groceries, but you must have a full book, to use it towards the purchase of groceries.

Mr. WEST: You mean, to change the Criminal Code so that cash could be repaid?

Mr. ALLMAND: Yes. Every time they shop, instead of taking stamps they could elect to take so many cents.

Mr. WEST: To take the stamps by way of merchandise or cash.

Mr. ALLMAND: Yes.

Mr. WEST: I suppose, if the Criminal Code were amended.

Mr. ALLMAND: What would your position be?

Mr. WEST: I do not think that I could object to it, however, sir.

Co-Chairman Senator CROLL: He wants to stay in business.

Mr. ALLMAND: Many of the complaints with respect to stamps were that they made the shoppers captive shoppers, in that they were not as free to go from store to store to do some price shopping, because if they were saving Gold Stamps or Pinky Stamps they wanted to fill the book and kept going to the same store. You advocate transferability which, if I understand it correctly, would

actually counteract that restriction. Do you mean by transferability that the person who had Pinky Stamps could put in all kind of stamps?

Mr. WEST: No, I was not referring to that.

Mr. ALLMAND: What do you mean by transferability?

Mr. WEST: The thing I was referring to was that, for example, there may be a shopping plaza with 15 stores, they would not be competing with each other in the same product line but all could give the same trading stamps and the consumer could accumulate stamps from all the stores there.

Mr. ALLMAND: But they would have to be gold stamps, or they would have to be pinky stamps or so on?

Mr. WEST: I would think so.

Mr. ALLMAND: Issued by one company?

Mr. WEST: Yes.

Mr. ALLMAND: Do not the stamp companies try to do that right now? Do they not try to sign up as many stores as they can in an established plaza? there is a great advantage to them if they can advertise that green stamps are given at all the stores in that plaza?

Mr. WEST: This is the transferability I referred to, that I do not think is allowed by the Criminal Code.

Mr. ALLMAND: It does not really counteract the complaint of the captive shopper.

Mr. WEST: I think that the Canadian housewife who sees chicken advertised in one store at 49 cents, with trading stamps, and in another store at 29 cents without stamps, will move to the 29 cent store to buy the chicken there.

Mr. ALLMAND: That is, if there were that great difference.

Mr. WEST: That is the way I look at it.

Mr. ALLMAND: But if it makes only a few cents here and a few cents there, the complaint is that the people who give the stamps put the shopper into the habit of accepting this restriction on moving from store to store.

Dr. DIXON: May I speak on that? I am afraid I cannot give the exact source now, but when I was studying in the United States, I remember that Indiana studies indicated that almost all consumers saved a number of different stamps. They were participating in two or three different kinds so this would not tend to lock them in.

There is a certain amount of repeat buying at the same outlet, but I think this is because people tend to go to certain outlets. Most shoppers will go to one grocery store because on balance it is more convenient. They may go to another store sometimes, because the price is down, or for another kind of shopping. They will have two or three sets of stamps and will keep them all going.

I do not think there has been any evidence in any of those studies that the stamps lock them in, any more than they would normally be attracted to a store by its location or by its merchandise.

Mrs. MACINNIS: I understand that in British Columbia, Alberta and Saskatchewan trading stamps are outlawed. I would like to have an explanation from either of these witnesses as to why trading stamps were outlawed in those three provinces.

Dr. DIXON: It is a little difficult to say. I was involved in only one of the cases.

Mrs. MACINNIS: Not in a particular case but in general, what would be the reasons for the Governments of those three provinces deciding that trading stamps should be outlawed? There must be some reason why the three provinces did so at three different times. What were their reasons?

Dr. DIXON: I am only familiar specifically with the Alberta one and from what I saw there, it was because some of the merchants did not want it.

Mrs. MACINNIS: Why did they not want it?

Dr. DIXON: Because it tends to make things more competitive. All the evidence is that it makes things more competitive.

Mrs. MACINNIS: You are not familiar with the British Columbia situation?

Dr. DIXON: No, I am not. I know that in Alberta the main pressure came from a substantial group of retail merchants who did not want the additional competitive pressure that some stores would put on them by using a stamp.

Mrs. MACINNIS: That is all the explanation you can give?

Dr. DIXON: That is all I know. Obviously, some consumers were against it, but the main pressure, to my knowledge, was from a group of merchants. As far as I can see, I suspect it was because they did not want competitive pressure. This is one of the reasons why I started, in my early days, in looking at trading stamps, and saying "Are they bad for the consumers"? When I see something that some merchants do not want to have, I ask myself why. In this case I suspect it may be because the consumer could get the squeeze put on, more competitive pressure, and end by getting the advantage, rather than the merchang getting the advantage, by this kind of promotion.

Mrs. MACINNIS: I regret that there is a lack of knowledge of that background in those provinces. I will have to leave that point.

CO-CHAIRMAN (*Mr. Basford*): You can find that answer out when we get to Vancouver.

Mrs. MACINNIS: Is it correct that the Safeway chain store is discontinuing the practice of giving stamps?

Mr. WEST: They do not give stamps in Canada.

Mrs. MACINNIS: In the United States.

Mr. WEST: Safeway operates in western Canada, they show the highest profits in the industry.

Mrs. MACINNIS: I want to know is it discontinuing trading stamps in the United States?

Mr. WEST: It is not true that it is discontinuing trading stamps in the United States. In some small areas they are discontinuing.

Mrs. MACINNIS: Why are they discontinuing?

Mr. WEST: I think that they feel they will try another form of promotion. I do not think they have cut out promotion. I know that in the areas where they have discontinued stamps, and this is a very small number of the total, they have come in with other types of promotion.

Mrs. MACINNIS: Coming back to Mr. Allmand's question, is it because in those areas the trading market had become saturated by other chain stores having taken them up?

Mr. WEST: It is conceivable. It is a corporate decision that they make, and they may find that some other type of promotion is more satisfactory for their needs.

Mrs. MACINNIS: Is that why they did it, then?

Mr. WEST: I was not in on the management decision.

Mrs. MACINNIS: Well, I had wanted some more general information than that. I would like to refer to your brief, on page 15, where you are quoting from Dr. Lloyd I. Barber, Assistant Professor of Business Administration at the

University of Saskatchewan. Referring to trading stamps, Dr. Barber says: "They are not immoral or fraudulent. Their economic value, their effectiveness, their importance should be decided in the market place, not in the legislative chamber." Do you agree with that?

Mr. WEST: That it should be decided in the market place rather than in the legislative chamber? I certainly do.

Mrs. MACINNIS: This leads me to another question. Is the value or effectiveness and importance to be judged purely from how it affects the merchants involved and the trading stamp companies? Or should the rest of the community be considered as well?

Mr. WEST: Well, I think that the community should be considered, very definitely, Mrs. MacInnis, and I think we have shown where trading stamps, if they do anything, benefit the consumer because they increase competition.

Mrs. MACINNIS: This ought to be decided in the market place rather than in the legislative chamber?

Mr. WEST: Yes. So Dr. Barber says, and I agree with him.

Mrs. MACINNIS: But you are saying, definitely, that it is only the concern of the merchants and the merchandisers and trading stamp people concerned, and that there are no other sections of the community that need consideration.

Dr. DIXON: Mrs. MacInnis, the reason I got into this business was to refute or go against that line of argument. We are in a market economy and we presume that most decisions are based on the market. Making a decision in the market place does not mean that the merchants make it; it is quite the reverse: It means that the responsibility is not delegated to anybody—merchants, legislators or anybody else; the responsibility remains in the market place which is a combined action of merchants and customers. Customers, not consumers.

Mrs. MACINNIS: You do not believe this committee has any business looking into this matter?

Dr. DIXON: I did not say that. Of course they do. Maybe these things do not work; maybe the market place does not work in a given situation, or in given circumstances, and obviously this is one of the things this committee looks into.

Personally, I feel that the market place is working in the sense of trading stamps.

Mrs. MACINNIS: Personally, I see a discrepancy right there, when you say that the business of trading stamps can be decided in the market place rather than in the legislative chamber. I see a discrepancy in saying that, when here we are as legislators inquiring precisely into this matter.

Dr. DIXON: Obviously it is always the function of the legislature to decide whether the market place can do the job. If it cannot, then obviously legislation has to come in. This is the whole history of combines legislation and the Criminal Code; the whole history has been that the legislature acts when the market place does not work. This is presumably what you are doing.

I feel, personally, in the case of promotional devices in general, as I see them in this country, that the market place is still working. That is all. That is just my opinion on this.

Mrs. MACINNIS: You say on page 10 of your brief that it takes a 10 per cent to 15 per cent extra volume of business for the retailers to cover the cost of their stamp giving programs. Do all retailers who give stamps achieve this 10 or 15 per cent coverage in extra business?

Mr. WEST: In every instance that I personally have been involved with the retailer has sustained a substantial increase in business, yes. He has. But for me

to say that it happens in every instance, I just do not have that complete knowledge of this subject. But where personal experience is concerned, yes.

Mrs. MACINNIS: But in other words you would not have knowledge as to what percentage of the retailers who give stamps are actually able by their increased volume to cover the cost of their stamp giving programs?

Mr. WEST: I would be inclined to think that they all are, Mrs. MacInnis, or they would stop using trading stamps. They would just stop issuing them and they would use some other form of promotion. This is very basic.

Mrs. MACINNIS: There have been some questions about this, but I consider it a vital area and I want to come back to it again: Is it not true that a customer who wants to get full value for his money simply has to take the trading stamps and save them, even if he does not like them and does not want to take them and save them? In other words, there is no other way for a customer to get full value for his money than to accept the trading stamps.

Mr. WEST: Our submission to you, Mrs. MacInnis, is that you do get full value for your dollar spent, but with the trading stamps you get a discount for cash payment. Now, if you do not want that discount, it is entirely up to you. If you do not want it you just have to say that you don't want it. In fact, you don't have to say anything; you just don't have to take the stamps.

Mrs. MACINNIS: If you do not want the discount, then you are not getting the full value for your money.

Mr. WEST: Yes, I think you are getting full value for your money. You are getting what you bought and paid for the same as if you had bought and paid for the goods in a store that did not give stamps in the first place. You are not paying more for the product in a stamp giving store than in a non-stamp giving store.

Mrs. MACINNIS: On the other hand, you say that a retailer has to increase business by 10 to 15 per cent in volume in order to cover the cost of the stamp giving program.

Mr. WEST: Yes.

Mrs. MACINNIS: What does he make those costs up out of? Where does he get money to cover that stamp program? It must be out of the consumer' pocket.

Mr. WEST: No, it is by increased sales, Mrs. MacInnis. He does not charge the consumer more money for the same product, but he does more business in the store. He has more people shopping in the store, or, possibly, his existing customers become better customers, buying other things than food, because in the supermarkets of today the greatest portion of the money spent in the stores is not on food and food alone. People buy a great variety of non-food articles.

Mrs. MACINNIS: In a store that gives trading stamps there is no way of a consumer going in and getting full value for the money without taking the stamps. Is that correct?

Mr. WEST: No, I could not agree with that. I think she is getting full value for her purchases. If she does not want a discount for the cash purchases, she is not obligated to take it.

Co-Chairman Senator CROLL: Mr. MacInnis, you were asking, if I understood you correctly, whether the retailer would need to increase his sales by 20 per cent—

Mrs. MACINNIS: By 10 or 15 per cent, I think I said.

Co-Chairman Senator CROLL: Well, by 20 per cent in order to absorb the 2 per cent for the cost of the stamps.

Mrs. MACINNIS: I did not say that, but you have got it right I think.

Co-Chairman Senator CROLL: Then to follow it up, the competitor also increases his sales by 20 per cent and the next competitor does the same and so

on and so forth. If you follow that through to its logical conclusion, who is going to pay for all of this?

Mrs. MACINNIS: That is what I want to know.

Co-Chairman Senator CROLL: Well, that is the question.

Mrs. MACINNIS: Perhaps you would put the question to him. I think you can put it better than I can.

Co-Chairman Senator CROLL: As I understand Mrs. MacInnis's question, she is indicating that the stamps would cost about 2 per cent. That comes about as a result of the information that we have. They earn about 2 per cent in general profits, so it requires a 20 per cent increase in business to absorb the 2 per cent that that stamp is worth. One competitor seeing that also does the very same thing, and the next competitor and so on. They cannot all be increasing their business by 20 per cent, can they?

Mr. WEST: You mean, sir, that they all put trading stamps in?

Co-Chairman Senator CROLL: Yes, in order to meet the competition. Who is paying for that?

Mr. WEST: If 100 per cent of the stores in any given area issued trading stamps, it would defeat the purpose, but this is not the situation.

Co-Chairman senator CROLL: It is not for you to say what does or does not exist. We are dealing with a hypothetical question at the moment. We are asking the question what does happen if stores alongside one another put in trading stamps. Do they all increase their business by 20 per cent? The question is who in the end pays for that increase of 2 per cent to cover the cost of the stamps? Is it not the consumer?

Mr. WEST: If 100 per cent of the stores issued trading stamps, somebody would unquestionably have to pay for it. I assume it would be the retailer and the consumer. I do not know of any instances where this situation exists, however.

Mrs. MACINNIS: If anybody can pick up these questions better than I can, please ask them.

Mr. BOULANGER: That is a very interesting admission for you to make.

Mrs. MACINNIS: No, I am grateful to Senator Croll for asking the question.

Mr. BOULANGER: We are all grateful.

Mrs. MACINNIS: I want the information brought out, and if somebody can bring it out better than I can, let him do it and I will be very pleased.

Now, we have been told, or the charge has been made, that women consumers are constantly being lured into spending money that they really cannot afford, and that they ought to be cutting out unnecessary things in order to concentrate on essentials and become much more discriminating shoppers and just buy their particular needs. Is not a trading stamp plan a means of creating artificial wants and extras for shoppers?

Mr. WEST: I don't think so. I think it tends to concentrate the consumer's buying activity, perhaps, in one store. A supermarket today is almost like going back to the point of the old general store where a great variety of merchandise could be purchased other than food. I think trading stamps do tend to encourage customers to buy the other needs, that are not food, in the supermarket, but I don't think it tends to make them buy unnecessary items.

Mrs. MACINNIS: But under normal circumstances a woman would save her money and go and get exactly what she wanted or what she needed, while in this case she is more or less forced in order to get full value for her money to use a portion of her budget on a number of items that are pre-selected for her.

Dr. DIXON: I think the point is that if the trading stamps were not being used, given the nature of the competitive process, some other promotional device would be being used, so that there would not be any decrease in price. I think all studies have indicated that prices in stamp and non-stamp stores seem to be the same. If the stamps were not used, something else would be. It does not mean that if stamps were not being used prices would automatically go down 2 per cent. If the merchant does not use trading stamps then he will use something else and prices will remain the same.

Mrs. MACINNIS: Do you believe, then, that if we want to cut out the extras we could not do so by picking on this device like trading stamps by itself, but we would have to go for legislation aimed at cutting a slice off all promotional activities in one swoop. If trading stamps were interfered with, you say it would go into some other channel.

Dr. DIXON: It could go into a variety of things.

Mrs. MACINNIS: If we as a committee wanted to cut down the amount of money that women had to spend on extras other than what they needed to buy, would it be your opinion we would have to get legislation which would in one swoop go after all devices, trading stamps and gimmicks of all kinds, and cut them all out?

Dr. DIXON: I think you would have to expand your definition to include things like wide aisles, parking lots and store location and other factors which are not bare-bones goods. You would have to legislate on the basis of everything that is involved in the process of selling because when a seller makes a decision as to what he will sell, he is not just selling something on the shelf. There is a whole package involved, how he sells it, where he sells it, and when he sells it, and also the way he talks about it. This ranges all the way. In some products we buy we pay for the advertising which we probably don't want anyway. If I might quote perfume as a typical example of this where a young man buys a $25-bottle of perfume which he gives to a young woman to say "I love you $25 worth."

Senator CARTER: I don't have many questions left, Mr. Chairman. On page 2 of the brief you say that trading stamps are established everywhere in the provinces, but there is no mention of Newfoundland and I see there is no Newfoundland company mentioned in your list of associate members.

Mr. WEST: No Newfoundland company?

Senator CARTER: I have looked through this and I do not see one listed.

Mr. WEST: But our company, Gold Star Stamps, sells stamps in Newfoundland.

Senator CARTER: Do you sell to chain stores?

Mr. WEST: No, to independent stores who are competing with them.

Mrs. MACINNIS: I am sorry, there was one question which I forgot to ask; may I ask it now? Is it true that there are no stamps used in the Province of New Brunswick?

Mr. WEST: I think they are, but to what extent I don't know. But they are being used.

Senator CARTER: When you talk about the value of the premium, what value do you have in mind, the wholesale value or the retail value?

Mr. WEST: The approximate retail value.

Senator CARTER: So that there is somebody still making a profit—the stamp company is still making a profit?

Mr. WEST: The profit for the stamp company arises from its buying merchandise as a distributor and selling it as a wholesaler. The profit margin is

between the cost we pay for the goods and the price at which we sell to the retailer. This is somewhere between the distributor's cost and the wholesale selling price.

Senator CARTER: Premiums are redeemed on a retail basis?

Mr. WEST: The approximate retail value. We say the value of a stamp book is approximately $3 retail value.

Senator CARTER: I thought you said one of the reasons they got better value between the $2.50 and $3 was because there wasn't so much markup on groceries.

Mr. WEST: I think that is correct. When they buy merchandise from us or from a trading stamp company for a $3 retail item they may be paying us $2. If they are buying groceries, they would give to the consumer the same costs. If an item cost $2 and the groceries cost $2.50, it would not affect his costs.

Senator CARTER: We are looking at the value at which he redeems it. If there is no markup on the $2.50 and there is 30 or 40 per cent on the premium—

Mr. WEST: He is getting more retail value.

Senator CARTER: But that is a different thing. We are talking about real value.

Mr. WEST: And I think he is getting more real value too because the consumer buys at retail prices.

Mr. MCCUTCHEON: I have a classic example of this, Senator, if you would allow me.

Senator CARTER: Certainly.

Mr. MCCUTCHEON: My secretary is a customer of one of the stores here in the city which gives out stamps, and in order to get a certain piece of electrical merchandise she had to get six books that were valued at $2 each. Now a member of the House of Commons gets a vast amount of literature across his desk, and among the items that came across my desk was a catalogue from Canadian Tire Corporation which included this same electrical gadget. There the retail price was $10. So my secretary, being a frugal individual, felt it would be a good idea to go back to the store and redeem those $2 books, because for five of them which have a $10 value in cash she would be able to march over to Canadian Tire and buy the gadget. She was not able to do this because she had to take her value in merchandise or save up one more book and pay the I.G.A. $12 for the article she could have purchased from Canadian Tire for $10. I think this answers your question, senator.

Senator CARTER: Yes, it does.

Co-Chairman Senator CROLL: It answers a lot of questions!

Senator CARTER: I think you both stated in your brief, and Dr. Dixon later, that all the surveys you mentioned tend to show that there is very little if any change in prices between stores with stamps and stores without stamps. That is one of the bases of your argument here.

Mr. WEST: Yes, sir.

Senator CARTER: The evidence that we have had before us would detract somewhat from the weight of that argument, because we have not been able to find any pricing pattern at all; and as far as I have been able to make out every store watches every other store and they match prices—there is no formula for mark-up on any particular item we discern. Did you in your survey compare the profits of stores that had no stamps with the profits of stores that had stamps?

Mr. WEST: No, but I think it came out in this committee here. I looked at some of them, where, for example, Loblaw's profits were considerably less than Safeway's, Safeway not giving stamps and Loblaw's giving them. I think Loblaw

showed a profit of something like 1.9 per cent, whereas Safeway's was 2.47 or 2½ per cent—something like that. I cannot quote them exactly.

Co-Chairman Senator CROLL: May I quote the figures?

Senator CARTER: Yes, go ahead.

Co-Chairman Senator CROLL: The evidence from Safeway was that they earned 2.34 per cent, as against 2.7 per cent of the other chain stores, or thereabouts; that they had a smaller percentage spent on promotion. They gave no stamps and they sold a quarter af their merchandise at less price than any of the other people, and the rest of it at the same price. How do you explain that?

Mr. WEST: Well, sir, did not Safeway show a higher net profit than that of Loblaw's?

Co-Chairman Senator CROLL: Yes, with no stamps.

Co-Chairman Mr. BASFORD: They showed a higher percentage of profit as a percentage of sales.

Mr. WEST: Yes, this is what I am referring to. I really do not know. They do not give stamps. They may tell you the prices on 25 per cent of their items are lower than in other stores—

Co-Chairman Senator CROLL: Now, wait a minute. They did not come here giving public testimony and tell us fairy tales, because we have ways of checking that. They are pretty careful about what they say here because they do not want to be caught out, and if they had not told the truth we would have heard from the other stores pretty quickly.

Mr. WEST: They said they sell for less than anyone else in their trading area on 25 per cent?

Co-Chairman Senator CROLL: Yes.

Mr. WEST: I have never done this study, but I do know the most recent figures released by the Dominion Bureau of Statistics show that the cost of food is higher in Vancouver, where there are no trading stamps, than in Toronto, Ottawa and Montreal, where there are. These are the most recent figures from the Dominion Bureau of Statistics on food and food alone.

Co-Chairman Senator CROLL: That is because the committee has not been there to activate the protesters!

Mr. WEST: That may be it, but where competition is greatest the prices are lower.

Co-Chairman Senator CROLL: They are too far away from Ottawa.

These D.B.S. figures are December figures you quoted us?

Mr. WEST: Yes, on food.

Senator CARTER: I will finish up with one more question. Your whole thesis is based on the argument that trading stamps increase competition. You have made that statement. That statement, I assume, is based on the situation where some stores use stamps and others do not.

The evidence we have had is that when one store starts using stamps the competitor is forced to use stamps too. He has to maintain his customers; otherwise he would lose them all to the store or stores in the neighbourhood that gave the stamps.

Mr. WEST: It does not work that way. It seems that where trading stamps are in use, where corporate chains are concerned, some of them do and some do not. Apparently, they spend an equal amount of promotional money, but in different ways. One of the ways, as we said in our brief, is that people in opposition, or food stores or retailers in opposition to trading stamp plans lower prices to compete with the stamp-giving store. Under these circumstances the consumer benefits because the competition intensifies, and the consumer gets the benefit.

Senator CARTER: I forget which one it was, but I definitely remember one chain store saying they held off going into trading stamps. They held out for practically a year, but eventually they had to. Their sales were dropping, they were not maintaining their share of the market and eventually they had to go into trading stamps.

Mr. WEST: They may have decided at the management level that this was the right thing for them to do. For example, in Toronto there are Steinberg's and Loblaw's giving trading stamps. You have A&P, Dominion and Power Supermarkets that do not give trading stamps; they compete with other methods of promotion. Some of them use more television advertising—"It's mainly because of the..."—who knows what?

Dr. DIXON: The store that is likely to feel the pressure to take stamps up is the store that has made a decision to have approximately the same kind of promotional appeal to the public. In other words, a fairly high free service, lots of air conditioning. A store that does not go this way will not tend to feel the pressure at all or will cut prices. Where I shop there is Steinberg's at one end of the parking lot and A&P at the other end. One gives trading stamps and one does not, and neither is out of business. There is a different package of service offered the consumer in one than in the other. There does not seem pressure for all of them to use them. There does seem to be pressure to eke the cost of the stamps out of their margin. The U.S. Department of Agriculture study said that trading stamps being used by merchants tended to result in the tightening of profit margin by retail stores. In other words, the consumer is getting a better price than he had been before because not all the cost of the stamps was being passed on to the consumer.

Senator CARTER: Would you say there is such a thing as too much competition?

Mr. WEST: I do not think so. I think the distribution system in this country of ours is second best in the world, according to the figures and statistics. Next to the United States, we lead the world.

Senator CARTER: If you have four chain stores in a community and one starts with stamps, then eventually the next one has to pick them up in order to maintain its customers, and then eventually all four of them have stamps, surely, all of them increase their costs of operation, and surely the customers have to pay for that.

Mr. WEST: This is the case that Senator Croll referred to a little earlier. If this situation developed then I would agree with you, but I know of no instance either here or in the United States where this situation exists. I do not think the food merchants would let it happen. They would realize they are defeating their own purpose.

Dr. DIXON: Not only that, but it may well be that their prices would not go up because they would drop some other form of promotion that they are already using. The customers would resist price increases, and they would have to drop another form of promotion such as newspaper flyers and television advertising.

Senator CARTER: On page 20 you show figures as to the stamp savers in the Maritimes, Quebec, Ontario and Manitoba. From those figures it would seem that stamps are more popular in Quebec than in any other province, or is it because there are more people there who redeem stamps? Is there any reason for that big difference?

Mr. WEST: Maybe the difference lies in the fact that there is a longer history of stamps being in use in the province of Quebec that in any other province. This may have some bearing on that.

Mr. OTTO: Mr. Chairman, I wonder if I could get back to the purpose of this committee, which is find the reason for increased prices of groceries and other

things, and to discover whether the trading stamp industry—and you call it an industry—has an effect on them. With great respect to you, Mr. West, I am wondering if I could clear up a basic issue. First, you are saying that the industry gives out $23 million to $24 million worth of goods—

Mr. WEST: In 1965, yes, sir.

Mr. OTTO: That is retail value?

Mr. WEST: Yes, sir.

Mr. OTTO: Now, the trading stamp business makes its money, does it not, and pays for its printing and its distribution, from the difference between the manufacturer's cost or the wholesale price, and the retail price?

Mr. WEST: The difference between that and the selling price to the retailer, yes, which is less than the retail value in normal circumstances.

Mr. OTTO: If those goods to the value of $23 mlilion were distributed to the consumers in the normal course of business then an amount of $7 million or $8 million would be made in profit by the retailers, wholesalers, truckers, et cetera, would it not—that is, if they were sold through the normal course of business.

Mr. WEST: I do not know what the percentage would be. There would be a degree of gross profit, and a degree of net profit if they were sold through normal retail channels.

Mr. OTTO: So the stamp companies are using that profit in order to promote the use of trading stamps?

Mr. WEST: The trading stamp business is a profitable business, yes—I hope it is.

Mr. OTTO: From my knowledge of the stamp business, a good trading stamp company makes all of its profit from that business?

Mr. WEST: Yes.

Mr. OTTO: Normally, you do not charge a store an additional amount when it accepts your trading stamps? Now, I think both of you gentlemen said that if they did not use the money for the trading stamps you are quite confident they would use the same amount of money for other promotional devices; is that correct?

Dr. DIXON: This would seem to be what happens, yes.

Mr. OTTO: In other words, it would be spent on advertising, window dressing and, as you said, parking lots?

Mr. DIXON: All kinds of promotion.

Mr. OTTO: The same amount of money would be spent, but that money would not go back to the consumer at all, would it? So, at least—

Mr. DIXON: Well, it would in the sense that there is an impact of any expenditure on the GNP.

Mr. OTTO: I am talking about the purchasers of the groceries. So, in this case even though Mrs. MacInnis, or somebody else, was correct in saying that the purchasers are getting goods they may not want, they are at least getting something at retail value, whereas if the money was used in other promotional methods they would get nothing directly out of it? Would that be correct?

Dr. DIXON: This is my own personal opinion, sir.

Mr. OTTO: Now, speaking of a captive market, you know enough about business to know that to run an efficient retailing business you must have a foundation of steady customers. There is nothing particularly wrong with having captive customers. In fact, the most efficient business is one that has a large proportion of captive customers; is not that correct?

Dr. DIXON: If you define "captive customers" as repeat business then definitely yes. No store could exist on non-repeat business.

Mr. OTTO: And the higher the proportion of repeat business the more efficient the store, and the more benefit to the consumer?

Dr. DIXON: In general, the promotional costs would tend to be lower after a certain point. If you are trying to get new customers all the time then you tend to be very expensive in your promotion, yes.

Mr. OTTO: I want to establish that there is nothing particularly wrong with that so far as any business is concerned. The obtaining of a steady clientele is the purpose of every efficient business.

Now, getting to the argument that was presented that a customer may not want the teakettle, or something of that nature—let me put it in another way; I believe it was argued that some people do not want trading stamps, so why should they be forced to take trading stamps, or pay for them. Could I put this in the same way: Supposing that a store consistently had bacon on sale for 25¢ a pound, would it be correct for any consumer who does not eat bacon to protest to that store and say: "I do not use that bacon. I want you to put other goods on display." Would not that be similar?

Dr. DIXON: Exactly, and it would also be fair for the customer who never drives his car to the supermarket to go in and say: "Please give me a rebate on the cost of the parking lot because I never park here." This is part of the problem of our society. In a mass production society you do not buy exactly what you want. You have to take an approximate package. If I do not like the fact that there is a full service store near me I either go to a store that is not full service, or put up with the differential. Yes, this is part—

Mr. OTTO: Why did you leave me to play the devil's advocate here, and destroy the argument that was put up?

Mrs. MACINNIS: It does not destroy it at all.

Dr. DIXON: I did not write the brief, sir.

Mr. OTTO: With respect to Mr. McCutcheon's question about Canadian Tire, are you aware of the methods that Canadian Tire uses to operate their stores? In other words, the purchasing is done directly from the manufacturer, and they use a great deal of pressure, and, of course, they do away with the promotional cost, as you know, on tires and so on. By a more efficient and up-to-date automated system of sales they do away with sales clerks. Would you say that that explains the difference in the $2 that Mr. McCutcheon was worried about?

Dr. DIXON: I think Canadian Tire is an example of an extremely efficient discount operation, and not a normal retail operation. They are causing the same kind of problem for all of their other retail competitors that they are causing, apparently, to this particular competitor who happens to be a stamp man.

Mr. OTTO: Thank you.

Mr. MCLELLAND: Mr. Chairman, some of my questions have been answered, and I might as well admit that I am ignorant so far as the stamp business is concerned. However, I was interested in your quote from Dr. Barber on page 15. I think you said you are going to submit the whole document a little later so that this can be verified. I am wondering if the companies you represent have done any research work in the province of Saskatchewan. If so, are you ready to put trading stamps into the stores there and make them available if the legislation to make them legal passes? Have you done any research work out there?

Mr. WEST: This is certainly the only thing that is holding it up, yes.

Mr. MCLELLAND: You see, to me personally there is nothing immoral about trading stamps. It appears that in Saskatchewan they use different gimmicks, and I might mention specifically what is called patronage dividends. This is a sort of gimmick, but it is not trading stamps. I was also wondering whether, if that legislation passes, the stores will then apply to you to purchase your trading

stamps from you directly, or—actually, the independent merchant does not have to wait until the chain stores put them in? He can ask for them himself, can he not?

Mr. WEST: That is right. The stamp business started with the independent retailer. I think there were probably 3,000 or 4,000 independent retailers using stamps before the chain food stores decided they would be a good promotion for them. You see, there are approximately 12,000 independent retailers using stamps today, and maybe a thousand chain stores.

Mr. MCCUTCHEON: I have a supplementary which I would like to direct to Dr. Dixon. Mr. McLelland mentioned patronage dividends, and that conjures up in my mind co-ops, etc. In your opinion, what is the difference between a trading stamp and a nebulous patronage dividend?

Co-Chairman Mr. BASFORD: One is cancelled, the other is not.

Dr. DIXON: The patronage dividends are approximately the same kind of thing. Normally you would accumulate your cash register tapes and then be able to get some kind of dividend for this. This is not necessarily through a co-op store, though, but it could be through a regular retail establishment. As far as I can see, in Saskatchewan an attempt to have a promotional activity which is necessary to get this repeat business to do something has a similar effect to a trading stamp, because they are proscribed by the provincial business standards regulations from using that particular form of promotion.

Mr. ALLMAND: This is a supplementary. But when you get a co-op, the only person getting a dividend is a member, who with others owns the store, so it is not a promotional sales gimmick.

Mr. WEST: Well, it is just another form of promotional activity, I suspect by some of the ways in which the co-ops are running they are almost using the patronage dividend as a promotional device, because they have reached past the point of small members of the co-op and they, too, are fighting for markets and using whatever promotional device they can use and they merchandise the patronage return as one of the reasons for shopping at the co-op and becoming a member. So I am not sure there is much difference even there.

Mr. MCLELLAND: These premiums brought out in the savers book and shoppers book, are they nationally advertised brands that you can get at other stores, such as say a hardware merchant or a warehouse.

Mr. WEST: Very much so, sir.

Mr. MCLELLAND: They are not brought out specifically for that redeemable per cent?

Mr. WEST: Oh, no. We have from 400 odd Canadian manufacturers and a good majority of it is named brand merchandise. It is all first class merchandise.

Mr. MCLELLAND: If a person having a book of stamps says, "I will use this $12 item for a premium," are the warranties exactly the same and the service, as if the item were purchased elsewhere?

Mr. WEST: Yes.

Mr. MCLELLAND: And do they apply to the grocery store to get the warranty?

Mr. WEST: No. With most electrical appliances there is a warranty, and if an appliance is returned, normally it goes back to the manufacturers of the product. This is the general procedure. If you buy a General Electric product from say Eatons, Eatons may return it, or you can return the product to them directly.

Mr. MCLELLAND: Supposing, for instance, a person bought something in a chain store and brought it back because it was defective, say a teakettle, is the normal freight paid by the distributor or manufacturer and picked up afterwards?

Mr. WEST: If the manufacturer said it will be returned to the company free of postage, it would be done that way. If there was a 50 per cent postage charge the same situation would exist.

Mr. MCLELLAND: In your experience have the sales staff or the people on the check-out counter been educated to ask the customer whether they would like the stamps, or are they automatically thrown in?

Mr. WEST: I think in most instances it is pretty automatic that they give the customers their stamps; I think this is a pretty automatic procedure. And if they don't, the customer demands them.

Mr. MCLELLAND: Then there is no such thing as the rumour you sometimes hear that during the heavy tourist trade a cashier is set up in various locations to look out through the window and see if there is a car with a licence from another province or state, and if so they take off the stamps and put them in a box below and use them for somebody else?

Mr. WEST: Well, I suppose it could happen, but I do not think it is general practice.

Mr. ALLMAND: Not in the east.

Mr. MCLELLAND: I also wonder whether, if the cost is say one-tenth of one per cent each, subject to provincial sales tax and regulations in the different provinces, there is a variation as to what it would cost retail.

Mr. WEST: There could be a variation depending on the services performed by the stamp company.

CO-CHAIRMAN (*Senator Croll*): Mr. McCutcheon?

Mr. MCCUTCHEON: You have listed six stamp companies in your association.

Mr. WEST: Yes, sir.

Mr. MCCUTCHEON: It runs through my mind that there are some other stamps called "S and M", in southwestern Ontario. How many stamp companies are there in operation in Canada, and how much of the total industry do you represent?

Mr. WEST: I would say that there are probably four or five stamp companies that are not members of CASCO; but I would say that the six member companies represent in excess of 90 per cent of the stamp business in Canada. There is an S and M down in Windsor as a matter of fact, but it is a one food store operation; I think they have two food stores, as a matter of fact. They run their own named stamp. They find merchandise, or probably a stamp company, you see, but they put their own name on the stamp.

Mr. MCCUTHCEON: Now, my next question is based on the fact that Canada is a group of small communities, whether it be in the city or whether it be a town like Smiths Falls, or Carleton Place, or what have you. How much promotion do you people do, how much of a staff do you have on the road drumming up business in these places and issuing franchises to a select group in a community?

Mr. WEST: Well, in the areas you refer to there would be a company representative covering the area periodically soliciting business.

Mr. MCCUTCHEON: All right. Now, we take a supermarket in the city. It serves an area which is comparable to the two places that I have spoken of. The point that I am getting at is this. We have a gas station, a supermarket, and so on, down the line, representatives of industries that are tied up with one stamp company. If I move into that community and I want to start up a new business, I am prohibited because of the franchise of the stamp companies that are there, from entering into that closed family compact. Is that correct?

Mr. WEST: I think that under normal circumstances it would be correct, yes, sir. This would not prevent you from having another stamp plan.

Mr. McCUTCHEON: I submit that this is a restraint of trade, inasmuch as that if you are going in there and do not get the one that is used in that locality, you are out.

How much time is spent by your association in promoting through service clubs, churches, et cetera, the gathering together of stamps—which in effect is driving all of those people to purchase from four or five who are subscribers to the one stamp company?

Mr. WEST: On behalf of the stamp company, sir, very very little time is devoted to this, in this country. Some time is devoted to it in the United States. At times, we do aid church groups and service organizations such as the Kiwanis Club, to promote this type of promotion, to get a building or a bus or something like that. But in this country we do not solicit that or give much time to it.

Mr. McCUTCHEON: The fact that you franchise these people, and that it is not open, in fact means it would be refused to me as a new entrepreneur starting in a locality. I would be refused, say, Gold Bond stamps at my place of business. This is correct, is it not?

Mr. WEST: We are talking now about a hypothetical case, but I presume it probably would be, if a man was franchised in a specific trading area.

Mr. McCUTCHEON: Then what do you mean when you say that you are in favour of transferability? You are not in favour of it at all, because you are restricting the people.

Mr. WEST: I am in favour of transferability from the supermarket to the hardware store—where all stores in a shopping centre might issue the same trading stamps, that the consumer could put them in one book and redeem them. This would get the gifts out much faster. I am in favour of that.

Mr. McCUTCHEON: But you would not favour my starting a business and selling the green stamp, and Mr. Basford having a business using a yellow stamp, that we could lump those together?

Mr. WEST: No. I think you would lose your competitive business, if you and Mr. Basford were competing in the same type of business, across the street from each other, you would defeat your purpose, would you not?

Mr. McCUTCHEON: I do not know.

Mr. WEST: What would be the advantage of shopping in your store as against Mr. Basford's? There may be other reasons.

Mr. McCUTCHEON: I think Mr. Basford would have to give better service.

Mr. WEST: Yes, but the stamps would not have any effect on that.

Co-Chairman Mr. BASFORD: It would also be issuing currency, which is illegal.

Co-Chairman Senator CROLL: The Department of Justice witnesses here raised two points on trading stamps. One point was an objection because it might be used as currency. That was the original objection. They got over that. The other objection was whether it was such that it contravenes the Criminal Code. But restraint of trade was never raised. They did not raise it and I never heard that raised before.

Mr. McCUTCHEON: I am fully aware of the currency point.

Co-Chairman Senator CROLL: Restraint of trade is something new.

Mr. WEST: I know that in this country there are many instances where franchises are granted. For example, in the appliance industry, it is not every appliance store that can buy from Westinghouse and sell their product. Westinghouse protect their franchised dealers.

Dr. DIXON: May I add that the whole process of competition, or getting competitive advantages, is a balance between restricting and non-restricting.

The fact that somebody else has to use another trading stamp makes it more difficult to come in, and inasmuch as the other merchant is already there and has pre-empted the best location, I do not think trading stamps are unique in this.

Mr. McCUTCHEON: But it is another factor?

Dr. DIXON: If there were no other trading stamps being offered. I think there would be less of a reason if there were trading stamp plans that could be utilized by the merchant.

Particluarly with the present legislation, I think the merchant could get another plan and he could offer that. That is so particularly since the consumer does tend to accumulate more than one set of stamps. On the shelf in my house we have three, and it does not influence which store we go into.

Mr. McCUTCHEON: There is another point I wish to mention, which is not in your brief and I assume is not in your department, but I would like to broach it before the committee. This is the fact of suppliers supplying material to general stores at retail, every now and again you see an advertisement "Double stamp weekend". The suppliers tell me they are telephoned and told "We are going to have a double stamp day and we are going to advertise this in the paper and we want you to participate. There will be a 50-cent reduction per case off the canned goods you are supplying to the store." Would you comment on that?

Mr. WEST: I doubt if I am familiar enough with the merchandising practices of food manufacturers to comment on that. I know there are allowances given to retailers for a variety of different types of promotions. For example, if the retailer is prepared to use the end of a gondola display island to merchandise one company's canned peaches, I am sure there are instances where they get an allowance per case. I know the situation exists but do not know of any particular demands made because of stamps, and this is really out of our field.

Mr. McCUTCHEON: I realize that.

Senator O'LEARY (*Antigonish-Guysborough*): Dr. Dixon, I believe that when Mrs. MacInnis was questioning you, a point was made that I would like to clear from my own point of view as a member of this committee.

An indication was given that there was, perhaps, a discrepancy in our work and in your view about the market place working. I think you understood it correctly but I want to say that I see absolutely no conflict or discrepancy whatsoever in this view which is yours and your conviction about the market place working reasonably well. I think you understand that I wish you to mention that.

Dr. DIXON: I am rather happy to have an opportunity to say it again. There may have been a misunderstanding about my position. I think this is a constant exercise of society, to look at the market place and try to set the rule. Obviously, this is a legislative body and the only group that can do this. All I said is that, in this particular case, in the case of trading stamps, I feel that this is being adequately disciplined by the market place, on the basis of the studies that I have seen. But this is only my opinion; and your function is obviously the continual looking at all these things, to see whether or not it is working.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you, We do have one very good example of what your association does for its members here this morning in your presentation and your appearance before the committee. Could you outline or give a few examples of the other specific functions of your association, the specific work it does for your members?

Mr. WEST: Well, as I said at the beginning of the brief, the association works like any other trade association or group association. As a group it keeps us informed of what is going on. Manufacturers give us ideas of the type of packaging they consider preferable; we give them ideas about the type of delivery we would like to have. It is just a mutual arrangement we have with

the suppliers so that we understand each other better. We have meetings semi-annually at which we all get together for a luncheon and at which there is a guest speaker.

We discuss various fields, mostly of the merchandising industry and of the trading stamp business. That is to say, we discuss the buying of merchandise, the warehousing of it and the distribution of it and the ways in which we can help suppliers and in which they can help us to make our operation more efficient.

Mr. BOULANGER: Excuse me, but that takes me to a supplementary, if you will permit me. Is there any real competition between trading stamp companies?

Mr. WEST: Oh, yes, it is a very competitive business. We belong to the association, but we look for each other's business. Of course it is competitive.

Co-Chairman Mr. BASFORD: Between which companies? Most of them are subsidiaries of the supermarkets.

Mr. WEST: Well, in the case of Pinky stamps, for example, they do supply the Steinberg stores, but they are looking for additional business as well. Lucky Green supplies Loblaw's but it also looks for additional business.

Co-Chairman Senator CROLL: But do they get additional business?

Mr. WEST: Oh, yes, they do, sir, and we compete for the same business. They probably would not get a grocery store next to a Loblaw's store or to a Steinberg's store, but when they get away from their immediate trading area they certainly try to sell their Lucky Green and Pinky stamps.

Senator O'LEARY (*Antigonish-Guysborough*): Basically, would it not be true to say that your work is primarily promoting the trade stamp idea as against other promotions or promotional plans?

Mr. WEST: With our association, you mean, sir?

Senator O'LEARY (*Antigonish-Guysborough*): Yes.

Mr. WEST: Yes, I would say that it is.

Co-Chairman Senator CROLL: Just following that question of Senator O'Leary, do you have a money turnover each month? Do you buy, sell or do anything other than promote?

Mr. WEST: There is a fee, sir.

Co-Chairman Senator CROLL: No, I am not interested in a fee.

Senator O'LEARY (*Antigonish-Guysborough*): They are not a commercial enterprise in any sense of the word, so far as I can tell.

Co-Chairman Senator CROLL: You do not do any commercial work?

Mr. WEST: No, no. Absolutely not.

Co-Chairman Senator CROLL: You are just a representative of other groups?

Mr. WEST: Yes, sir.

Co-Chairman Senator CROLL: I see.

Senator O'LEARY (*Antigonish-Guysborough*): You do have an assessment basis for your members?

Mr. WEST: Yes, we do have an annual assessment.

Senator O'LEARY (*Antigonish-Guysborough*): Would this be based on volume or on a flat rate?

Mr. WEST: It is a flat rate, sir.

Senator O'LEARY (*Antigonish-Guysborough*): It is a flat rate. You do not have to answer this question, but would you care to give us an idea, for example, of what the budget of your association was in 1965?

Mr. WEST: I do not know whether I can or not. I can try to. We have an associate membership of about 120 manufacturers and suppliers. I think the annual fee to the association is $150. So it would be in the vicinity of $20,000 a year, sir.

Senator O'LEARY (*Antigonish-Guysborough*): That is all I wanted to ask.

Mrs. MACINNIS: Mr. Chairman, there is one point that ought to be cleared up.

Co-Chairman Mr. BASFORD: Mrs. MacInnis, I just had Mr. Choquette on the list, and then I can go back to you. He has been very patient.

Mrs. MACINNIS: That is fine.

Mr. CHOQUETTE: I have a very short question. I would like to see the translator or interpreter at work.

Co-Chairman Senator CROLL: Thanks for the warning. Would you wait just a second until we get the machinery adjusted?

Mr. CHOQUETTE: The interpreter has been sitting there for three hours doing nothing.

Mr. BOULANGER: If I had known he was there I too would have asked for that accommodation.

Co-Chairman Senator CROLL: Go ahead.

Mr. CHOQUETTE: Les félicitations d'usage, parce que votre mémoire est très intéressant.

Co-Chairman Senator CROLL: Just a moment. The translation system doesn't seem to be working.

Mr. BOULANGER: May I ask Mr. Choquette a very special question? Knowing that Grégoire and a few of the other Separatists like him are not here, we who are here are perfectly bilingual anyway, as you can see especially when I speak English.

Co-Chairman Senator CROLL: The machinery does not seem to be working.

Mr. BOULANGER: Why don't you try to put a few questions in English, Mr. Choquette?

Co-Chairman Senator CROLL: Why don't you translate for him, Mr. Boulanger?

Mr. BOULANGER: Just try it in English and I will help you.

Senator O'LEARY (*Antigonish-Guysborough*): This had better be good when it does come.

Mr. BOULANGER: One thing for sure, when we speak in Quebec we get words back.

Mr. CHOQUETTE: It is only a question of principle, Mr. Chairman.

Co-Chairman Mr. BASFORD: You are absolutely right.

Mr. CHOQUETTE: We go to our Quebec friends and they say to us, "Let us make Quebec a unilingual province." We say, "No. We have got bilingualism in Ottawa." But when they come to Ottawa it is chiefly then that these things happen, the translation machinery doesn't work, and they just do not believe us. I hope you get the point, Mr. Chairman. That is why I stick to my principles. Perhaps the equipment will be all right the next time.

Please excuse the way I express myself in English, sir, but we both went to the same school.

Mr. BOULANGER: Ah yes, but I turned out pretty good; I did not become a lawyer.

Mr. WEST: You will also have to excuse the way I answer.

Mr. CHOQUETTE: I have a very simple question. First of all, are you aware of the fact that some of the companies you represent have been prosecuted for violating the Criminal Code? I refer to Article 322 of the Criminal Code. Are you aware of any procedings that have been taken against some of your companies since they came into existence?

Mr. WEST: I think there have been instances in the past, although I have not got the dates here or the outcome of them.

Mr. CHOQUETTE: But you could not provide us with statistics—you have nothing of that kind with you?

Mr. WEST: No, sir, I haven't.

Mr. CHOQUETTE: You are aware of the fact that some of them were sued?

Mr. WEST: I don't know.

Co-Chairman Senator CROLL: Not sued, prosecuted.

Mr. CHOQUETTE: Prosecuted, yes.

Mr. WEST: I think Loblaw's were prosecuted and I think IGA were prosecuted. Whatever the problem may have been it was corrected. It was not a matter of tremendous importance.

Mr. CHOQUETTE: Can you tell me whether or not the budget for promotion has been decreased by some stores who use stamps. In other words, they pay less for other kinds of promotion because stamps are such a good promotion that they may spend less for others such as publicity on radio, television and newspapers. Were there any inquiries made about this? Do you get the point?

Mr. WEST: I get your point; there may have been inquiries before this committee where that question was asked.

Mr. CHOQUETTE: But are you aware of the fact that because stamp trading is such a good way to promote sales some stores thought they would spend less for other kinds of promotion? Do you see what I mean?

Mr. WEST: You mean stores that don't give stamps spend less on promotion?

Mr. CHOQUETTE: I mean some stores because of the fact that they have stamp trading which is a good way to promote sales have decided to spend less on publicity, on radio, television and newspapers.

Mr. WEST: I see what you mean; you mean that because of using trading stamps they have cut down on others?

Mr. CHOQUETTE: On other kinds of promotion.

Mr. WEST: Yes, I think that is so.

Mr. CHOQUETTE: They spend less.

Mr. WEST: I don't know whether or not they spend less, but they certainly curtail other activities.

Mr. CHOQUETTE: You quoted a lot of statistics, chiefly from page 24 of the French version, and those statistics have come from a company named Canadian Facts?

Mr. WEST: Yes.

Mr. CHOQUETTE: Who controls that company?

Mr. WEST: We don't know, sir. Certainly not the trading stamp industry.

Dr. DIXON: May I speak to this? This is a commercial marketing research firm; it is a consulting firm which sells its services to a wide variety of commercial enterprises. It is in business on its own and it is hired by manufacturers, retailers, or anybody who wants to do a survey. There are a number of companies providing services like this.

Co-Chairman Mr. BASFORD: Mr. Choquette, this was asked before and Mr. West did not know.

Mr. CHOQUETTE: I wonder if they are reliable statistics.

Co-Chairman Mr. BASFORD: Mr. West did not know who the client was who purchased the survey.

Mr. WEST: This is one of the three or four better known survey services in this country.

Mr. CHOQUETTE: Would you compare it to the D.B.S.?

Mr. WEST: It is a private concern. It is much more specialized in the type of information it supplies, generally speaking, than the D.B.S. The information you could get from them you could not get from the D.B.S., but it is one of the best firms.

Co-Chairman Mr. BASFORD: They could make a survey of your standing in your own riding.

Mr. WEST: Yes, and I understand that this has been done in certain circumstances.

Mr. CHOQUETTE: Well, then, if we approve this you will do that for me for nothing in my riding?

Mr. WEST: But that is not our firm; we are not in that business.

Mrs. MACINNIS: I was under the impression earlier that one of the witnesses quoted the Dominion Bureau of Statistics to the effect that food prices were higher in Vancouver than in some of the other cities across Canada.

Co-Chairman Senator CROLL: In Toronto and Ottawa.

Mrs. MACINNIS: What figures are they?

Mr. WEST: I think they may have been the December figures.

Mrs. MACINNIS: I have the December figures here and they are based on the index of 1949 being 100. As I say, these are the December figures from the Dominion Bureau of Statistics and I find here that in the City of Vancouver the index was 139.9. At the same time in Montreal it was 150; and I believe trading stamps are used in Montreal. In Ottawa it was 144.4 and I believe trading stamps are used in Ottawa. In Toronto it was 144.7 and I believe trading stamps are used in Toronto. In Winnipeg it was 142.4 and I understand that trading stamps are in use there. But it was 139.9 in Vancouver, the lowest of that group right across the country, and in Vancouver there are no trading stamps used.

Mr. WEST: Well, but is that the whole list of commodities or is it the food component only?

Mrs. MACINNIS: I am quoting from the food component only.

Mr. WEST: I don't think those are the figures I saw. The ones I saw showed it as being 99 in Toronto and 103 in Vancouver.

Mrs. MACINNIS: Well, this is the Dominion Bureau of Statistics bulletin that I have here, and I will show it to you.

Dr. DIXON: If I may speak to that; actually the index won't tell us anything about what the real prices are in fact in these items.

Mrs. MACINNIS: I know that, but you were quoting it to prove that the ones without trading stamps had higher prices and I am quoting one which goes the other way. I think you ought to be accurate.

Mr. WEST: I would like to see this. It is done by the Dominion Bureau of Statistics, but these are not the figures I have because they take Winnipeg as being 100 in 1959, I think it was. It is a different set of figures produced by the Dominion Bureau of Statistics. I have it in my hotel room.

Dr. DIXON: This shows what has happened to prices in Vancouver since 1959 and it just compares the relative change in prices.

Mrs. MACINNIS: But it does compare it using the base line.

Dr. DIXON: That is a regional index. It is very tricky to use it. I did not make the statement, but this may only show what happened since 1959. There is also a measure for use that compares with other cities.

Mrs. MACINNIS: In view of this, I would suggest that we should be supplied with those other cities and figures.

Mr. WEST: I will be glad to supply them. I am sorry I did not bring them with me.

Mr. CHOQUETTE: There are some things that have to be verified. These are on page 21. We have heard so many statistics and figures since the committee started sitting, and we have heard so many things being said that are not verified. You say here on page 21, "One supplier, for example, reports that it used to close down in the winter months and employees then went on unemployment insurance. Now, because of trading stamp orders, it works full time and has added employees." Who is that supplier? We have got to check that. We hear all kinds of things. Who is that employer mentioned by the Canadian Facts Company on page 21?

Mr. WEST: I am trying to see if it is in the letter here.

Mr. CHOQUETTE: The fourth paragraph.

Mr. WEST: I do not think that was out of a letter, from a comment. We have had about 200 letters from suppliers, and we only quoted about three or four in the brief, but I will certainly find out and have that information forwarded to you.

Mr. CHOQUETTE: On page 13, paragraph (b) you state:

> Chain store advertising in Canadian city dailies was studied on a single day and a comparison made between prices on comparable items in stamp and non-stamp stores. Again the evidence showed that non-stamp stores were in some cases higher than stamp stores, and vice versa.

Mr. WEST: This was done by *Canadian Facts.*

Mr. CHOQUETTE: *Canadian Facts* seems to be *persona grata*, as we say.

Mr. WEST: I would like to correct that remark on *Canadian Facts.* It was done by the Canadian Association of Stamp Companies. It could be done any day.

Mr. CHOQUETTE: By your association?

Mr. WEST: Yes, but you could do it yourself any day, and I think you would find the same result, sir.

Mr. BOULANGER: We are not here to try to doubt what you say. I do not want to go to the extreme of that. Would you explain again for us, so we clearly understand, specifically how it is possible for food prices, in effect, not to dramatically increase, but to increase by the loss of trading stamps?

Mr. WEST: Yes. I think Dr. Dixon went into this, and I ask him to do it again.

Dr. DIXON: You mentioned in the last part of your sentence, "by the loss of the stamps"?

Mr. BOULANGER: Yes, there is an increase in the price of food by the loss of these trading stamps.

Dr. DIXON: I think there can be a number of different explanations to explain what the studies have indicated. One is that the merchant will use the trading stamp instead of some other promotional device, so this is just a wash sale. Another possibility, which I suspect up to now has been at the back of the reason, would be that they may get volume increases. That is one possible explanation; it is certainly not the explanation in every case. Often they stop using newspaper advertising as much and use trading stamps.

The third explanation—as far as I can see from the studies, particularly the ones performed in the United States—is that in fact margins do get compressed. It is getting more difficult for consumers to make realistic price comparisons between food stores today—I do not think there is any question about that—there are so many items in stores, 7,000 or 8,000. In fact, it is very difficult for the consumer to make price comparisons between stores, but trading stamps they

can see. The other merchant will have to do something else to compensate for this, and it seems to keep the prices from rising which, if it is not explained by substituting some other competitive device or an increase in business, then, in fact, the margins must be squeezed. This seems to be substantiated in what I regard as the most significant study, the one done by the U.S. Department of Agriculture, a very comprehensive study done by a government agency, which clearly indicated that prices went up only marginally. I do not know about the 0.64, but I know the study indicated prices went up, say, less than 1 per cent on the average, and in some cases did not go up. So, it appears a combination of adjustments—that is, taking away other promotional devices and shrinking of margins, plus some increase in volume of business.

Mr. BOULANGER: Thank you for your explanation; it is clearer now. Since 1965 have more people been saving stamps, or are less people taking them now? What do your figures show on that?

Mr. WEST: I think there are a good many more saving stamps now than in 1965.

Mr. BOULANGER: There are more now?

Mr. WEST: Yes, there are more stamp savers.

Mr. BOULANGER: I have one last question. You have mentioned that the trading stamps have created a market for Canadian merchandise. Would this market still exist if trading stamps were not available in Canada? Would people just buy these items through the regular channels?

Mr. SMITH: Well, we go on what our suppliers, the manufacturers, tell us; and they say they do not think it would happen that way. They feel this is additional production, additional merchandise on the market. I think this is the best answer I can give you.

There have been studies done on this. I think at the back of the brief there is mentioned the Hamilton Cosco Study that was done in the United States in February, 1963.

> (The) study by this manufacturer on changes in attitudes of stamp savers since first study in 1957 and to determine whether stamp redemptions affect retail sales of same merchandise. Reaffirms conclusion of 1957 study that (a) over half of the stamp savers had been stimulated to purchase merchandise at retail after first seeing it in catalogue or redemption store; (b) the vast majority did not think. . .

This goes into a different aspect.

> . . .New findings conclude (a) that stamp savers have become more educated regarding the value of a book of stamps; (b) like receiving high denomination stamps; (c) would not like a credit plan to receive merchandise now and pay stamp books later.

There was an earlier study of this where they discovered in fact it tended to increase sales of their particular product, because the people might redeem a piece of luggage and go out and buy a matching piece. Again, this study could be made available to the committee, if they were interested in it.

Mr. BOULANGER: I read something that amazed me a little bit. I heard there were co-operative chains which said they were in a position to carry on business without trading stamps, and now they are offering stamps to their shoppers. They are offering them to their customers in every area of this country, and they are co-operative chains.

Co-Chairman Mr. BASFORD: Mr. Boulanger, some of the co-operative chains who were witnesses before us said they did not like stamps and would prefer not to use them, but they were forced by competitive forces to use them.

Mr. BOULANGER: That is it, what do they mean by "competitive forces"?

Co-Chairman Mr. BASFORD: I take it they meant that in order to maintain their market position in certain markets they adopted stamps as a merchandising means.

Mr. BOULANGER: Have you any answer to that?

Mr. WEST: I am not sure. Are you referring to the Dominion Stores which operates a stamp plan in the Province of Quebec.

Mr. BOULANGER: Yes.

Mr. WEST: And they do not in province of Ontario?

Mr. BOULANGER: Yes.

Mr. WEST: I do not know. I think it is a corporate decision, or a management decision. They feel perhaps that in one market they can agressively promote and increase sales with trading stamps, and perhaps in another market they spend their money on different types of promotion.

Mr. BOULANGER: Is that agreeable, do you know?

Mr. WEST: I think it is agreeable where they are using them, otherwise they would not be using them.

Senator CARTER: Dr. Dixon, referring to the workings of the market as a force that should control the use of stamps—the open market—would the workings of the market be improved if legislation were passed which gives the customers a choice of either accepting stamps or a cash discount?

Mr. WEST: I will leave that to you, Dr. Dixon.

Dr. DIXON: I think it might in an economic sense, but I am not sure. My own personal reaction in a social sense is that this is the kind of action which is very difficult to stop with trading stamps. I personally would be afraid of its snowballing on to a whole raft of other promotional devices. I am not sure, if there were enough firms in the industry, whether it would make a great deal of difference or not. I know now that when the consumer can switch it for merchandise he tends to switch it for merchandise. I agree that if he could get a cash discount then there would be a difference, but I do not know. Unfortunately, many of these things are impossible to research because we as individuals have a difficult time telling in advance of the fact how we are going to react. It is one of the worst things to research. I do not know. I would think where there are not enough stores offering stamps it would not have much effect. If it got to the situation where all the stores were offering stamps then it might have a difference.

Co-Chairman Senator CROLL: When we have heard from trade associations we have always, in every instance, I think, called upon certain of the individual groups that belong to them. So it follows quite normally that some of the stamp companies—I do not know yet which ones—will be called in due course.

Co-Chairman Mr. BASFORD: I have just a few questions, and I am sorry it is so late. In 1955 the whole Criminal Code was revised. The evidence we heard from the Department of Justice the other day was that following the amendment when the words "trading stamps commonly so-called" were dropped from the definition of trading stamps, there was a great proliferation of trading stamp companies in Canada. Is that correct?

Mr. WEST: In 1955, sir.

Co-Chairman Mr. BASFORD: Yes.

Mr. WEST: I do not think so. I think that the great proliferation started—you see trading stamps had been in use for some time by independent retailers, and I guess it all started when the corporate chains—Steinberg's, Loblaws and Dominion Stores—got into them. Whether that was in 1965 I do not recall exactly, but I think it was at a later date than that. I think it would be 1957 or 1958.

Co-Chairman Mr. BASFORD: Would you object to the original definition being replaced in the Code.

Mr. WEST: Well, not having a strong legal mind I think I would have to consult legal counsel before I could answer that question. I do not know what relevance it really has.

Co-Chairman Mr. BASFORD: I would like to ask Dr. Dixon whether there is any difference in the operation of the free market system in Canada pre-1955 and post-1955.

Dr. DIXON: Not to my knowledge.

Co-Chairman Mr. BASFORD: That is, the free market system was going along pretty well before 1955.

Dr. DIXON: There has been a growth in the use of trading stamps. It is a little hard to say whether it coincides with the deletion of that phrase. I am not a lawyer, so I do not know what prosecutions there might have been. The deletion of those words may have had a bearing on the decision of the chains to go into stamps, but I could not comment on that with any degree of expertise.

Co-Chairman Mr. BASFORD: The Department of Justice thought it might have had that effect.

Mr. WEST: There has been a lot more competition and a lot more stores and a lot more people since that time too, and those things affect many things.

Co-Chairman Mr. BASFORD: On page 20 you point out that there are 4,624,000 stamp savers, and you point out that there were $23 million worth of good redeemed. This works out, according to my rusty arithmetic to $4.09 per saver. Now, some of the corporate presidents who have been before us told me—I do not know whether it is in the evidence—that a sort of valued loyal average family customer is worth about $1,500 a year to them. Would it be true to say then that on an average of $1,500 of groceries there is $4.09 worth of redeemed goods?

Dr. DIXON: No.

Co-Chairman Mr. BASFORD: Why not.

Dr. DIXON: Because some of the customers are not buying their groceries from the chain stores. They may be receiving their stamps from a filling station or a garage, or something else. Certainly not all the savers would be from food stores. So, the average figure per food store would presumably be higher. Some of the savers obviously obtain their stamps from the smaller retail outlets rather than the big food stores.

Co-Chairman Mr. BASFORD: But if you take away those who are saving gasoline stamps from the others then the amount that the savers of stamps from food stores would be getting would be less, would it not?

Dr. DIXON: No. If half of the savers are small savers then the other half may be receiving only $2 or $1 a year in merchandise. But, I just do not know what the composition of savers is as between food stores and non-food stores.

Mr. WEST: This does not relate to families but to people, so it is pretty difficult to assume that $30 a week be spent on groceries.

Co-Chairman Mr. BASFORD: Well, those were the figures given to me for a middle-class family.

Mr. WEST: But we are speaking of families, not households, so you might have persons from the same household saving stamps; but I think if the purchases were $1,500 a year they would redeem more in the value of $60 at retail, but you could have four members in the family saving stamps.

Co-Chairman Mr. BASFORD: One last question. You might have noticed in our interim report that we thought all steps should be taken to encourage competition at the price level. I am concerned as to how a shopper can tell the

difference in price between say a jar of coffee at 99 cents with no stamps and a jar of coffee at a dollar with stamps. Which is the better buy and how does a household know which is the better buy?

Mr. WEST: Well, if you were shopping for the price of the product and price alone I would think the 99 cents would be a better value. I don't know how the housewife, each particular individual would react, what thinking they would adopt on this. Again, this is a very hypothetical case.

Co-Chairman Mr. BASFORD: But surely the whole maintenance of a free market system depends on people competing on price.

Mr. WEST: Yes.

Co-Chairman Mr. BASFORD: And here is a situation where it is impossible to tell which is the best buy.

Mr. WEST: Well, the value in stamps, if you related it to retail, would probably have a retail value of approximately two cents as against one cent cash differential, but again how each and every housewife would adopt this in their own mind, I would not know, and I don't know that you could with respect to coffee.

Co-Chairman Mr. BASFORD: It is just that the housewife is totally confused.

Mr. WEST: Possibly; but I think you could run into a situation where you could get coffee at 99 cents with stamps in one store, and $1 or 99 cents in another store, and no stamps. Stamps are certainly not a substitute for competitive pricing.

Co-Chairman Mr. BASFORD: Well, they are certainly used that way in advertising material.

Mr. WEST: For competitive pricing? I don't think they are, sir. I think they are used, but not on a pricing structure. I think that every store that advertises and promotes is working very strongly on price.

Co-Chairman Mr. BASFORD: Price and stamps, if I read the ads, have all that.

Mr. WEST: They may not be raffling a free car that way. They may only be taking one page newspaper advertising. Or they may not be spending excess amounts on television and radio jingles, you see.

Co-Chairman Mr. BASFORD: I will not continue because of the time, but I say that it is impossible or very confusing for the housewife to compare the price between non-stamp items and stamp items, because the stamps are being included, and the price totally confuses her.

Dr. DIXON: If I may say so, sir, no more than if she goes to one store where there are well over 15 varieties, and in another 10, or in a store with a narrow aisle, or in another store where the aisle is large. One will put in three ads, and another two, or one will provide a boy to push a cart out to help with the groceries, and another won't. It is a very complex affair. If I understand your question rightly, the implication was that trading stamps had a special role to play in this confusion. I do not think they do. I think the buying situation is very complex for a lot of people, but if anything the value of the stamps in a merchandise sense is clear in the mind of the consumer. Stamps may amount to two per cent, but the value of the little boy pushing my cart out is far more difficult.

Co-Chairman Mr. BASFORD: I do not think the comparison is analagous, at all, with respect, because when the consumer buys a jar of coffee at 99 cents with stamps, or is able to buy a jar at 99 cents without stamps, you are comparing apples and oranges.

Mr. WEST: Rather than make that comparison, I would like to compare paying 99 cents in a store with narrow aisles and paying $1 in a store with wide aisles. This is a much more typical comparison. All the studies show that the

price does not tend to spread very much between stamps and non-stamps, but rather between those outlets that offer low service and others that offer high service. This is not a matter of stamp and non-stamps. A&P for years had a reputation for shooting up the price rather than the service, and they do this, generally speaking, by narrower aisles, and a narrower selection of merchandise, and not usually as convenient locations. But as between two quality merchandise stores, I do not think the stamp or non-stamp price differential is really there. I do not think this is the main confusion, sir.

Co-Chairman Mr. BASFORD: It being almost five to one, on behalf of the committee thank you Mr. West for coming here with your brief, and accompanied by Dr. Dixon. The biography with your brief indicates the number of times that legislators have been interested in your subject. Therefore we are not unusual or unique in interesting ourselves. Your brief and the discussion this morning have been most helpful, and we appreciate it.

Mr. WEST: Thank you, sir.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966-1967

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

No. 38

THURSDAY, FEBRUARY 2, 1967.

JOINT CHAIRMEN:

The Honourable Senator David Croll

and

Mr. Ron Basford, M.P.

CONSUMER CREDIT REPORT

ROGER DUHAMEL, M.S.R.C.
IMPRIMEUR DE LA REINE ET CONTRÔLEUR DE LA PAPETERIE
OTTAWA, 1967

25754—1

REPORT ON CONSUMER CREDIT

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(As of January 24, 1967)

For the Senate:

* The Honourable David A. Croll, Joint Chairman, and the Honourable Senators

Carter
Cook
Hastings
Hollett
Inman
McDonald
McGrand
O'Leary (Antigonish-Guysborough)
Thorvaldson
Urquhart
Vaillancourt—(12).

For the House of Commons:

* Mr. Ron Basford, Joint Chairman, and

Messrs.	Messrs.
*Allmand	Mandziuk
Andras	*McCutcheon
Boulanger	McLelland
Choquette	O'Keefe
Clancy	*Olson
Code	Otto
Crossman	Mrs. Rideout
Horner (Acadia)	Messrs.
Irvine	Ryan
Leblanc (Laurier)	*Saltsman
Lefebvre	Smith
Mrs. MacInnis	Whelan—(24)

* On Steering Committee.

NOTE: See Appendix No. 1 for list of all who served on the Committee during investigation of consumer credit. In September 1966 the Committee was instructed to look into "the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;" an enquiry which is now under way.

MINUTES OF PROCEEDINGS

Thursday, February 2, 1967.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 3.00 p.m.

Present: For the Senate: The Honourable Senators Croll (*Joint Chairman*), Hollett, Inman, McGrand and Urquhart.—5.

For the House of Commons: Messrs. Irvine, Mandziuk, Olson and Saltsman.
In attendance:

Mr. E. R. Hopkins, Senate Law Clerk and Parliamentary Counsel.

Mr. J. J. Urie, Q.C., Counsel.

Mrs. S. Josie, Special Assistant.

A draft Report on Consumer Credit, presented by the Joint Chairmen, was further considered.

On motion of Mr. Olson, seconded by the Honourable Senator McGrand, the said Report was adopted.

At 3.45 p.m. the Committee adjourned until Tuesday next, February 7, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

25754—1½

ORDERS OF REFERENCE

House of Commons

"Mr. MacNaught, seconded by Mr. Pickersgill, moved,—That a Joint Committee of the Senate and House of Commons be appointed to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twenty-four Members of the House of Commons to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and that a Message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its members to act on the proposed Joint Committee.

After debate thereon, the question being put on the said motion, it was agreed to."

Extract from Votes and Proceedings of the House of Commons of Canada, November 8, 1963.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Senate

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Macdonald, P.C., seconded by the Honourable Senator Hugessen:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twelve Members of the Senate to be designated by the Senate at a later date to be members of the Joint Committee;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournements of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative, on division."

Extract from Minutes and Proceedings of the Senate, November 21, 1963.

J. F. MACNEILL,
Clerk of the Senate.

NOTE: The Committee was reconstituted in the two succeeding sessions of Parliament (in March 1964 and March 1966).

FOREWORD

In nineteen meetings of our Committee, mainly concentrated in a period of ten months, we believe that most aspects of consumer credit—certainly those of greatest concern to the general public—were thoroughly aired. We have been impressed by the tremendous increase in consumer credit in recent years, and its growing influence on the economic life of the country. When you consider that consumers account for about two-thirds of national expenditure, the importance of the manner in which this expenditure is made can hardly be overemphasized. Consumer credit has been the subject of detailed study in many parts of Canada—particularly in Nova Scotia, Ontario, Manitoba and Alberta. We have benefitted by these investigations, and our meeting with the Ontario Legislative Committee on Consumer Credit was most helpful. We have also learned a good deal from enquiries that have been going on south of the border as well as reports emanating from Britain.

Members of the Committee are well aware of the social as well as the economic implications of the upsurge in consumer credit purchasing. We are all consumers of goods and services, and there is hardly an individual, particularly in the growing urban areas, who has not at one time or another made use of credit. Many people who "Buy now—pay later" have attained a higher standard of living than would otherwise have been possible. But there are also those—we believe them to be a substantial minority—who are piling up trouble for themselves and their families in the enticing world of easy credit. These are the people who, through lack of understanding, commit their small discretionary incomes to buying beyond their means and paying such high rates for use of money that they may even be left without any discretionary income for the foreseeable future.

In the area of consumer credit as in other areas of business, interests of various groups in society are not identical. To some extent they are bound to conflict. Borrowers do not see eye to eye with lenders. Those who have sufficient assets to pledge for security are usually in a good position to borrow at relatively favorable rates from a bank, or at even lower rates if they have a life insurance policy on which they can raise a loan. For them, the important thing is to maintain these rates. It is the lower-income groups, with little or no assets who, when in need of money, have no other source than the money-lenders and small loans companies. What they want is to be protected from unreasonably high charges for the use of the money, and when the door to commercial borrowing is closed to them, to have some place to which they can turn as a last resort.

Borrowers of small sums are already protected to a considerable extent when the transaction is a pure and simple one of lending money, but not all loans to consumers are of this type. Many difficulties in which lower-income families find themselves today arise out of debts incurred in a transaction where the main business is the purchase of goods, with the borrowing of money directly related to financing the purchase. The kinds of credit offered to consumers have changed so drastically in recent years that more and more people are finding it difficult today to understand the nature of their commitments. Indeed, in certain kinds of transactions, which are becoming standard practice in some large department stores, to figure out the rate charged for financing

is obviously beyond the powers of any customer, since he is not in possession of the factors taken into account in the calculation. The lender makes the calculation after the consumer has committed himself to the purchase.

Although there are broad areas of agreement, the interests of lenders vary according to the nature of their business. Finance companies as well as retail merchants have a stake in maintaining a high level of sales. Individual members of credit unions may be savers and borrowers. The Canadian Federation of Agriculture reminded us that farmers are consumers as well as producers. Similar illustrations could be multiplied. It is a natural human tendency to equate one's own interest with the public interest, but recent events have demonstrated that irresponsible actions by a few businessmen can help to shake public confidence in financial institutions. There is widespread public demand for regulation of the operation of finance companies in the interests both of those who lend them money and those who borrow from them. The latter group is the particular concern of this Committee.

Remembering that Parliament, and Parliament alone, represents the interest of all citizens, we have tried to evaluate the strength and weaknesses of the many arguments presented to us. We were greatly aided in this by the appearance before us of able people with special knowledge of the multifarious aspects of the consumer credit business.

We cannot praise too highly the help we received from Mr. K. R. MacGregor, former Superintendent of Insurance. The broad sweep of his knowledge, obviously combining extensive academic studies with long administrative experience, gave us an intimate understanding of the place of small loans in the whole field of consumer credit. The over-all story of the development of consumer credit as an important part of the Canadian economy was presented by the Chief of Research of the Bank of Canada, Mr. Gerald K. Bouey. Professor Jacob S. Ziegel of the University of Saskatchewan placed this phenomenon in perspective by giving us the benefit of his studies of the evolution and contemporary situation of consumer credit legislation in Canada and in other parts of the world. Last, but not least, we learned from Mr. Douglas D. Irwin, financial consultant to the Ontario Committee on Consumer Credit, how actuarial science can reduce the most complex and varied factors to simple terms and tables which can be used by us ordinary mortals.

It is inevitable in a study of this kind that the evidence tends to stray beyond the terms of reference. We heard a good deal about many areas of concern to consumers, particularly the broad and related aspects of quality and prices. The whole question of the need to protect consumers in the market place is receiving consideration elsewhere, and since this Committee has now entered into a new phase of study dealing specifically with prices and also advertising and packaging, weights and measures, we decided, except when it was necessary for orientation to go beyond the subject, to confine our report strictly to consumer credit. Other consumer problems will be dealt with in the forthcoming report on Consumer Credit (Prices).

It will be apparent to readers of this report that members of the Committee have no desire to regulate simply for the sake of regulating, but where we are convinced that the public interest requires that action be taken, we accept responsibility for considering what changes are needed and recommending how desirable ends can best be achieved.

Because the evidence presented to us is printed in the public record of our hearings we are not repeating it here, except to indicate the more important

ways in which it has influenced our thinking. Other selected sources are listed in an appendix for the benefit of students of the subject who may wish to follow it further.

We acknowledge with thanks the continuous interest maintained throughout by our staff, all of whom assisted substantially in bringing to completion this complicated task. We appreciate also the help received from permanent employees of the Senate. The contribution of each individual is outlined in the note on Procedure.

The Parliamentary Librarian, Mr. E. J. Spicer, and his staff gave us full co-operation throughout the study, and this was particularly appreciated in the critical period when our report was being prepared.

Ottawa, Canada
February, 1967

DAVID A. CROLL,
RON BASFORD,
Joint Chairmen.

PROCEDURE

All meetings of the Committee were held in Ottawa, and the work was carried on with a small but competent and devoted staff. At the outset Mr. John J. Urie, Q.C. was engaged as Counsel and Mr. Jacques L'Heureux as Accountant. These two experts in fields of knowledge so important to an understanding of consumer credit attended hearings regularly and prepared useful background information. Mr. Urie's knowledgeable questioning of the witnesses brought out significant aspects of the subject and contributed much to our understanding of complex matters. We benefitted especially by his insight into constitutional law, and he prepared the section in the report dealing with constitutional issues involved in consumer credit legislation.

Mrs. Svanhuit Josie, an experienced research economist, joined us as Consultant in July 1966 to assist the Joint Chairmen in preparing a draft report. For six months she worked with them, particularly with Senator Croll, helping to fashion a report which would truly reflect the evidence and the considered views of the Committee.

The permanent staff of the Senate assisted the Committee at all stages of this undertaking. Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel, gave us the benefit of his wide experience. The Committees Branch carried out the exacting and time-consuming work of arranging for meetings and the many other tasks that are an inevitable part of enquiries of this kind. These responsibilities fell mainly on Mr. John A. Hinds, Assistant Chief Clerk of Committees, and Mr. Dale M. Jarvis who acted as Clerk of the Committee throughout the hearings on consumer credit, except for the last meeting when Mr. Jarvis had left to take another position and Mr. Hinds took over.

Both day-to-day committee work and preparation of a report involve a great deal of secretarial work and typing. During the hearings Miss Marion I. Ballantyne served competently as secretary and typist. The important task of typing and re-typing the manuscript was done well and cheerfully by Miss Barbara Anne Berrigan.

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I CONSTITUTIONAL ISSUES

Your Committee did not investigate in depth the constitutional problems involved, but sufficient evidence was adduced to indicate that the problems of divided legislative jurisdiction, as between Parliament and the provincial legislatures, affect the area of consumer credit as they do many other areas of our economy. It was decided, therefore, to make recommendations without precise regard to the division of legislative power. Certain of the recommendations are clearly within the competence of the Parliament of Canada, e.g., the amendment of the Small Loans Act to raise its monetary ceiling and the proposal for the guarantee of loans to low-income families. On the other hand, certain other recommendations are either in a doubtful area or within the legislative competence of the provincial legislatures.

The main relevant heads of federal jurisdiction in the field of consumer credit under which Parliament might legislate are: Census and Statistics, Banking, Savings Banks, Bills of Exchange and Promissory Notes, Interest, Bankruptcy and Insolvency, and Criminal Law. The regulation of Trade and Commerce under Head 2 of the British North America Act has been omitted from the list because it has in practice been invoked only in support of some other head of federal jurisdiction.

The jurisdiction of Parliament to legislate under the head of "Interest" creates a special problem which has not been clarified by the recent decision of the Supreme Court of Canada in the *Barfried* case. That Sphinx-like case appears to give to the provincial legislatures a green light in the field of cash loans—and presumably also in the field of consumer credit in its broadest aspect—in holding that the provinces may legislate in this field, thereby dealing, although only incidentally, with interest. Interest was defined somewhat narrowly in that case and the Court did not direct its attention to the fundamental question of whether Parliament, in legislating in respect of interest, might also deal with other charges forming part of the total cost of a loan, or an extension of credit, as being necessarily incidental or ancillary to interest as defined in the *Barfried* case.

The evidence submitted to your Committee indicated clearly that in order to deal effectively with consumer credit it is necessary to legislate with respect to the total cost of that credit, just as the Small Loans Act deals with the total cost of a cash loan under $1,500. The Supreme Court of Canada in the *Barfried* case, did not advert to or impugn the validity of the federal Small Loans legislation, but the question of its validity was not specifically in issue. In his evidence, Mr. K. R. MacGregor, the former Superintendent of Insurance, expressed the view that the Supreme Court of Canada might well hold that disclosure legislation in respect of the total cost of consumer credit might be upheld as valid by analogy to the Small Loans Act. It might indeed be that both Parliament and the provincial legislatures may deal in different aspects with the total cost of loans and credit extensions. There would appear to be a certain logicality and colour of right in extending the principle of the Small Loans legislation, now occupied by the Parliament of Canada, to similar areas involved in the advancement of consumer credit. All of this is of course speculative, and the precise ambit of Parliament's jurisdiction in relation to "Interest" remains undefined by the Supreme Court.

Accordingly, your Committee decided to make its basic recommendations as if Parliament had complete jurisdiction in those areas covered by Recommendations 1 to 5, inclusive, hereinafter set forth. The remaining recommendations are in areas in which the provincial legislatures have jurisdiction or in which there is doubt as to which of the legislative bodies in fact has jurisdiction. It appears to your Committee that if the problem is to be attacked completely, there will be need for the utmost federal-provincial cooperation, bearing in mind the respective fields of jurisdiction, and that at some point the jurisdictional problems involved may have to be resolved, if not by a constitutional amendment agreed upon between the federal and provincial authorities, then either by a test case or a formal reference to the Supreme Court of Canada.

II CONCLUSIONS AND RECOMMENDATIONS

Introduction

The evidence presented to us during our many hearings, and the substance of the numerous bills referred to us, have now been assessed in the light of our broad terms of reference in the field of consumer credit. It seems reasonable that the Committee should recommend, without restraint or qualification, whatever needs to be done to assist consumers to meet the pressing problems of the nineteen-sixties, leaving it to the appropriate governments and the legislatures to work out cooperatively the means of achieving the desired ends.

Of the many problems arising out of consumer credit which were brought to our attention during the hearings, two have been identified which appear in various forms and which stand out above the others. The first concerns the troubles besetting those who buy on credit without understanding the price they are paying for borrowing. The second concerns the plight of low-income families who are from time to time in desperate need of credit for necessary goods or services but to whom commercial credit is either not readily available or not available at all. The first three of our recommendations accordingly deal with these important and urgent matters. The recommendations in summary form are presented first but some of our more general impressions and considered opinions leading up to the recommendations are set out in the Conclusions.

Recommendations

1. We endorse the principle of what is popularly known as "truth in lending": that is, the principle embodied in the disclosure bills that have been repeatedly introduced in the Senate and in the House of Commons. Specifically, we recommend that every person, firm or corporation, including every chartered bank, carrying on the business of extending consumer credit, shall be required by law to disclose to the consumer the total cost of that credit, expressed both as a lump sum and in terms of simple annual interest.

Support for legislation of this kind is now almost universal; it has developed into a popular demand for action. Disclosure legislation was endorsed by the Royal Commission on Banking and Finance, and many responsible groups have urged on this Committee the need to proceed with it at once. There is no doubt that it would be in the public interest, that the time is ripe, and that it should be done now.

2. The principle of "truth in lending" should be extended to provide protection for all potential borrowers, whether or not they are at the point of committing themselves to a purchase or a loan. For this reason it is essential that all advertising of credit should truthfully and accurately state the total cost of the credit to the consumer.

We therefore recommend that all advertisements which offer credit or lending should be required to set out in annual percentage rates as well as in dollars and cents the added cost to the consumer for the use of the money. False and misleading advertising (such as advertisements quoting "special low rates" as if these were of general application when in fact they are available only to a select few) should be prohibited. "Truth in advertising" should go hand in hand with "truth in lending".

3. In order to prevent low-income families from becoming mired in debts from which they can never hope to extricate themselves, we recommend

that the federal government make available, through the regular banking system, guaranteed consumer loans under specified conditions to all with annual family incomes of $4,000 or less. The loans would be repayable over an extended period, and would bear a low rate of interest. They would be made only for provident and productive purposes related to the preservation of home and family. The maximum size of such a loan would be $1,500.

It would greatly aid the fight against poverty if needy people were given access to credit on reasonable terms. Those with low incomes are much more likely than others to require cash loans for necessary purchases. We believe the plan we propose would help to strengthen family life by relieving a vulnerable group of Canadians of a tremendous economic, social and psychological load. Not only would it meet an urgent need, but it would encourage thrift and independence, if we were to add to the statute books "An Act to Facilitate (under Guarantee) the Obtaining of Loans for Necessary Goods and Services at Low Rates and with Extended Time for Repayment". Experience suggests that the risk of losses would be small.

4. We recommend that the Parliament of Canada extend the protection accorded to borrowers under the Small Loans Act so as to include loans up to $5,000 rather than loans up to $1,500, with appropriate interest ceilings. There was widespread support of this indicated in the representations made to us and in the report of the Royal Commission on Banking and Finance. Under the Small Loans Act there is a maximum rate of 2 per cent per month on the first $300 borrowed, the rate falling to 1 per cent in respect of amounts between $300 and $1,000 and to one-half of 1 per cent in respect of amounts of between $1,000 and $1,500. (The Royal Commission on Banking and Finance recommended that the formula retain the present 2 per cent per month maximum on the first $300 borrowed and that a flat rate of 1 per cent a month apply to all higher amounts up to $5,000.)

5. We are concerned about the practice known as "captive sales financing", which is common in the merchandising of consumer durable goods, particularly in the sale of motor cars. Parliament has expressed, in the Combines Investigation Act, its desire to encourage the regulation of industry by free competition. However, the Act does not at present apply generally in respect of service industries. The Committee recommends that the scope of the legislation be enlarged, so as to ensure that such free competition will obtain, at least in the sales finance industry, by providing for the regulation of so-called "captive sales financing"; that is, of the operations in that field of manufacturers, distributors, dealers and others not principally engaged in sales finance.

6. Consumers are sometimes compelled to pay for faulty or defective goods, or even for goods they never receive. This is particularly hard on the consumer when, as occasionally happens, the purchaser of his obligation to pay has no knowledge of the original transaction. To prevent situations of that kind, we recommend that every bill or note given in connection with a retail credit transaction be required to be so marked on its face. Along with the purchase of the right to collect the consumer's money should go any undischarged obligations to the consumer that formed part of the original transaction. The party making the sale to the consumer would not be prevented from selling the paper to a third party, but the new creditor would in effect step into his shoes vis-a-vis the consumer, assuming both the rights and the obligations involved in the original transaction. This should protect consumers against fly-by-night operators who leave the customer responsible for payments to some third party who has no obligations to him.

7. A cooling-off period of three days should be allowed for the reconsideration by the buyer of purchases made on credit, off store premises, during which the purchaser may without penalty return the goods and recover back any monies paid by him.

8. An appropriate government agency should prepare and distribute to dealers and retailers a standard form of agreement applicable to all sales of goods on credit. A copy of the agreement should be given to every person who assumes an obligation under it.

9. Every retail credit sale should contain a clause giving the purchaser the right to prepay before the normal term without penalty and with a proportionate rebate of prepaid charges.

10. Collection agency practices sometimes harass the poor and unsophisticated. Present practices in this area should be carefully examined with a view to their strict regulation and supervision. We recommend in particular that collection agencies be prohibited from obtaining wage assignments from debtors and that wage assignments in favor of credit grantors be permitted only if the assignment is contained in a separate self-contained document.

11. We urge the implementation in all parts of Canada of the new Part X of the Federal Bankruptcy Act, which provides a procedure for the orderly payment of debts under court supervision. This would provide an alternative for many who are now forced deeper into debt through arrangements made with finance companies. Part X may be brought into force in any province on the request of its Lieutenant Governor in Council.

12. Your Committee fully endorses the principle embodied in existing legislation providing relief from unconscionable transactions, and recommends its extension to all parts of Canada.

13. Information and education—sometimes called money management or budget advice and counselling—would not solve all consumer credit problems, but we believe that their institution would constitute a step in the right direction. Objective and authoritative general information would be prepared and widely distributed. This would explain in clear and understandable language what all potential credit-buyers should know, including:

(1) Interest costs, with tables in both percentage and dollar terms, particularly illustrating the effect on costs of re-financing and consolidation of debts.

(2) The kinds of outlays for which it is not unreasonable even for lower-income individuals to incur debts.

(3) The minimum net or disposable income which safely permits credit buying, and for those above that level, what percentage can reasonably be pledged for future payments. (Examples might illustrate the need to take into account present commitments as well as current income and the likelihood of it continuing, increasing or decreasing, depending on such factors as age of the individual, his prospects of continuous and continuing employment, contributions by other family members now made or contemplated.)

(4) The nature and extent of the protection and assistance available to consumers under existing law.

14. In addition to receiving information of a general nature that is widely applicable, a minority of Canadians require personal financial advice

and counselling on an individual basis. It is essential that help of that kind come from agencies free of ties with companies primarily interested in increasing the credit outstanding. Consideration might be given to making government grants to family agencies and to credit unions and caisses populaires to enable them to employ for this purpose persons with a specialized knowledge of financial matters.

15. We have already set out the reasons why we believe that the financing of used cars has become a social problem. We therefore recommend, in the public interest, that:

(1) In order that prospective purchasers may ascertain the history of used cars before committing themselves to purchase, a central registry of all cars should be set up in each province, with the same number associated with a car throughout its lifetime.

(2) A maximum rate that may be charged for financing used cars should be fixed by law. This would of course include all charges.

16. Although we have not decided on any specific annual interest rate in respect of credit transactions which would in all circumstances be considered exorbitant, it would appear to be in the public interest to fix some such upper limit. Because of the tremendous increase in recent years in the use of open-end accounts of various types—sometimes called revolving accounts, cyclical accounts, easy-payment or budget accounts—with no statement to the customer of the annual interest rate at the time the purchase is made, and with a minimum effective annual interest rate of some eighteen per cent, but no effective ceiling, we urge that immediate consideration be given to this important matter. An accounting system which is clothed in mystery is a potential danger to those of limited income.

17. We recommend that the continuing joint committee of the Senate and the House of Commons which we trust will be set up as a result of the recommendation in the Interim Report of the Joint Committee on Consumer Credit and Cost of Living (Prices) "to review consumer affairs and the state of the Canadian economy", be specifically charged with assessing contemporary practices and developments in the field of consumer credit. This joint committee would be in a position to recommend to the Government any needed changes in policy or legislation. The current investigation of prices has demonstrated the value of public hearings, stimulating immediate and widespread public reaction.

18. Finally, in order to work towards uniformity in legislation, and to ensure that legislation is developed to complement appropriate federal legislation, and to eliminate abuses and loopholes as far as possible, we recommend that a continuing federal-provincial committee on consumer credit be set up on the technical level.

Conclusions

Consumer Credit Problems

The evidence bears out the assumption in our terms of reference that consumer credit is a problem. It is clear that "the operation of Canadian legislation in relation thereto", which we were asked to "enquire into and report upon", leaves much to be desired. We are convinced that consumer credit has become a major industry, standing on its own feet, and in the words of an expert witness, "separate and apart from the sales which underlie it." It has, to a considerable extent, replaced money as the means by which the average man acquires what he needs for daily living and what luxuries he is able to secure. In view of these developments, the former Superintendent of Insurance put the interests of the Committee well in these words: "the various kinds of consumer credit, the sources of it, and especially the cost of it; perhaps, more particularly still, the ways in which the cost can be controlled or influenced by legislation designed to ensure that the public is not charged an exorbitant cost."

What Everyone Needs

Although consumer credit is admittedly a problem, it is not a problem for all, and for many it is a great convenience to be able to fulfil present needs from anticipated and fairly certain future income. Individuals in a secure financial position are usually able to get loans at reasonable rates. They require little protection beyond the normal need of all citizens to be able to assume that dealings are honest and fair, and that all the cards are on the table.

Full Disclosure (Information)

Whether or not he acts rationally on the basis of the facts, when a person is about to enter into financial obligations, sufficient information should be available to make it possible for him to understand what he is undertaking. Every written contract should state the total obligation; how the cost of borrowing is made up (in annual percentage rates as well as in dollars and cents); and in the sale of goods, the difference between the cash price and the price on credit. From the customer's point of view this is essentially what is meant by full disclosure, and it is the purpose of proposed disclosure legislation to bring this about.

But lenders have a different interpretation of the word "disclosure". They profess to favor full disclosure, and they say they are practising it now when they reveal the cost of borrowing in dollars and cents. What is given the greatest attention by credit grantors, and what the finance companies maintain is "the most important public policy issue surrounding the field of consumer credit" is not whether the customer should be given the information he needs to understand the cost of the money to him, but rather "the manner in which the finance charge is disclosed to the consumer." Their real objection boils down to revealing interest in the traditional form of rates, particularly rates per annum. There is some reluctance about revealing monthly interest rates, but that seems to be considered a lesser evil compared with disclosing the annual rate. In any case, the word "interest" is studiously avoided by lenders, who generally decline to break down "service charges" to show interest and other components separately. It may very well be that the cost in dollars and cents is more meaningful to

the average man than annual percentage rates, but it is obviously wiser to make available more information than a man needs than to deny the information essential for making a rational choice.

Disclosure laws, first vigorously opposed, are now accepted as necessary to protect shareholders in business. The need for rules of some kind to safeguard the interests of consumers in credit buying is beyond dispute. The sales finance companies object so strongly to disclosing annual interest rates that they would even prefer ceilings such as are fixed by law in New York and California, to disclosure of rates. A spokesman for them said that "realistic ceilings, with a reasonable opportunity for review in the light of changing circumstances, would be a safeguard for the industry and for the consumer also." A retail instalment sales act which went into effect in Massachusetts on November 1, 1966, provides that retailers will have to disclose to instalment buyers the total cost of credit charged them both in terms of dollars and in true annual interest.

Canadian opinion seems generally to favour overwhelmingly the disclosure type of legislation. The banks are prepared to disclose the full cost of borrowing to the lender, and the revised Bank Act now before Parliament requires them to do so. The big problem is in connection with financing retail credit transactions. Whether the credit is supplied by the retail dealer himself or by a sales finance company or an acceptance company, it is not customary to make clear at the time a retail credit transaction is entered into, the cost in percentage terms of borrowing the money. All but those who are now withholding that information seem to agree that it should be provided to the consumer.

The Royal Commission on Banking and Finance is clear and unequivocal in dealing with this question. They recommend:

> "...that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer. In addition to indicating the dollar amount of loan or finance charges, the credit grantor should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty."

The Royal Commission does not go along with proposals that revolving credit plans be exempt from the disclosure requirements. On that subject they have this to say:

> "While we recognize that there is great difficulty in calculating the exact charge if use is made of a revolving credit, there is no reason why the customer cannot be shown the effective charge if he follows a typical plan. Borrowers may indeed be more interested in the dollar amounts of the finance charges and monthly payments than in the effective interest rate, but it will certainly not do any harm—and may well do much good—to let them know the effective rate as well. The distribution of approved rate books by the grantors of credit would minimize any difficulties of calculation from their point of view."

The Porter Commission goes on:

> "Finally, this legislation should impose stiff penalties for excessive charges or failure to disclose. At the least, the lender should forfeit all

principal and interest on the illegal transactions. In addition, fines should be imposed and, as now, the authorities should have the power to suspend the licences of lending institutions in cases of flagrant violation."

Obviously, enforcement would require provision for licensing and inspection of books and premises, somewhat along the lines of the Small Loans administration. The responsible Department would issue a standard form of contract which would be attached to every retail credit sale.

Finance companies and retail dealers calculate their own borrowing in terms of annual interest rates. They are being asked to provide the same kind of information when they themselves are lenders instead of borrowers. The recommendation of the Canadian Federation of Agriculture that disclosure legislation should apply equally to farm supply and machinery companies, is a reasonable one, and we support it.

The truth concerning the cost of credit should be public knowledge, available to all. It is therefore of the utmost importance to prohibit advertising which misleads gullible people into under-estimating the cost.

Full disclosure to consumers of the cost of credit will benefit the business community by increasing public confidence in its integrity. We agree with the representative of the Credit Union National Association that legislation to bring this about would "force the minority, who might be unethical to tell the truth, which means that the honest seller is no longer at a disadvantage." Full disclosure is in complete harmony with the classical free-market theory of economics. If bargaining in the market place is to result in reasonable prices, information provided by the seller or lender must be reliable. A member of this Committee aptly summed up our views in these words: "I think the legislators generally are of the mind that the consumers of credit must be apprised of the cost of credit just as simply and effectively as they can tell now the price of the product itself."

Outlawing Unfair Clauses

Because of the situation peculiar to the sale of goods, which is often further complicated by re-sale of the agreement to pay for them, the bargaining position of the consumer is, generally speaking, extremely weak. He commonly undertakes a water-tight obligation to make payments to an impersonal company which accepts no responsibility to him. The finance company claims to be neither merchant nor money-lender and abdicates all responsibility for the transaction with the consumer. This is hardly cricket when, as a rule, conditional sale agreements contain clauses which are unfair to the consumer. Examples of those in common use are clauses:

1. excluding all warranties and conditions;

2. permitting the seller to assign the agreement to a third person who takes free of all defences that might be urged against the seller;

3. including a promissory note which can be endorsed to a third person, giving him the status of a holder in due course.

Conditions of this kind should not be permitted, whether or not the consumer is presumed to be able to take care of himself in the market place.

Some Need Special Protection

Many people of modest means have little or no understanding of business, and they are the ones who are in special need of protection. For them, the temptation of being able to obtain rather easily what is desired now, with a promise to pay later, can be too great, especially if, as is so often the case, they do not understand their commitment. Their need for education in consumer credit is urgent. As in other areas, it takes time for official policies to adapt to social changes, but in our judgment the time has come to take account of the virtual revolution in methods of paying for consumer goods that has taken place since the end of World War II.

Education and Advice

Assuming that information is made available to all, there will be some who require further protection. What they need is education and advice (sometimes called counselling). The Federated Council of Sales Finance Companies told us of their policy of co-operating in consumer education with high schools, universities, newspapers, radio, television and Better Business Bureaus. The Consumers' Association of Canada and the Consumer Loan Association advocate the teaching in secondary schools of family financing, use of consumer credit and money management. The latter maintain that conscientious lenders now carry the responsibility of assisting and advising unsophisticated borrowers who are not acquainted with business dealings "as to the choice of the best loan for their circumstances."

Since those who sell credit are hardly in an independent position to instruct potential customers, we feel that advice should come from an independent source. It may even be that lenders as well as borrowers could learn something about probable social and economic consequences of credit purchases when unpredictable but not improbable events occur in the life of the consumer. Government has long accepted responsibility for establishing and enforcing standards for products affecting health and safety. Now the need for advice concerning buying and budgetting is equally urgent. The time is clearly ripe for development of a broad program of consumer education.

Everyone should be able to rely on the truth of statements of fact made in advertising, and sponsors of false advertising must be firmly dealt with. But the advertiser, whose business it is to persuade, can hardly be called to account for selecting from his own point of view the information he uses. Neither can he be expected to confine himself to the facts alone. There must be other sources to which the consumer can look for purely objective information and advice.

Government Regulation to Protect the Weak

Government regulation has long been applied to banks. In the twenties large consumer loan companies were regulated to some extent under private

acts. In the thirties the need to regulate all small loans had become apparent, and this resulted in the Small Loans Act. In spite of opposition from some money-lenders, it received the support of a substantial part of the industry, and today it is unanimously praised by those in the business, whose assistance in enforcing its provisions is acknowledged by the administrators. Representatives of the consumer loan companies told us that before the Small Loans Act was passed the bargaining position of the lower-income borrower was weak.

The Small Loans Act has not been revised since 1957. In the meantime the cost of goods and services has greatly increased, and the value of the dollar has dropped, making it necessary to reconsider the area within which this strengthening of the bargaining position of the consumer is essential in the public interest. It is where the bargaining power between two parties is not equal that, in the words of Professor Ziegel, "the legislature is more than justified in intervening...."

Consolidation of Debts

In recent years the average size of loan made by consumer loan companies and money-lenders has been growing, and the high proportion of loans used for what is known as consolidation of debts or refinancing gives rise to some misgivings. Consolidation of debts is being widely promoted through advertising, and a spokesman for lenders said, "I very definitely feel that the consolidation of debt is one of the most important services that we perform." We do not question the need of those who find themselves with debts beyond their ability to cope, for a means by which they can pay them off in an orderly fashion within some foreseeable time. But ability to do this becomes highly doubtful if the process of refinancing involves heavy additional interest charges. That is apt to happen if the system is in control of the creditor. The Nova Scotia Royal Commission on the Cost of Borrowing Money, Cost of Credit and Related Matters, noted that those on the books of finance companies—and this is related to the large number who consolidate or refinance—are likely to remain on the books for seven years. Seven years is a long time in the life of a family, and it is time enough to take children through the most critical period in their lives. But what is the alternative?

Orderly Payment of Debts Acts

The Family Bureau of Greater Winnipeg dramatically illustrated the devastating effect on a family of medium income with six children and heavy debts which they had been paying off for two years at $60 a month when the Supreme Court of Canada declared the Manitoba Orderly payment of Debts Act unconstitutional because it dealt with bankruptcy legislation, a federal matter. When this happened the man's wages were garnisheed. As a result he lost the job he had held for five years, his wife suffered a mental collapse and entered a psychiatric institution, and the whole family was reduced to public assistance. The brief presented to us by the agency urges the Federal Government to amend the Bankruptcy Act "to enable re-establishment of an Orderly Payment of Debts plan in this province, and the enactment of similar legislation in other

provinces." We are pleased to report that a bill to that effect, which originated in the Senate, passed the House of Commons, with amendments, on June 20 last. It contains a provision which commends itself to us, laying down special conditions that must be fulfilled if a consolidation order does not provide for payment in full of all the debts within three years. Setting up this specific three-year goal should help to maintain the morale of the debtor as well as the patience of the creditor.

Conditional Sale Agreements

We are equally concerned about a related problem, and one that is growing in importance. It has to do with the large part of the money owing by consumers today that results from purchase of goods, with debts accruing either to retail dealers or to third parties who buy conditional sale agreements, known in the trade as "paper". Lending by retail dealers or by sales finance and acceptance companies does not come within the scope of the Small Loans Act, and with a few exceptions in certain provinces, it can be said to be unregulated. We learned that complaints received from the public by administrators of the Small Loans Act are more likely to arise out of these conditional sale agreements over which the Department has no say, than from the small loans over which they have jurisdiction. When he enters into a conditional sale agreement, the weak bargaining position of the consumer today is somewhat analogous to that of the borrower of money before the Small Loans Act was passed. So feeble is his bargaining power that it is now a regular practice to have him sign a waiver of his rights under the law to assurance that the goods are "merchantable" and "fit for the purpose for which they have been bought." The purchaser's obligation to pay for the goods goes on whether or not the merchandise is of any use to him. This is particularly hard on buyers of used cars which break down on the way home from the used-car lot. Since this Committee is trying, in the words of one of our members, "to make the game of shopping a fair one", something must be done to shore up the weak bargaining position of the purchaser of goods on credit.

There appears to be general agreement that the consumer needs more protection in the modern world of credit which is now so complex that it is beyond the comprehension of the common man who is among its best customers. The question is, then, what is to be done, and by whom.

How Protection Develops

In the four countries whose legislation for the protection of consumers Dr. Ziegel[1] studied,—Canada, U.S.A., England and Australia—the development has been uneven, but he notes that "the pattern of evolution is similar in all four countries."

1. Initial concern is protection of the buyer's equity.

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[1] See footnote on p. 2862.

2. Prohibition or regulation of unfair contractual clauses—especially concering warranties and conditions.

3. Belated realization of importance of regulating financial terms of the agreement. Hence:

(a) Disclosure requirements,

(b) Limitation of finance charges, and

(c) Statutory recognition of buyer's right to rebate in case of repayment.

He has stated that ". . . the provinces between them now have more than sufficient legislative experience in all spheres except possibly that of regulating finance charges and maintaining licensing requirements (and here the federal small loans provisions should prove helpful) to provide the basis for a comprehensive uniform act. . . . Two provinces, Alberta and Quebec, have disclosure requirements, but only one, Quebec, attempts to regulate minimum down payments and maximum maturity rates directly. Alberta and Saskatchewan, however, in a very real, if heterodox way, do so indirectly, in so far as they eliminate the seller's right to sue for any deficiency after repossession. Quebec, again, is so far the only province which has shown any appreciation of the importance of prohibiting excessive finance charges..."

Revolving Credit

Twenty years ago more than 60 per cent of all retail sales were for cash, often involving a discount to the purchaser. In department stores the percentage of cash sales was even higher than in other retail outlets. This pattern of trade continued throughout the forties, but in the fifties there was a noticeable change, until today some 40 to 50 per cent of department store business is done on credit. Increased use of retail credit is largely attributable to development of the open-end system of accounting generally known as revolving credit, but also called "cyclical accounts," "budget" or "easy payment" plans,—a system which has found favor with younger families and is associated to a considerable extent with sociological changes which have been the subject of wide comment. The post-war pattern of younger marriages—with home ownership and a heavy mortgage even for families of limited income, and development of suburban shopping centers displaying a tempting variety of consumer goods—is obviously fertile soil for a system of buying which separates the pleasure of acquisition from the pain of payment.

An official of Simpsons-Sears informed the Committee that 85 per cent of their credit business is now done on the revolving account system. Revolving credit is much less important for Eatons and the Hudson's Bay Company, but both companies have developed similar plans. Some other retail chains, known as junior department stores, already do a large part of their business on revolving credit, and the system is spreading. We therefore considered it of prime importance to assess whether or not this development is in the public interest.

We have carefully weighed the arguments for and against the system, and because we are informed that its very existence would be placed in jeopardy by requiring disclosure of service charges to the customer in annual percentage rates, perhaps it is time to consider whether or not the advantages outweigh the disadvantages.

Representatives of the Retail Council of Canada maintain that this method of selling is a service to their customers; that they are not interested in it as a revenue producer, but only as a means of stimulating sales and "as a basis of achieving economy in the use of credit staff." The main arguments advanced in favor of the system by businessmen who use it or participate in its financing, are these: (1) that the widespread use made of revolving credit demonstrates that it is what the customer wants; (2) that it is so organized as to reduce to a minimum the cost of administration; (3) that it provides an important stimulus to sales, increasing the business of the establishment and therefore helping the economy; (4) that "the traditional way" of doing consumer credit business should not be lightly tampered with "except when absolutely necessary to protect the public against abuse or unconscionable charges."; and finally, (5) that, "Legislation which would require the expression of simple annual interest rates on all types of credit account would require retailers to abandon cyclical type accounts and probably bring about severe repercussions on the national economy."

There seems to be no doubt that the revolving account system, which gives the customer possession of the goods without any discussion, let alone revelation, of the cost of "credit service", can cause no hardship at that time. Whether or not he would choose to wait till pay day if he understood that he would be paying at least 18 per cent per annum and probably a much higher rate, for the privilege of buying on credit, is another question. A spokesman for the Retail Council of Canada told us that, "Control of the amount borrowed and the customer's mode of operation of the account is firmly exercised by the retailer." The Council's brief puts it this way: "...the authorized balance is controlled by the good judgment of the authorizer." The customer learns the details of his commitment not at the time of taking possession of the goods but at a later and unspecified date, when the bill comes from the accounting department. The game appears to be one in which all the cards are in the hands of one player.

We understand that the saving in administrative costs results from making the best use of staff by spreading the work of servicing the accounts over the whole month. This involves billing the customers, not at the end of each month, but according to the company's system of filing accounts, usually alphabetically by customers' names or addresses. This may very well be convenient for the company, but as far as the customer is concerned the result is that if he happens to make a purchase shortly after the day on which his account has been "serviced" the cost of "service" and the change in his over-all account will not be brought home to him until several weeks later.

The rapid rise in credit accounts of the large department stores since the institution of the open-end accounting plan supports the view that the system does stimulate sales, but what part of these purchases would in any case be made later for cash, or would be made in other retail stores, is not clear. There would inevitably be a tendency for customers to concentrate their buying in outlets where they had accounts of this type, perhaps also to pay less attention than formerly to comparative shopping. These considerations raise questions about the impact of the system on the competitive position of other retailers, and on the whole economy.

Compared with the age-old and universal method of showing charges for the use of money as interest rates—a method now readily abandoned by many—the relatively new and evolving plans collectively termed "revolving credit" can hardly be called traditional. We have been reminded that most laws which change the status quo are opposed by a section of the community. But the fact is that in a market economy the status quo is undergoing continual change by forces other than the law. It is quite legitimate for various segments of business to devise methods which will increase their own advantage. Many examples come readily to mind. The trucking industry and the airways have cut into the business of the railroad. There is a constant battle in packaging among the paper industry, various metal groups, glass and plastics.

Confining our attention to the field of consumer credit we see that not only is the consumer credit pie growing, but shares of different interests are shifting, and "outsiders" are edging in. More companies are financing their own credit sales rather than selling their paper to finance companies. An official of one of the largest department stores admitted to us that the credit business "reflects a profit." We were told by various witnesses that the purchase of appliances reduces the amount of money spent on services; that the move by finance companies into car rentals has cut into car sales; that some builders are selling stoves and refrigerators in a package deal with new houses, thus cutting out both the retail dealers in these goods and the finance companies. Changes of this kind are bound to result in gains for some groups at the expense of others, and those who lose out must seek new areas of business in the same way as was done by the consumer loan companies after the 1956 amendments in the Small Loans Act.

Smaller businessmen can be seriously affected by innovations instituted by powerful corporations with a view to increasing their own share of the pie. In those circumstances they are in no position to protest as they have a right to do if the power is exercised by government. They can ask that any public regulations be applied equally to all. This is in fact what representatives of smaller businesses have asked for.

Should disclosure legislation necessitate abandonment of the cyclical type of account, the question as to what effect this would have is still open to argument. It would undoubtedly cause some shift in buying and lending patterns. Professor Donald McGregor of the University of Toronto told the Ontario Committee he thought shifts resulting from disclosure legislation would not be major shifts. The Confederation of National Trade Unions believes revolving accounts to be such a menace and an erosion of the purchasing power of consumers, that they should be abolished. That exemption from general regulations of certain types of accounts could open the door to abuse is implied by the unanswered question put by a committee member to a spokesman for the Retail Council of Canada:

> "In the event that there was legislation proposed that made disclosure mandatory for the non-cyclical and non-open-end accounts, is there any definition that you can suggest to the committee as to the type of accounts which should be exempt from disclosure which would not lend itself to abuse? Naturally, if there is disclosure in simple annual interest for one group and not for another, every person trying to abuse the laws would strive to get into the group where disclosure is not necessary."

The real problem seems to be that there is no specific and uniform definition of revolving or cyclical accounting, the method being adapted to suit local circumstances and individual firms. The definition evolved in Alberta was "continuous deferred payment plans", but a spokesman for the Retail Council of Canada was unable to suggest a solution for the problem of possible abuse through changing the form of the plan.

Revolving or cyclical accounting has to date been little used by small retailers, and it presents what appears to be the greatest conflict of interest in the retail trade, perhaps one of the important reasons for the setting up of the Retail Council of Canada in 1963 to speak separately from the long established Retail Merchants Association. This system of accounting—if revolving credit can be called a system when it appears to be a generic rather than a specific term—has been a source of much confusion and misunderstanding. The customer is in the dark as to the carrying charge on his purchase; the general credit manager for Simpsons-Sears Ltd., Toronto, spoke of "the further complications in the retail department store business caused by what we call 'add on'..."; and development of this system has even made it necessary for the Dominion Bureau of Statistics to discontinue publication of meaningful and detailed data on consumer credit which it formerly reported.

Coming events were already casting their shadow before in a DBS report on retail credit for the fourth quarter of 1950:

> "A new form of credit known as 'revolving credit' has been expanding for some time past. Because of its increasing importance and its inclusion in the new Consumer Credit regulations, an attempt has been made to obtain consistent reporting of this type of credit. In this report, it has been included with the charge or other credit category."

But the system spread and took many different forms, and the task of the DBS became more difficult, until a decade later all attempts to obtain consistent reporting had been abandoned and retail credit statistics were thenceforth lumped together under "total accounts receivable". No longer were instalment accounts distinguishable from charge accounts.

So complicated is this method of granting credit that a Retail Council of Canada representative said "... we cannot conceive of any form of disclosure which can be devised to handle our cyclical and add-on type of accounts." His colleague agreed with the suggestion of a committee member that, "It probably would be possible to figure an interest rate with a computer," adding, "but whether we could afford to do that is another question." The argument against requiring disclosure of interest rates charged on this type of account was summed up by a then Co-Chairman: "What you are saying is, in effect, if there is legislation in this regard you will have to change your accounting methods. That is all you have said, as far as I can see."

It appears to us that a type of accounting which is admitted to be incompatible with disclosure legislation and which makes it impossible for the retailer to tell the customer the interest rate, is hardly likely to enable the customer to figure that out for himself. Much less can he be expected to do any comparison shopping between different merchants, or to consider whether it would be to his advantage to obtain the money from another source. When interest rates are surrounded by mystery, the Canadian Federation of Agriculture reminded us that "unwise and damaging purchases are made by those who cannot really afford them." We have come to the conclusion that to make an exception

from general regulations for a type of account which is so vaguely defined, and yet is being used in a growing number of firms, would be opening the door to confusion. There is a great danger that this system will tempt the unsophisticated and those with small incomes to pile up debts beyond their ability to repay. We support the view advanced by most disinterested parties that we should confine ourselves strictly, if at all possible, to the annual basis. We note that Mr. Irwin, the financial consultant, shared that opinion, although he warned that unless you get acceptance from those using revolving credit "they can foul it up pretty well, too." We express our confidence that reputable business firms will act in an ethical way.

Consumer-Borrowers Not All in Same Position

For many—probably most—Canadians, all that is needed to put them in a bargaining position roughly equal to that of the lenders is access to objective and unbiased information. These are the people who, with all the cards on the table, and with access to various sources of credit, can do their own shopping. But investigations in the United States have shown what is no doubt true here too: that a section of the consumer public are not comparison shoppers, and they are likely to be individuals with the lowest incomes. It is they who "often pay the highest interest rates and are in the greatest need of protection."

Most comparison shoppers fall into the group that has aptly been called the unrationed minority. A recent study made for the National Bureau of Economic Research, and brought to our attention by more than one representation, suggests that there are two kinds of consumers:

1. The unrationed minority—those who choose to pay all or part in cash or to accept less credit than is available to them from primary lenders. They pay lower rates than rationed consumers and the limited amount of rate information that consumers have is pretty well confined to this group.

2. Rationed consumers—the majority, whose marginal borrowing cost is in excess of the going rate of primary lenders. The only alternatives open to this group are paying the going rate or doing without the commodity.

Rationed consumers, when they are in desperate need of a loan, meet the lender under such unequal conditions that if he is unscrupulous he is in a good position to press his advantage. But even rationed consumers sometime take out loans for purposes that can hardly be considered essential, and this may be done without consideration or understanding of the consequences. It was represented to us by those whose work brings them in contact with lower-income families that if the true costs of borrowing had been clearly explained in advance, some of the tragedies due to debt would never have developed. This view is supported by empirical investigation of the National Bureau of Economic Research which found the strongest response to acquisition of knowledge of finance rates was "a reduced willingness to borrow among households in the rationed group."

Fortunately, most rationed consumers are above what could be called the poverty line, and would no doubt be able to manage their finances, including some credit buying, if they were in possession of all the facts necessary for making a sensible decision. These are the people who will benefit from disclosure by becoming comparison shoppers.

But we are left with the problem of the minority of rationed consumers who, with all the necessary information, and understanding that their income does not allow for any commitments to pay the high cost of the credit available to them, are in such desperate need of a loan that they will agree to the impossible. The situation of these people has given us cause for concern, and leads us into consideration of how this problem can be solved.

The Gap in the Credit Picture

In view of the importance of credit in business today, various methods are used to ensure that sound credit standards are maintained, and that credit is available at reasonable rates to meet legitimate needs of business as well as of private borrowers. Except in times of emergency, when the national interest is involved, maintenance of sound credit standards is generally left to the judgment of the lenders, the theory being that it is in their own interest to curb unwise use of credit. It has been argued that this is not always a safe assumption, when the salesman has his eye on filling a quota, when collection of the debt is separated from sale of the goods, and when any risk to the lender is virtually eliminated by harsh enforcement methods. That question is discussed elsewhere. Here we are considering measures to ensure that necessary credit is available.

The monetary power of the Bank of Canada aims at seeing that overall, the credit for business is sufficient to meet the needs. The Bank uses its power to influence the interest rates, thereby increasing or curtailing the money supply as seems advisable. The Bank's actions are also reflected to some extent in policies of commercial banks in dealing with their consumer borrowers. And when money will bring high interest rates elsewhere, life insurance companies are more reluctant than usual to expand their low-interest lending to policy holders. In any case, policy holders who are family heads generally resist the idea of encumbering the protection they have provided for their wives and children in case "anything should happen" to them.

But it is well known that sources of credit which are sensitive to the nation's money policies are not open to the low-income person who is without assets to pledge as security. He must rely for cash borrowing on consumer loan companies and money-lenders—institutions whose business expands when money is otherwise hard to get. When interest rates are high enough, there are sure to be willing lenders, and a tight-money period is precisely the time when numbers grow of those who are anxious enough to borrow that they will agree to almost any conditions. The only alternative generally open to the average man is to buy on credit, with the debt accruing to the retail dealer or to a finance company. These are expensive methods of borrowing, and sometimes the rates are exorbitant. Furthermore, no matter how desperate the need, there is always a residue of individuals who are turned down by the consumer loan companies; there is also a limit beyond which it becomes difficult for some to get retail credit.

In addition to those who, because of their personal situation are considered by the commercial lender to be too great a risk, there are others whose requirement for money, theoretically regulated under the Small Loans Act, happens to fall into what lenders consider "a non-profit area", roughly defined as between $1,000 and $1,500. Some lenders refuse these loans, and it is admitted

that this area is not now adequately served. The danger is that in order to obtain the money they need, borrowers will be driven to assume a larger debt, bringing them beyond the upper limit of protection under the Small Loans Act.

When a man applies for a loan somebody else decides whether or not the loan is granted. If the decision goes against the applicant, what then? Several committee members raised the issue of the need for some alternative source of credit at reasonable rates for those who are denied a loan when they really need it, and perhaps also for those whose business is least profitable to lenders, and the cost of carrying which pushes up rates for other borrowers.

Precedents for Government Action

Businesses operating for profit can hardly be expected to go far beyond what they regard as economically feasible, for the sake of fulfilling a socially desirable need or one that is in the national interest. The Government has long recognized this, and has stepped in to fill gaps of this kind, making available loans at low interest rates, either by guaranteeing loans made by traditional lending institutions or by setting up agencies which make loans directly. This is sometimes spoken of as, "Increasing the effectiveness of monetary action through ensuring the availability of credit..." For more than two decades the Industrial Development Bank has provided capital-type loans to small and medium sized firms. The bank is authorized to lend or guarantee loans of money to persons or corporations when

> ..."15 (*b*) credit or other financial resources would not otherwise be available on reasonable terms and conditions..."

Under the Farm Improvement Loans Act, in effect for roughly the same length of time, the Government guarantees farm improvement loans, provided that certain conditions are met. The maximum loan, originally $3,000, has been successively raised until it is now $15,000. The Veterans' Business and Professional Loans Act of 1946 provided for loans up to $3,000, and guaranteed loans for prairie farmers—with the original maximum of $1,000 now raised to $3,000—are available under the Prairie Grain Producers' Interim Financing Act, 1951. The Prairie Grain Loans Act (1960) guarantees loans up to $1,500 to actual producers. For more than thirty years there has been legislation providing mortgage loans to fishermen, and since 1955 the Fisheries Improvement Loans Act has made available government guaranteed loans of up to $4,000.

Fishermen's loans may be obtained from banks, credit unions, caisses populaires or other designated cooperative credit societies. Most of the other guaranteed loans are made through the chartered banks, with the government, as a rule, undertaking to make up any losses as well as to pay the cost of administration.

The Farm Credit Act of 1959 set up the Farm Credit Corporation, which makes low-interest loans to farmers whose farms are mortgaged "and whose experience, ability and character are such as to warrant the belief that the farm to be mortgaged will be successfully operated."

In 1960 the small businessman was added to the list of Canadians eligible for a guaranteed government loan. Under the Small Businesses Loans Act loans up to $25,000 may be granted to "small business enterprises". The Act defines a small business as one with gross revenue not over $250,000.

Social as well as Economic Considerations

Many of these government guaranteed loans are provided for the purpose of expanding or strengthening the economic well-being of the borrower and indirectly, of the Canadian economy. But an interesting example of taking into account social as well as economic considerations—specifically, the credit needs of home and family—is provided by the full title of the Farm Improvement Loans Act, 1944-45: "An Act to encourage the provision of Intermediate Term and Short Term Credit to Farmers for the Improvement and Development of Farms and for the Improvement of Living Conditions thereon". Even earlier, in 1937, the Home Improvement Loans Guarantee Act made it possible under certain conditions laid down in the legislation, to borrow up to $2,000. The upper limit for home improvement loans is now $4,000.

For more than 20 years low-interest loans have been made to home-owners under the National Housing Act. But consumer-borrowers, who are the particular concern of this Committee, are mainly urban dwellers, and a high proportion of them are wage-earners. Because of the vulnerable position of low-income people in need of credit, we were impressed by the findings of the Poapst consumer survey for the Royal Commission on Banking and Finance that those who suffer from intermittent unemployment are more likely to be involved in instalment debt than in mortgage debt. Undoubtedly a high proportion of low-income families are tenants. These people do not benefit by the help given to home-owners under the National Housing Act; nor do they qualify for loans under the Home Improvement Loans Guarantee Act. In any case, that Act does not provide for loans to cover appliances and furniture, essential equipment for the modern household.

Lending Policies of Private Businesses and Government Institutions

The main difference between lending policies of private business enterprises and those of government institutions is that the former are naturally interested mainly in profits, whereas the latter make loans for clearly defined purposes considered to be economically and socially desirable for the individual or company as well as in the general public interest. Perhaps we could adopt a phrase from the credit unions and extend to a wider group of private consumers the privilege which government has long accorded to specified categories of Canadians, of securing at reasonable rates, loans guaranteed by the Government, to be used for "provident and productive purposes". This credit would not be available to acquire minks and diamonds, or for travel to far-off places, but only for purposes related to the well-being of home and family. A high proportion of borrowing by the hard-pressed low-income wage-earner would clearly come within this definition.

Consumer lending companies take the position that borrowers "who lack readily marketable assets and who are in a relatively weak bargaining position

need the services provided by responsible lenders under a suitable regulatory law." We do not quarrel with this, but we believe the time has come when that service must be made available to this vulnerable group not only by the private institutions with which they are now dealing, but by an independent source which would provide an alternative for those who are turned down by commercial lenders. This service element would include much-needed advice concerning the meaning and the cost of credit. The evidence convinces us that the risk of losses on the loans would be very small, and the public interest would be served by preventing low-income families from becoming enmeshed in debt from which they could never hope to extricate themselves unaided.

Commercial banks are already providing consumer credit on a large scale to borrowers who are considered good risks. They also make loans to individuals who might not otherwise qualify, on condition that the Government guarantees to recoup any losses from the Consolidated Revenue Fund. We believe they could be persuaded, with the same kind of government guarantee, to serve the lower-income consumers we have in mind.

If we were to make it possible for farmers and city dwellers alike to borrow at reasonable rates for what could be regarded as necessary expenditures related to the satisfactory functioning of the home, in the same way as we do now for home ownership or farm implements, that could hardly be regarded as establishing any new principle. It is now a matter of official concern to help preserve and strengthen family life, and specifically, to raise the standard of living of families which have failed to share in our general affluence. The strains on family ties that result from overwhelming debt are well documented.

But what makes our suggestion doubly attractive is that it would benefit lenders as well as borrowers. Various witnesses have suggested that in the lending business today, major loans more or less carry the cost of serving smaller borrowers. If lenders were to be relieved of the bulk of both high-risk and low-return customers, it should be possible for them to reduce somewhat the rates charged to their other borrowers. A representative of the consumer loan companies agreed that this was a reasonable hope, although he added a note of caution: "One would have to look at it very carefully."

We have considered various ways of determining who should be eligible for government guaranteed consumer loans. Although the extent of a man's indebtedness is often related to the amount of his income and assets, that is not always the case.

Proposal for Filling the Gap

A spokesman for the consumer loan companies suggested that the dividing line between their business and that of the commercial banks is the income of the borrower rather than the size of the loan, implying that those whose incomes do not meet the bank's requirements must go to consumer loan companies. The immediate and urgent concern of this Committee is an even lower income group—those who do not meet the requirements of the consumer loan companies, or, if they do, they are served at the cost of higher

rates for other borrowers. Our suggestion is therefore that government guaranteed loans at a reasonable interest rate be made available to the lowest income groups as an alternative to borrowing from commercial lenders.

It is not easy, of course, to draw the line between those who would be eligible to use a public facility of this kind and those who would not. In introducing the recent amendments to the National Housing Act, the Minister of Labour said the government is "trying to help those people in the lower and medium income brackets." He added that the new provisions of that Act will benefit mainly "the group earning $5,000 and over". Taking into account today's economic conditions, we believe it would not be unreasonable to make this alternative source of consumer credit available to all families whose annual income is $4,000 or less. The maximum amount that could be borrowed under this scheme would be $1,500. The responsible government agency would provide information and advice to all who wished to have it.

Incidentally, the proposed government guaranteed loans should greatly assist current efforts to establish Indian families in the mainstream of Canadian life. Those responsible for helping them to move from the reserves to the regular working force have noted that credit, which may very well be essential if the transition is to be made, is usually denied to Canada's original inhabitants.

Used Cars—A Special Case

When a representative of the Consumers' Association of Canada was asked where their members feel that the greatest abuses in consumer credit lie, she answered: "I think there are very often abuses in the sale of used cars." Evidence produced in some provincial investigations confirms our impression that there is no group of consumers with so many unhappy purchasers who have made considerable sacrifice to gain possession of an article which they sorely need and which turns out to be useless. Yet no redress for their grievances is available.

Those who buy new cars can learn a good deal in advance about comparative performance of different makes. In any case they are protected by the maker's warranty, and his desire to maintain the reputation of his product. It is fairly safe for the buyer of a new car to make his selection on the basis of appeal to the eye of various designs and colors—factors that are usually stressed by car dealers. But the purchase of a used car is a different proposition. The buyer is often entirely dependent on the dealer's word concerning the age and history of the car, and he must put his faith in the number of miles recorded on the speedometer.

The most important question, of course, is whether the car will go. No matter how attractive its appearance, a car that will not move does not solve a man's transportation problem. When this situation develops after he has signed a purchase agreement as well as a promissory note independent of the agreement, the buyer may find himself liable for paying over a period of months or even years, for a vehicle that never takes to the road. And he is apt to be making these payments, not to the one who sold him the car, but to the purchaser of his agreement or promissory note. We learned that "it is the almost invariable practice that the buyer is required to waive the rights

which the common law and the various provincial sales of goods acts confer on him with respect to the quality and fitness of the goods he purchases."

Even assuming that the car is roadworthy, as most cars undoubtedly are, it is not unusual for the purchaser to commit himself to pay more than he can possibly afford out of his income, with the result that he falls behind. When that happens, a man is apt to find that he has agreed to provisions in fine print that are very harsh indeed.

Recognizing the importance of the motor car industry to Canada's economy, we nevertheless believe that the used car business has become a social problem. A member of the Committee who is president of a social agency told us that his agency is sometimes called on to supply food for children at the same time as their poor father is obliged to keep up payments on an old car. "So this organization, whose object is to help poor people," he said, "in reality helps the finance companies."

The reasons why the financing of used cars is a special problem are: (1) that people with small incomes are more likely to buy used cars than new cars; (2) that finance charges on used cars are considerably higher than on new cars; (3) that a high proportion of used cars are repossessed, due in some cases simply to mismanagement on the part of the would-be purchaser, but excessive finance charges no doubt help to make the size of the payments unrealistic in relation to the income of the debtor; (4) that a used car may be the only means of transportation to and from work, in which case repossession is a calamity for a wage-earner and for the family dependent on him; (5) that when the used car is not as represented, sometimes so deficient that it does not serve the purpose of transportation, the purchaser may be forced to continue making payments to the buyer of a conditional sale agreement who accepts no responsibility to him; (6) that there is no limit to the charges that can be made under the guise of reconditioning it, and this may very well exceed the value of the vehicle. We were informed of a case recorded in a Montreal court where a truck purchased for $650 and repossessed one week later, was resold for $25.

It is clearly in the public interest to provide some protection to used-car buyers, perhaps to make it possible for them to do what is commonly done by purchasers of new cars—borrow money and pay cash. We believe that one of our major recommendations will take care of this problem by making credit available at a reasonable rate in the particular and urgent situation when the car is needed for transportation to work. The individual would then be essentially in the same position as a member of a caisse populaire whose car can be financed altogether by regular payments at reasonable rates of interest and with no lien attached to the car. Furthermore, our recommendation that a maximum financing rate for all used cars be fixed by law (as is now done in New York State for both used and new cars) should help to make dealers more careful in selecting their purchasers. Because of the many possibilities of misrepresenting the age and condition of a used car, introduction of an identification system such as is used in Britain and in some parts of Canada, would make it possible to check in a public place, the history of any car offered for sale. This should not be an insuperable problem in the computer age.

Summary

The most widespread hardships for debtors today arise out of retail credit transactions rather than cash borrowing, and troubles are particularly common in connection with the purchase of used cars. Buying on credit has become a well established practice for all income groups. It is a perfectly legitimate practice, one that stimulates sales and makes it possible for many to enjoy now amenities which they are well able to pay for later in instalments. Undoubtedly there are credit purchases made which are unnecessary and unrealistic, but the same could be said of cash purchases. In our society we are free, as individuals, to use our own resources in any way that gives us the greatest satisfaction, and the Committee has no quarrel with that.

What does concern us is the consequences for themselves and for society when unforeseen circumstances make it impossible for one who has committed himself to credit payments to meet these obligations. Unforeseen circumstances can arise for two main reasons: (1) because the consumer did not understand what he was undertaking, or (2) because his personal situation has changed. When a small income is committed beforehand, a period of illness or unemployment, or even the need to repair the home or replace an expensive item of household equipment or clothing, can completely throw out the family budget. As is often the case, if remedies are to be effective and to prevent recurrence of trouble, they must take into account the root causes. In arriving at our final recommendations we have kept this in mind.

III GROWTH OF CONSUMER CREDIT

Introduction

To pay for the use of money is so much taken for granted today that it may come as a surprise to some that prior to the middle of the sixteenth century it was generally regarded as a serious evil to take any interest, whether exorbitant or not. Up to that time clergy of all denominations condemned usury; the law punished it with imprisonment and forfeiture of principal and interest.

This attitude was based on two thousand years of church and moralist writings. Money was regarded as a medium of exchange. Like any other article, when it was loaned it was absolutely under the borrower's control. We learned that as late as 1572 a lawyer and moralist, Thomas Wilson, wrote a Discourse Upon Usury which he declared to be nothing but "a fraudulent and crafty stealing of another man's goods."

In those days of the relatively simple village economy large amounts of capital were not generally required. Customers of the local money man were mainly peasants, artisans and small merchants who fell upon lean times. Proverbs surviving from that period reflect the social climate of the day: "Better buy than borrow", "Better give a shilling than lend a half crown." In the latter part of the sixteenth century the whole situation changed; with the beginning of the modern economy as we know it came the need for more capital.

Changing economic conditions brought about a change in public attitudes, with resulting pressure for institutional changes. As is often the case, it took some time for the law to catch up with public opinion, and there was a period when practice was removed from theory and principles. Attempts were made "to charge interest indirectly or under another name or through some device."

When the Low Countries began to permit the charging of interest up to 10 per cent the competitive position of English trade was affected. Although the Canon laws were gradually relaxed to permit some exceptions, the big turning point came in Britain in 1571 when Parliament passed an act permitting interest up to 10 per cent. This marked abandonment of the traditional attitude that any profit on money lending is usurious and wrong.

Recognition that interest can be reasonable, changed the meaning of the word "usury" which is commonly understood now to refer to money-lending at exorbitant rates, especially at rates higher than those fixed by law. Interest at a reasonable rate is universally accepted as entirely proper. As a member of parliament put it, the distinction thereafter was between "biting and oversharp dealing" and "a reasonable maximum interest rate set by the State."

Nowadays, for reasons discussed elsewhere, page 2883) those borrowing money, particularly individuals operating as consumers, are concerned not only about interest rates, but equally—perhaps more—about other charges that become part of the cost of the loan.

What is Consumer Credit?

As in all areas of study, there is some difficulty about exactly defining consumer credit, but a reasonable definition appears to be, as the Bank of Canada representative put it: "credit advanced to individuals to finance their expenditures on goods and services as consumers." This would exclude credit

extended to businesses, borrowing by individuals to finance housing (capital expenditures) and credit used to acquire financial assets such as stocks and bonds. Consumer credit is used to finance things that by their nature have a short life as well as things that will wear out "in a reasonably short time", including furniture, and—an important part of the picture today—motor cars. Articles of this latter kind are what are known as durable goods as opposed to non-durable goods.

Although the granting of credit to consumers in one form or another has a long history, instalment credit on a large scale seems to have grown up with the development of relatively high-value durable goods. It is particularly associated with wide use of the motor car. Parallel with the growth of consumer credit was development of institutional arrangements to facilitate it. Another factor responsible for the increase in consumer credit has been a change in attitude to the incurring of large debts for consumption purposes. And underlying the whole development has been expansion of consumer incomes.

Consumer credit is mainly of two kinds:

1. Cash loans, and
2. "transactions relating to the sale of goods or services on some kind of time-payment plan."

Time Payment Plans

The idea of selling on time is not new. It has been known in Canada since 1850. Many of the earliest time-sale agreements covered the sale of horses—the equivalent of the modern motor car. But much the older form of credit is the cash loan, where the primary transaction is the borrowing of money. This explains why legislation developed mainly to regulate that kind of business.

In recent years, particularly since the Second World War, there has been a tremendous upsurge in the form of credit where the primary transaction is the purchase of goods. This kind of credit also gives rise to debt on which interest must be paid. The subject of interest as well as the wider cost of providing credit to consumers have become matters of public concern.

Needless to say, effective demand for the purchase of goods on credit was low in the thirties due to unemployment, and in the war years it was curbed in the national interest. Before World War II it was mainly the larger items of durable goods that were bought on "time or instalment payment terms". When the family needed a piano, a refrigerator, or a large piece of furniture and they did not have ready money to pay for it, it was bought "on time". It was customary in those days for cash buyers to be given a discount. Then the practice grew up of putting part of the charge for instalment service on the price of the article, with the remainder of the cost a direct charge—perhaps as low as 5 per cent—for "instalment terms".

The Situation To-day

To-day there is seldom any discount for cash. The usual practice is to state a cash price along with the charges for "instalment service". In addition, new types of accounts have been developed to allow for purchase of a wide

variety of consumer goods, including both the smaller durable items and also non-durable goods, that is those designed for immediate consumption.

Except for a set-back in 1951 when restrictions were imposed during the Korean War, consumer credit outstanding has risen steadily from $678 million in 1948 to some $7,000 million at the end of 1965. Table 1 shows that the rise has continued not only in absolute terms but also as a ratio of the gross national product as well as of personal disposable income. Thoughout the fifties it was customary to compare our situation favourably with the United States. In that country, where consumer credit is more highly developed than anywhere else in the world, the ratio of consumer credit was always higher than ours as measured by either of these indices. However, since 1961 we have surpassed the United States both in our ratio to GNP and to personal disposable income.

TABLE 1

CONSUMER CREDIT OUTSTANDING, RATIO TO GNP AND TO PERSONAL DISPOSABLE INCOME, CANADA AND U.S.A., 1948–1963

Year	Ratio to GNP		Ratio to Personal Disposable Income	
	Canada	U.S.A.	Canada	U.S.A.
1948	4.3	5.0	5.9	6.8
1949	4.9	6.2	6.8	8.5
1950	5.4	6.5	7.9	9.1
1951	4.6	6.2	6.6	8.9
1952	5.7	7.2	8.5	10.5
1953	7.0	8.2	10.4	11.6
1954	7.5	8.2	11.0	11.7
1955	8.1	9.0	12.2	13.0
1956	8.2	9.3	12.4	13.3
1957	8.4	9.6	12.4	13.6
1958	8.8	9.2	12.6	13.0
1959	9.4	9.9	13.9	14.2
1960	10.1	10.5	14.4	14.9
1961	10.2	10.0	14.8	14.5
1962	10.6	10.5	15.3	15.1
1963	11.1	10.9	16.0	16.0

SOURCE: Bank of Canada brief, proceedings, p. 118.

At the close of the year 1965 the consumer credit owed by Canadians was distributed as shown in Table 2.

This table tells us who the creditors are, but data are not available to produce a comparable table showing who are the debtors. We do know that a study made in 1959 of 1,500 wage-earning families in Quebec found that 75 per cent of them used some form of credit. The average debt was $1,200 per family; the poorest families used the most credit, the average used it the least, and the wealthiest were in between.

Investigations made for the Royal Commission on Banking and Finance confirm for a wide sample of the population the fact that poor people are heavy users of credit. The Royal Commission reported as follows:

> "Instalment debt is found in 32% of households and at all income levels, although its highest relative use is found in the lower income categories..." and that, "Clerical and labouring personnel use instalment debt most frequently." Furthermore, those "with the smallest amounts of reported assets also make heaviest use of consumer credit —partly because of the absence of any other collateral."

TABLE 2

COMPOSITION OF CONSUMER CREDIT OUTSTANDING, CANADA, DECEMBER 1965

	Millions of $	
Cash loans		
Chartered banks (unsecured)	2,186	
Consumer loan companies	962	
Life insurance policy loans	407	
Credit unions and caisses populaires	840+	(estimate)
Quebec savings banks (unsecured)	16	
Credit buying		
Sales finance companies & motor vehicle dealers	1,162	
Department stores	565	
Furniture & appliance dealers	209	
Other retail dealers	422	
Oil company credit cards	68	
Consumer loan co. instalment credit	67	
Total	7,000	(approx.)

Source: Bank of Canada Statistical Summary Supplement 1965.

OPEN-END ACCOUNTS

Some retailers allow the customer 30 days to pay for goods without making any extra charge. There are also merchants who make instalment sales contracts clearly setting out the purchase price and carrying charges as well as the amounts and dates of the payments. It is not difficult for customers who enter into arrangements of that kind to figure out the effective annual interest rate. But the Retail Council of Canada informed us that these accounts "probably comprise a very small percentage of the total volume of credit extended by our members." It is the new types of accounts, known as revolving credit or cyclical accounts, budget or "easy payment" plans, that are responsible for much of the growth in credit buying in recent years, particularly in the large department stores. It is these revolving credit accounts which, according to professional social workers who appeared before us, seem to create the greatest difficulty for low-income people.

Revolving credit is a general term applied to a type of accounting mainly used by the large department stores and some retail chains, which permits occasional purchases to be added into the arrangement. It originated south of the border, and appears to be pretty well confined to North America. The system is regulated by law in New York, California, and Massachusetts, but in Canada, where it has become common only in the last decade, it is still unregulated. There is no uniformity in the plans used even by the major retailers, but the method of billing the customer means that he is not informed of the extra charge for the cost of the loan (referred to as the service charge) until some time after he has acquired the goods, when the bill comes from the ac-

counting or credit department. Any particular individual may not receive his bill at the end of the month because the system involves spreading the billing evenly over the whole period. The "service charge" is usually stated in dollars and cents, and not in percentages. Some firms do inform customers of the monthly percentage charged on the outstanding balance, but it is generally agreed that this type of accounting does not lend itself to informing him of the annual rate of interest he is paying.

IV HISTORY OF REGULATIONS

Federal Action

Three federal acts, one of them no longer on the statute books, were considered by the Committee to be pertinent to a study of consumer credit: the Small Loans Act, the Money-Lenders Act and the Interest Act. Only the Small Loans Act fixes responsibility for administration on a department of government. It is the duty of the Superintendent of Insurance to watch over that Act, and the former incumbent of the office reviewed the whole situation for the Committee. The Money-Lenders Act has been repealed. The Interest Act is still in force, but we were told that it has never been really effective in controlling excessive rates of interest.

Perhaps it is worth noting that the earliest legislation in Canada relating to "interest, usury and money-lending", passed in 1777, fixed a maximum rate of 6 per cent per annum for all contracts, the same limit that has been specified in the Bank Act until the recent revision. Severe penalties were laid down, including voidance of the contract, for charging higher rates.

This Act and a similar Act passed in Upper Canada in 1811 were repealed in 1853 and replaced by a new Act which, while it maintained the 6 per cent ceiling on interest rates, reduced penalties provided for infraction in that the contract was voided only in so far as it related to excess of interest. The provisions were further eased in 1858 when the contracting parties were permitted to agree on any rate, with the 6 per cent ceiling retained if no rate was stipulated by the parties or by law. This 1858 Act is the origin of sections 2 and 3 of the Interest Act.

The British North America Act of 1867 specifically allocated the subject of interest to the Dominion. Consequently, in the years 1873 to 1886 Parliament passed several acts concerning interest applicable to specific Canadian provinces.

The Interest Act

These various acts, together with certain provisions concerning Prince Edward Island enacted in 1869, were consolidated in the Revised Statutes of 1886 as "An Act Respecting Interest", which permitted any rate agreed upon. Among the sections subsequently added to the Interest Act were the present sections 4 and 5, sometimes identified with the name of Sir Oliver Mowat. It was he who introduced a bill in the Senate in 1897 which, after extensive revision, emerged in this form. Sections 4 and 5 of the Interest Act provide that unless the yearly equivalent is expressly stated, only 5 per cent per annum can be recovered under a contract running for shorter than yearly intervals. There is provision for recovery of any excess interest paid. Sections 12 to 15, which apply to the western provinces and the Territories, came later. There have been no changes in the Interest Act since 1917.

The Money-Lenders Act

This Act, passed in 1906 and said to have been the inspiration for modern unconscionable transactions relief legislation, was a watered-down version of a bill introduced by the late Senator Dandurand in 1899 as "An Act Respecting Usury." Purporting to impose a maximum limit of 12 per cent on all loans of $500 or less, it was ineffective for two reasons: it lacked any

definition of "interest", and no one was fixed with responsibility for its administration. The Act remained on the statute books long enough to be included in the Revised Statutes of 1952, but when the Small Loans Act was revised in 1956, the Money-Lenders Act was repealed.

The Small Loans Act

The Small Loans Act, 1939, which is further discussed elsewhere, is the most important piece of legislation affecting consumer credit, and the only act for which responsibility is fixed on a department of the federal government. Six small loans companies and 79 money-lenders were licensed under the act at the close of 1964. The distinction between them is the method of incorporation, i.e. whether by a Special Act of Parliament or otherwise.

The outstanding feature of the Small Loans Act is that it regulates in the area in which it operates, the whole cost of the loan, including any and all other expenses as well as pure interest. The maximum rates, stated in per cent per month, apply to the principal amount of the loan outstanding from time to time, and charges may not be compounded or deducted in advance.

The Act requires a lender to be licensed by the Minister of Finance if he wishes to charge more than 1 per cent on a loan with principal amount not exceeding $1,500. The charges permitted on personal loans are fairly high because amounts involved are generally small and loans are for relatively short periods. Expenses connected with providing the loans are not directly related to the size of the loan.

The maximum amount that may be charged by licensed lenders is 2 per cent per month on the first $300, 1 per cent on the next $700 and one-half of 1 per cent on the next $500 up to $1,500. What this means in effective percentage rates is illustrated in Table 3.

TABLE 3

EFFECTIVE MONTHLY AND ANNUAL RATES PERMITTED UNDER THE SMALL LOANS ACT, SELECTED SIZES OF LOANS

Amount of Loan	Percentage Rate	
$	Monthly	Annual
300	2.00	24.00
500	1.81	21.72
1,000	1.48	17.76
1,500	1.27	15.24

The Superintendent of Insurance is required to inspect the chief place of business of every licensee at least once a year, and annual financial statements must be submitted in a prescribed form. These are used as the basis of a published report by the Superintendent. The excellent annual reports have been a great help to the Committee in studying the operation of the Act. Originally the prime function of small loans companies and money-lenders was to provide facilities for needy borrowers of small amounts. Although this is still important, these companies have expanded into wider fields. Regulation under the Small Loans Act applies only to loans up to $1,500, but many licensees lend larger sums as well. Some operate also in the unregulated "sales finance" field, which means that they purchase conditional sale agreements. Today

licensees under the act have come to be regarded as an integral part of the instalment buying pattern, a form of merchandising which evidently appeals to all income groups.

Early Regulation under Private Acts of Parliament

Much of the small loans business is done by a few companies operating under special acts of the Parliament of Canada, and because the original acts of this type antedate the Small Loans Act—and represent the first attempts at regulating the business—a brief review is necessary.

In the first quarter of this century money-lending was, for all practical purposes, unregulated. Sporadic complaints were voiced about exorbitant charges being exacted in spite of the Interest Act and the Money-Lenders Act. Small loans companies or personal loan companies developed to meet the needs of the ordinary man for relatively small sums of money for shorter periods of time. They are one kind of so-called finance companies, and most of them have the word "Finance" in their names.

The first small loans company, since re-named Household Finance Corporation of Canada, continues to do by far the greatest volume of small loans business. This company was incorporated in 1928 by a Special Act of Parliament which fixed charges for "interest" and "expenses". The actual annual rate was then "about double the apparent rate,"—roughly 14 per cent for a loan of $100 and 16 per cent for $500.

In 1930 the second company of this kind was incorporated—now the Community Finance Corporation—and in 1933 the company known today as Beneficial Finance Co. of Canada completed the group of the big three operating before World War II. Nine other small loans companies have been incorporated since that time, of which three—Canadian Acceptance Company, Laurentide Finance Company and the Brock Acceptance Company—are still in business, making a total of six. The three last named were set up in the post-war years. At the close of 1964 the three original companies held more than half of the balance of small loans in Canada. They have left it to others, generally speaking, to take the leadership in providing large loans and purchasing conditional sales agreements. A few giants also dominate among the licensed money-lenders, with six of the 79 holding 80 per cent of their small loans outstanding at the end of 1964.

Loans Companies Act Amendment

During the early thirties borrowers were finding it difficult to understand the effective rate of interest represented by the complicated scale of charges on loans. In 1934 an amendment to the Loan Companies Act placed an overriding ceiling of 2½ per cent per month on all companies operating under powers granted by the Parliament of Canada. Although this act is mainly concerned with companies which lend money on the security of real estate, the ceiling affected small loans companies along with others.

Difficulties soon arose over the fact that business of some small loans companies was mainly concentrated in particular provinces. It was argued that when they had to comply with provincial as well as federal regulations it was a problem to compete with companies operating mainly under other rules. We learned that, "The entire situation continued to be unsatisfactory from almost every point of view."

Need Felt for More Effective Control

At a meeting in the Department of Insurance in 1934, representatives of the small loans companies agreed that the practice of deducting charges in advance should be abandoned. Instead, there would be "single monthly percentage applied to the amount of the loan actually made and remaining outstanding from time to time." But this did not solve all the problems, and it finally became clear that effective legislation was needed.

In 1936 Senator Dandurand, his interest in the subject unabated, introduced a bill based on a recommendation of a sub-committee of the Senate Banking and Commerce Committee, providing for a flat monthly rate on outstanding balances. But for various reasons no action was taken on it by the government.

In 1938 the Banking and Commerce Committee of the House of Commons studied the problem for months, with a stated objective of securing "the best procurable rate for the borrower". That Committee came up with a draft bill providing for a flat, all-inclusive monthly rate of 2 per cent on outstanding balances. The bill applied to loans of $500 or less. In spite of opposition by some lenders, the bill, which required the Superintendent of Insurance to inspect licensed companies at least once a year, finally became law. It is known as the Small Loans Act, 1939, and has been in effect since January 1, 1940.

There have been no changes in the Small Loans Act except for amendments in 1956 raising the maximum loans to which it applies from $500 to $1,500, and substituting graded maximum rates for a flat 2 per cent per month.

Federal Legislation Concerning Credit Unions

Although credit unions are regulated by provincial laws, the Royal Commission on Banking and Finance noted that a federal law respecting credit unions was passed in 1953 "in order to remove any doubts about the constitutional position of the provincial centrals by permitting them to register under a federal act, and to establish a national central, The Canadian Co-operative Credit Society Limited". The report goes on to say that, "Membership in this society, which is supervised by the Superintendent of Insurance, is limited to central co-operative associations declared eligible by Parliament and approved by Treasury Board, a maximum of 10 co-operatives other than credit unions and 15 individuals. The society has not been very active: only four provincial centrals have taken out membership and their investment in its shares and deposits has not been large."

Provincial Action

Caisses Populaires—the "People's Banks"

It seems appropriate to begin the discussion of provincial regulation of consumer credit with a brief sketch of the origin of the credit union movement which pioneered the lending of money to people of small means. Indeed, in the early years of the century there was no other source of loans at reasonable rates for the low-income group.

Before the turn of the century, in his work as official stenographer in the House of Commons in Ottawa, Alphonse Desjardins recorded the debates concerning excessive rates of interest then being exacted by money-lenders from

his fellow-citizens with low incomes. An insight into this area channelled his broad interest in economic and social problems into serious investigation of the problem of usury, and a search for possible solutions.

It was in the Parliamentary Library that he learned of the development of credit unions in Europe and Asia to deal with the credit needs of working people at a time when credit was generally available only for the needs of the businessman. These "people's banks" as they were called, were savings and loan societies organized co-operatively by working people for investment of their savings and to enable them to borrow money for their real needs at low rates of interest. Mr. Desjardins was instrumental in founding in Levis, Quebec, the first credit union on the North American continent in 1900. The Civil Service Co-operative Credit Society formed in Ottawa in 1908, is the largest co-operative credit society in Canada.

A credit union is more than a financial association; it is an association of individuals, usually with some common bond—industrial, parish, ethnic or community—banded together to help themselves and each other. Credit unions have a democratic and local character which appears to be successful in maintaining the interest of members, by encouraging thrift and by lending money for provident and productive purposes. The idea of sharing in the management of a common venture has wide appeal, and in the credit union one member has only one vote, regardless of the number of shares he holds. The chief source of income of credit unions is the interest on loans made to members. Although credit unions have power to borrow money, and sometimes they do borrow from the banks, they borrow mainly from their own "league central".

An important difference between credit unions and the caisses populaires is that loans of the former are principally for personal purposes, whereas the latter invest heavily in mortgages. Both types of organization are changing. They are moving closing together in that each is expanding into the main business area of the other.

In the thirties a group at St. Francis Xavier University in Antigonish, Nova Scotia promoted credit unions as part of a program of community economic development, particularly among the miners and fishermen. A similar movement developed in those years in the farming communities of the western provinces.

The first credit union act on this continent was passed, appropriately, in the province which gave birth to the movement. This was the Quebec Cooperative Syndicates Act which became law in 1906, largely through the efforts of Mr. Desjardins. Incidentally, he also aided the passage of the first act of this kind in the United States in 1909 in the State of Massachusetts.

Today there is credit union legislation in all the Canadian provinces, and generally speaking, it is somewhat similar. In all ten provinces the maximum interest that may be charged by a credit union is 1 per cent per month on the unpaid balance of the loan, and this interest covers all charges and penalties. Twenty per cent of net earnings must be set aside for a guarantee fund to take care of bad debts. The balance is distributed to members. The effective charge is usually from 8 to 10 per cent, and most societies charge the same rate on all loans. The caisses in Quebec lend at a somewhat lower rate.

The manager of Canadian operations for the Credit Union National Association, whose membership includes 96 per cent of all credit unions in Canada

outside Quebec, informed the Committee that there are now in Canada approximately 4,622 credit unions with more than 3 million members and assets of nearly $2 billion. (Note: Quebec caisses populaires are included although they are not members of the association.)

Under the standard by-laws of Ontario the maximum credit union loan is $3,000 plus member's own money (shares) of $1,000; that is a total of $4,000. Some other possibilities (with first mortgages on real estate) may bring the loan up to $10,000. By-laws of some larger credit unions in Ontario permit mortgage loans up to $30,000. For small loans of under $200 no security is required. The protection is said to be "personal character".

The Royal Commission on Banking and Finance stated that, "Each of the provincial credit union acts provides for a system of inspection and supervision. In all provinces except Prince Edward Island, where the league is formally responsible, and Quebec, where the law is unclear, a government agency is responsible for the supervision of credit unions." In some provinces inspections are regular and thorough; in others they are infrequent.

Credit unions, although they perform for members the same lending function as the commercial money-lenders, have quite a different philosophy and outlook. Unlike the business firms, with their emphasis on the glamorous things that credit will buy, credit unions do what they can to encourage thrift. Their borrowers are also savers. In fact, an official of the Ontario Credit Union League informed us that out of 1,000 members of a credit union, about 600 are savers only. The other 400 borrow as well as save.

Retail Instalment Sales Legislation

Under the common law those engaged in conditional sales were doubly favored: on the one hand "they were able to maintain a proprietary position even though the buyer was in possession of the goods"; on the other hand "they were able to avoid registration requirements of the emerging bills of sale acts as well as the fetters which equity places on a mortgagee seeking to foreclose."[1] Although considerable legislation has been enacted to improve the bargaining position of the buyer, revolutionary changes in methods of retailing have resulted in large-scale selling on time that is subject to no public supervision. The seller alone lays down the rules of the game.

Registration of Conditional Sales

Between 1882 and 1907—before anything similar had been done in England, Australia or most of the United States—"all the provinces and territories adopted some form of legislation requiring registration of the conditional sales agreement or the marking of the goods with the seller's name, and, except in the case of Manitoba, conferring upon the buyer a right to redeem following repossession by the seller."

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[1] The quotations in this section are from a definitive article, "Retail Instalment Sales Legislation", *University of Toronto Law Journal*, Vol. XIV, No. 2, 1962, by Professor Jacob S. Ziegel, an expert witness who appeared before us. A good deal of the historical information is based on his research.

These early acts formed the substance of the first Uniform Conditional Sales Act of 1922 which became the revised uniform act of 1947 and then 1955. Legislation of this kind is in force today in most of the provinces.

Farm Implements and Agricultural Machinery Acts

The next important development was special legislation in the prairie provinces (Alberta 1913, Saskatchewan 1915, Manitoba 1919) dealing with sale of farm implements. Although this legislation was designed to meet a special situation, it is important because it contains many features today regarded as essential for safeguarding the interests of consumers in instalment sales. It eliminates oppressive contractual provisions by introducing statutory forms of agreement; it protects the buyer's equity in the goods; and licensing provisions ensure that the statute is observed.

Seizure of Other Goods (Alberta and Saskatchewan)

In 1914 Alberta moved to regulate the extra-judicial seizure of goods, including goods repossessed under a conditional sales agreement. Seizure was to be by a sheriff or one authorized by him, and a judge's order was required for the sale. The provisions were completely revised in 1929. Very important from the buyer's point of view is the power of the court "to suspend any order of sale pending payment of the debt by such instalments or the performance of such other conditions as the court may determine."

Under this legislation a seller must notify the buyer beforehand of an intended sale. If the buyer informs the sheriff in writing that the value of the goods exceeds the amount of the seller's claim, they may not be sold without the sheriff's consent. Finally, after the sale, the seller must file with the sheriff a statutory declaration of particulars, and pay over any surplus. A 1942 amendment requires the seller to elect between suing for the balance of the purchase price and repossessing.

Saskatchewan moved in 1933 to strengthen the buyer's position. This was in response to a recommendation by a Select Committee of the Saskatchewan Legislature in 1932. Moreover, in 1939 and 1940 amendments were introduced concerning implied warranties and conditions and "empowering the court, on the buyer's application, to stay any intended repossession by the seller, on specified items... mainly those which a farmer would regard as indispensable for his operations."

In both Alberta and Saskatchewan the hurdles for the seller have been challenged as infringing on federal jurisdiction over banking and bills of exchange, but without success.

More Direct Control of Finance Companies and Retailers (Nova Scotia)

In 1938 Nova Scotia introduced a licensing statute, The Instalment Payment Contracts Act. It is not a strong statute, and we learned that "no licenses have been refused, cancelled or suspended since 1950." (The Saskatchewan

Companies Inspection and Licensing Act, 1937, also provides for licensing of sales finance companies, but the primary concern there appears to be with their solvency.)

Consumer Credit Controls

(Federal Government, Quebec and New Brunswick)

Consumer credit controls were set up for the first time by the Canadian Government under the War Measures Act. During World War II the Wartime Prices and Trade Board was given jurisdiction over consumer credit and instalment buying. A minimum cash payment (about one-third) was fixed, as well as a maximum period for repayment (6 to 15 months depending on the type of article to be financed). Other policies worked with these controls to cause virtual disappearance of the passenger car for civilian use. The regulations were eased in 1946, revoked in 1947.

The second experience with Canada-wide controls came in 1950-52 under the Consumer Credit (Temporary Provisions) Act. There was concern then about inflation due to the Korean war. In 1951 the minimum down-payment on cars was 50 per cent, and maximum repayment period 12 months. During that year consumer credit actually declined. Since May, 1952 there has been no direct control of consumer credit throughout Canada.

In 1956 the Government was again seriously disturbed about inflation. At that time officials of the Bank of Canada met with representatives of instalment finance companies to try to get agreement on voluntary control of consumer credit, but the companies were not persuaded.

It should be mentioned here that in 1947, the year that the wartime regulations were abandoned, Quebec passed the Instalment Sales Act, apparently intended to continue control of instalment sales in the interests of consumers of modest means, a move that was said to have the full support of the Quebec business community. Generally speaking, the Act applies only to retail sales up to $800; a wide range of goods, including motor cars, is excluded. But within these limits, the legislation is more comprehensive than that of either Saskatchewan or Alberta.

The Quebec legislation fixes a minimum down-payment of 15 per cent and a sliding scale of maximum maturity periods. Payments must be of equal amounts with the exception of a smaller one at the end, and the buyer has the right of prepayment. The maximum finance charge is three-quarters of 1 per cent per month. There is provision for compulsory disclosure of the regular cash price, the time price, the down payment, and the instalments. A statutory form of written contract is laid down.

New Brunswick followed the Quebec precedent in 1949. The New Brunswick Act also called for a 15 per cent down-payment and the maximum maturity period was 24 months. Motor cars were not excluded. These restrictions were difficult to administer, and in 1959 the Act was repealed.

Disclosure

In 1954 Alberta passed the Credit and Loan Agreements Act with disclosure provisions similar to those already described in the Quebec Instalment Sales Act of 1947. The Alberta Act allows for disclosure of either a rate per cent per annum or the cost in dollars. A bill introduced in Manitoba in 1962 requiring statement of finance charges on time sales in simple annual interest rates never became law, and it was amended to substitute disclosure in dollars. A Nova Scotia Act which grew out of recommendations of the Royal Commission on the Cost of Borrowing Money, the Cost of Credit and Related Matters, requires disclosure of finance charges as simple annual interest rates. It became effective early in 1967. Last year the government of Ontario introduced a Consumers Act which among other provisions includes a disclosure requirement both as to amount and interest. Furthermore, the government indicated that credit grantors would be given a year in which to prepare for the inevitable.

Since 1960 a stream-lined disclosure bill which would require every finance charge to be stated in terms of effective rate of interest on the unpaid balance of the cash price, has been repeatedly introduced in the Senate. Debates on the bill have attracted wide attention and growing support, and they have helped to create the current public demand for more protection. The principle has been embodied in several bills introduced in the House of Commons in recent years.

Official recognition of current thinking was indicated in a statement issued after a federal-provincial conference on consumer credit held in Ottawa in December 1966. The meeting felt that "it is both desirable and feasible to extend interest rate disclosure on a uniform basis to personal instalment loan transactions throughout Canada affecting banks, retailers and sales-finance companies and others." The Minister of Finance noted that an amendment to the Bank Act requiring disclosure of bank interest rates would be introduced early in 1967. This assurance from Ottawa along with interest-rate disclosure legislation in varying stages in four provinces, and the other six provinces generally interested in following suit, means that the outlook for Canadians in need of a loan being able to shop for the best credit buy has never been brighter.

V REPRESENTATIONS AND BRIEFS

Carefully prepared briefs, further illuminated by able spokesmen, were a great help to the Committee in studying this complicated and many-faceted subject. Those in the business of lending money as well as retail merchants who sell consumer goods on credit, were represented by their respective associations. All these delegations included key men responsible for administration in some area of consumer credit. The Canadian Chamber of Commerce put before us views which the Federated Council of Sales Finance Companies said accurately reflect the position of Canadian business on this subject. Several other briefs, including one from the Retail Merchants Association of Canada, quoted with approval representations of the Canadian Chamber of Commerce.

A number of delegations spoke for the interests of all, or segments of, the borrowing public: the Consumers' Association of Canada for consumers as a group; the Confederation of National Trade Unions mainly for the working man; the Canadian Federation of Agriculture particularly for the farmer as consumer; the Family Bureau of Winnipeg with special emphasis on problems of low-income families.

Delegations from the credit union movement dealt with the needs of the small borrower, the solution of whose problems they pioneered around the turn of the century. They also enlightened us about their efforts to educate the public ("basically advertising") and their program of "family financial counselling..."

Then we heard from experts who are involved neither as lenders nor borrowers, but whose special knowledge was acquired either in an academic or an administrative role, or both. Submissions of those who appeared purely in their professional or technical capacity are summarized below. Experts who represented government agencies made equally valuable contributions which are reflected throughout the report and acknowledged in the foreword.

Business

The Executive Council of the Canadian Chamber of Commerce, spokesman for 850 Boards of Trade and Chambers of Commerce throughout Canada, 2,700 corporation members and 25 association members, set out the over-all point of view of business. The focus of the Chamber's brief was on purchase credit rather than loan credit, and two members of their delegation also appeared before us when we heard representations from organizations which spoke more particularly for businesses engaged in large-scale retail operations, and finance companies which buy conditional sales agreements.

It was pointed out that of the total consumer credit outstanding at the close of 1963, roughly 60 per cent was in loan credit, chiefly held by chartered banks, loan companies and credit unions. Excluding the $54 million owing to oil companies through the use of credit cards, the remaining 38 per cent—

more than $2 billion—was "purchase credit", i.e. credit created by way of sales by retail merchants. Nearly half of this purchase credit was assigned by the retailer to sales finance companies.

We were told that purchase credit would be "most directly affected by any legislation calling for interest rate form of disclosure," and the position was taken that "since the cost of credit is effectively the difference between the cash sale price and the time sale price it may be contended that it is unreasonable to ask that this mark-up be expressed in terms of an annual rate per year." The Chamber would rely on competition, which they say keeps cash prices in line, to do the same for the price of credit.

It is argued that "conversion of credit charges to interest per annum and the stating of same in a contract at the time of sale (1) is not practical in the case of all credit transactions; (2) that such legislation would seriously affect sales; (3) that the results would involve increased costs; (4) that such practice would tend to obscure rather than clarify credit costs and (5) that the requirement would impose a problem on all retailers but would particularly work a hardship on small merchants." The Chamber therefore supports disclosure of the dollar amount of finance charges, which they say the purchaser can readily compare with the cash price of goods or services so as to determine what he is paying for credit.

MONEY-LENDERS

The two important associations of money-lenders whose strong delegations appeared before us represent, in the main, different segments of the business.

The Canadian Consumer Loan Association formed in 1944, speaks for 54 companies, all licensed under the Small Loans Act. At the end of 1964 they carried 95 per cent of the outstanding balances of loans regulated under the Act. An important feature that distinguishes members of this group from those making up the Federated Council of Sales Finance Companies is that regulated loans—the major part of their business—are made directly by lender to borrower with no dealer intermediary. We were informed that like the credit unions, and unlike the banks, they lend mainly to lower income people, those who seldom have readily marketable assets which can be pledged as security. The small loans companies find it necessary to carry out a good deal of investigation before making loans. For this purpose they operate Lenders' Exchanges. Unlike the loans made by sales finance companies, which are generally for goods or services acquired now for future use, a high proportion of loans made by licensees under the Small Loans Act go into consolidation of debts or refinancing.

Small loans companies also transact business beyond that regulated under the Small Loans Act. Although they agree that regulation of small loans is in the public interest, they are opposed to the recommendation of the Royal Commission on Banking and Finance and others that the scope of that act be extended to cover loans up to $5,000. The argument is that those borrowing above the present ceiling of $1,500 are, in the main, people with higher incomes, to whom a choice of several kinds of credit, some at much lower rates, is now open.

The Federated Council of Sales Finance Companies, set up in 1957, represents 48 companies whose "primary function is to provide wholesale and retail financing for a wide range of durable consumer and business goods." These companies, generally known as acceptance companies, are not parties to the original transaction of a retail sale, but many of the basic terms of the contract are determined by the sales finance company. Their interest in maintenance of a high level of sales is obvious, and in certain respects it is identical with that of the retail dealer. More than 90 per cent of all new cars sold to dealers in Canada are financed by these companies, and this represents a very large part of their business. Other important segments are appliances, furniture and other major durables. In 1964 finance companies accounted for approximately 70 per cent of sales finance credit to consumers, and 90 per cent of instalment credit to business. Together, they held about one-sixth of the total consumer credit outstanding at the end of 1964.

The finance companies expressed the view that "the single most important public policy issue surrounding the field of consumer credit is the manner in which the finance charge is disclosed to the consumer." They maintain that the present method of expressing the cost in dollars and cents is "the most meaningful disclosure of finance charges, from the consumer's standpoint." Armed with this information, they say, the consumer can make "an intelligent and reasonable choice, not only between a purchase on a cash or credit basis, but also among the various competing sources of credit which are available to him." They firmly oppose the idea of requiring disclosure of an annual interest rate or charge for credit. It is argued that to focus attention on the interest rate "may confuse the consumer and provide opportunities for exploitation by some unscrupulous retailers." The finance companies take the stand that, "Legislation enforcing interest rate disclosure would be a disservice to the Canadian consumer."

Their answer to those who believe that use of consumer credit may be excessive, is education in the proper use of credit. This they consider to be one of their own important functions, a function which they are trying to fulfil by co-operation with "high schools, universities, newspapers, radio, television and Better Business Bureaus throughout the country."

Retail Dealers

Like the associations representing the money-lending business, each of the two organizations of retailers is made up of members with more or less a community of special interests. Consequently, their points of view do not always coincide. Nevertheless, they have a common interest—shared, as mentioned above, with the finance companies—in maintaining the high and increasing volume of retail sales, a growing proportion of which are credit sales. Both associations of retailers affirm that they believe in full disclosure to the consumer of what they consider to be the information best suited to enable him to make his own choice of credit purchase.

The Retail Merchants Association is more than 60 years old. It was founded in 1896 and incorporated by Special Act of Parliament in 1910. It has some 20,000 paid-up members, including operators of small, medium and large retail establishments, but small businesses predominate. The Association is organized from the municipal level through provincial associations in all provinces but

Newfoundland. It considers itself "official spokesman for independent retailing in this country", and in spite of the trend towards large-scale store operations, they say there is a growing demand for highly specialized shops with considerable service. Independent stores still dominate in number of establishments and they account for approximately 70 per cent of the total volume of retail trade.

The Retail Council of Canada, formed in June 1963, speaks for the main big department stores and retail stores which account for some 30 per cent of the retail store trade.

The Retail Merchants Association takes the position that "full disclosure of the cost of credit should be made to each purchaser at the time the sale is consummated and the credit contract is signed." It should be "meaningful to the consumer and manageable to the retailer." They oppose "any regulation which would require 'disclosure' in the form of an effective rate of simple interest." They believe this would be "impractical, if not impossible" in their business. The Retail Merchants Association submits that a regulation of this kind "would serve only as an impediment to the ease with which consumer credit is presently granted." Their conclusion is that declaration of an effective rate of simple interest "may have consequences which would impede the economy of Canada." Instead, they advocate disclosure in dollars and cents, arguing that "the declaration of simple interest in a retail credit transaction might well be an open invitation to the minority to engage in unscrupulous practices and to exercise deception on the consumer by various forms of manipulation and misrepresentation."

Perhaps the main area of disagreement in policy between the Retail Merchants Association and the Retail Council of Canada concerns the question whether or not, if regulations do require disclosure of annual interest rates, special exemptions should be allowed for revolving or cyclical accounts. These accounts are used to a limited extent by the smaller merchants, but they are an important and a growing part of the business of big department stores. In this type of account the cost of the credit is generally not made known to the purchaser until some time after the purchase is made.

The stand taken by the Retail Merchants Association is that to give special privileges to this type of account while requiring declaration of the effective rate of simple interest on other credit accounts would discriminate against small retailers. They argue that the same regulations should apply to all. "The independent retailer", they say, "is not in a position to dictate to his customers that all forms of credit will be in the shape of revolving or cyclical accounts."

The Retail Council of Canada admits that, "One of the most important circumstances affecting a contract for the loan of money or the financing of a purchase is the charge being made for the money lent." But they do not believe "that any accurate conversion of a money charge to a simple annual interest rate can be made in respect of the type of credit accounts which comprise the major part of the credit granted by our members." These are the cyclical or revolving accounts which are so hard to understand, and about which we heard so much.

CONSUMERS

The Consumers' Association of Canada views consumer credit as a service with a price that can and should be shopped for carefully. They take the position that "in our competitive system free choice must go hand in hand with

knowledge." To make free choice possible, they rely on truthful disclosure by the lender and education of the borrower. If the consumer knows the cost of borrowing, both in money and in terms of simple annual interest, they believe he will be able to make intelligent use of credit. They therefore want "legislation making full disclosure of financial charges expressed in terms of simple annual interest obligatory on all credit contracts..." They would have "the Government of Canada control the manner of calculations and degree of accuracy in computing the financial charges and calculating the cost in terms of simple annual interest."

Further, the Consumers' Association of Canada "request the Federal and Provincial Governments to enact legislation making provision for a 'cooling-off' period of three days" in the case of door-to-door sales. As to revolving credit, they commend the system used by The T. Eaton Co. in Montreal where, "There is a service charge of 1½ per cent per month calculated on the previous month's balance."

The Association supports the recommendation of the Royal Commission on Banking and Finance that power to regulate loans under the Small Loans Act be extended to cover loans up to $5,000.

The Confederation of National Trade Unions with a combined membership of all affiliates numbering some 150,000 at the beginning of 1965, spoke from the experience of its members. They stated their conviction that "...credit buying is a social evil." They say it "creates the illusion that the majority can readily obtain goods they cannot acquire otherwise under the present economic system." The low salaries of many make this unrealistic; the high cost of interest further erodes their already precarious standard of living.

So convinced is the union of the need to protect families with low incomes, that their inclination would be to recommend abolition of the consumer credit system altogether. However, before suggesting such a radical step they say a good deal might be done to eliminate abuses and give the consumer more protection.

It is pointed out that, "Finance companies borrow at a low rate of interest and lend this same money at exorbitant rates." Misleading advertising and unnecessarily obscure contracts make it difficult for the borrower to find out what obligation he is assuming. It is argued that merchants and finance companies, interested in "profits beyond the sale profit" co-operate to bring this about. The high cost of "the multiplication of middlemen and agencies" is paid indirectly by the consumer.

The union has taken practical steps to educate its own members, and has offered the same help to the general population. Many working people have taken advantage of this. The union has organized a "family budget service" to protect the workers' limited purchasing power by (1) making clear to him the cost of credit, and (2) bringing about a better way of administering the family budget.

They feel that to make their work more effective, what is needed is better protection from the law. They say that the power over consumer credit is now in the hands of the financiers; that it should be reorganized in the interests of preserving the purchasing power and standard of living of consumers, and in the interests of the economy.

The Confederation of National Trade Unions agrees with the recommendation of the Royal Commission on Banking and Finance that the scope of the

Small Loans Act should be extended to cover loans up to $5,000. They would fix a maximum legal interest rate of 9 per cent.

Specifically, the Confederation of National Trade Unions recommends:

1. That "the vendor be obliged to clearly indicate in a sales contract":
   (1) the cost of the product,
   (2) the difference between the cash price and the price on the instalment plan,
   (3) the rate and the cost of interest.

2. That legislators should declare illegal a provision commonly used in contracts for the sale of cars which has been declared by the courts to be "unfair and abusive" although it is "neither illegal nor contrary to public order." They say that, "Since the debtor remains liable for the final balance even after repossession and repair costs of the car, the charge is often greater than the value of the vehicle. In default of payment, the debtor remains liable for the repairs to be made by the garage, the balance of his account and the contract of the second purchaser." If provisions of this kind were outlawed, car dealers would be obliged to check more carefully the ability of the purchaser to repay the obligations he assumes.

The principal recommendations of the Confederation of National Trade Unions are summarized in their own words as follows:

"1. The appointment of a commission to investigate interest rates, particularly with regard to the influence of such rates with respect to the purchasing power and living standards of the consumers.

2. That, in the interim, the rate of interest be set at a maximum of 9 per cent per annum, on a decreasing basis.

3. That adequate measures be provided to enforce the revelation of interest rates, real cost and administrative costs of loans and credit purchases."

The Canadian Federation of Agriculture, "a national general farm organization widely representative of farm people" supports the recommendation of the Royal Commission on Banking and Finance as to the need to continue effective control through the Small Loans Act on interest charged by loan companies. They agree that regulation of interest rates should be extended at least to loans up to $5,000. The Federation questions the direction of policy which would move "away from controls, limitations and guarantees on interest rates."

They are not convinced of the need to raise the ½ per cent provision, since they say the interest rate actually works out as somewhere between 12 and 24 per cent per annum. They note that the three considerations in money lending are:

1. the cost of the money to the loan company,
2. the cost of administration, and
3. the cost of losses for bad debts and collection from poor payers.

On loans over $2,000, they believe 12 per cent per annum "is more than should be charged." If a company is lending to high-risk borrowers who raise the costs to unreasonable levels, perhaps these people should be refused loans.

The Federation "recognizes that buying on credit has become a well established practice in the Canadian economy, and that there are legitimate interest charges and other costs associated with providing the financing of purchases on credit." Nevertheless, "it thinks consumers have a right to know in advance...the real level of finance charges involved, expressed in both dollar amounts and simple annual interest rates", and "that consumers are also entitled to reasonable protection from excessive charges and exploitation at the hands of those providing credit services." They add that "without adequate finance charges disclosure legislation, consumers generally are unable to protect their own interests."

The Canadian Federation of Agriculture calls on the Government:

1. "to pass finance charges disclosure legislation" applicable to "farm machinery and supply credit transactions with farmers as well as to consumer credit as more narrowly defined."

2. "to limit interest rates charged by finance companies to reasonable levels."

Specific suggestions are made for implementation of the legislation:

1. The responsibility should be given to "an appropriate department of government."

2. The administration would issue "an official standard form for finance disclosure purposes" designed to elicit clear and simple information. The form "would be required to be used and attached as one of the documents in every transaction involving consumer credit."

3. The administration would issue interest rate and finance charge books to save finance companies, retail stores and dealers from the need to make complex calculations.

4. The Act should contain a provision that "the price of the article must be that at which cash transactions are normally carried out."

The brief presented on behalf of the Family Bureau of Greater Winnipeg, a social agency financed by the Community Chest, provided us with an insight into the serious human consequences that can result from over-extension of credit. At the same time as they express concern about "consumer credit and debt collection", they recognize the important part that consumer credit plays in the economy. The brief points out that the federal government, "in the public interest" controls currency, and to some extent banking. Consumer credit has developed into "a third purchasing system" which requires government attention.

Although the agency welcomes provincial legislation to provide relief from unconscionable transactions, they emphasize that what is needed is protection "at the time transactions are being made." Families are sometimes forced to skimp on necessities of life to meet payments on agreements which would never have been made had they been understood.

But dealings that cause difficulties to pile up are not always unethical. Social agencies are concerned about credit issued in situations "where the

ability to pay does not exist." They "sharply question" the assumption that in order to protect his own interests the creditor can be relied on to exercise the necessary caution. The creditor is not necessarily the chief loser when payments fall behind. Concern is needed for the debtor, for his family, and for the community at large. The tensions built up in harassed individuals and families "frequently contribute to family breakdown, mental illness, crime, and economic dependency."

Illustrations were provided of how situations arise for which there is no foreseeable solution even though lenders act "according to routine business practices, and the borrowers, without dishonest intent although without realistic thinking..." The submission is that, "The widespread existence of situations like these demonstrates that our present system of relying solely on the caution of the creditor does not provide adequate control."

The Family Bureau of Greater Winnipeg urges that legislation along the lines of the Orderly Payment of Debts Act (which was so helpful to low-income families in Manitoba until 1961 when it was declared to be bankruptcy legislation and therefore outside provincial jurisdiction) be enacted by amendment to the federal Bankruptcy Act. (See discussion of recent amendments, p. 2838). The agency would also like to see provincial legislation to exempt from garnishment or seizure "basic necessities" related to size of family; also "protections to the purchaser's equity on repossession of goods." Following is a summary of specific recommendations made.

1. That the total interest and other charges be stated as a simple annual percentage in both loans and conditional sales contracts.

They would amend the Interest Act "to include in the definition 'interest' all the costs of the loan on lien notes, conditional sale contracts and chattel mortgages"; bring conditional sales and lien notes within the Small Loans Act which, in its definition of "loan" includes all the costs of the loan.

2. That a waiting period be established in respect of conditional sale contracts and lien notes. This would be a three to five-day cooling-off period.

3. That there be protection from excessive charges on small loans, including conditional sale contracts.

The Family Bureau of Greater Winnipeg supports the Consumers' Association of Canada in recommending that the Small Loans Act should apply to loans up to $5,000. They would add "conditional sale contracts, lien notes and chattel mortgages."

4. That a minimum down-payment be required in all conditional sale or lien notes.

5. That steps be taken to investigate the practice of selling conditional sale contracts or lien notes in bulk to collection agencies and finance companies, with a view to establishing some controls in this area of business practice.

It is suggested that the assignee of a lien note or conditional sale contract should take it "subject to the equities between the original purchaser and vendor."

6. That the Parliament of Canada should take immediate steps to amend the Federal Bankruptcy Act to provide enabling legislation under which a scheme of orderly payment of debts could be established by the provinces. (See p. 2838.)

Credit Unions

The Ontario Credit Union League Ltd., incorporated under provincial charter in 1942, made its submission "both on its own behalf and on behalf of the 1,425 credit unions in Ontario", members of the League. The League in turn is a member of the Credit Union National Association which also appeared before us.

The Committee was told that it is the practice of credit unions to make full disclosure to members of the cost of their loans, both in dollars and percentage-wise, and we were given a simple formula for doing this. The belief was expressed that "... similar disclosure of dollar cost and percentage charge can be made by other lenders", and it was strongly recommended that all consumer credit lenders should be required to state in all contracts and all advertising and publicity:

1. the *full* dollar cost of credit (including all charges);
2. the percentage rate of *all* charges expressed in a uniform way.

The League endorses the recommendation of the Royal Commission on Banking and Finance that regulation of small loans be extended to amounts up to $5,000, with the present 2 per cent per month maximum applying on the first $300, and 1 per cent per month maximum on all higher amounts.

The brief of the Credit Union National Association points out that the reason why it is necessary to disclose to the borrower "the total cost of the loan expressed both in dollars and cents and in terms of per centum per annum" are:

1. so the borrower will fully understand the obligation he is undertaking; and
2. so that he will be able to compare the cost of the loan with any other loan he might be able to secure.

Approval is expressed of provincial legislation such as the Ontario Unconscionable Transactions Relief Act, but it is emphasized that "there is also a desperate need for disclosure legislation to prevent the innocent or the ignorant user of credit from signing such a contract in the first place."

Specific recommendations are these:

"(*a*) that extenders of every kind of credit be required to disclose in writing to prospective borrowers both the total cost in dollars of the credit to be extended and the rate in terms of simple annual interest;

(*b*) that all advertising by credit extenders give full details of the total costs in dollars and in terms of per centum per annum;

(*c*) that victims of unconscionable transactions be granted redress by the courts, and those who have exacted the unjust terms be penalized under the law."

They also advocate continuing education of the consumer in the better handling of his finances.

La Federation des Caisses Populaires Desjardins, in addition to describing the origin of their movement, which is discussed elsewhere, provide examples of the way in which they clearly set out payment conditions of loans, leaving the borrower in no doubt about the interest rate per annum, and illustrating how the rate is calculated on the gradually decreasing debt. For instance, the total interest paid on a loan of $100 for one year at 6 per cent, repaid over 12 months at the rate of $8.34 a month, is $3.30. (The part of the payment going to interest gradually drops from 50 cents the first month to 5 cents for the final month.)

The Committee was informed that the difference between the annual interest rate on mortgages and the charge made for personal loans is about 1 per cent. The equivalent of this 1 per cent reduction for mortgage loans is also given for personal loans "secured by shares, savings, or readily negotiable bonds."

La Federation des Caisses Populaires Desjardins urges the need for legislation:

"(*a*) to determine a reasonable limit to the cost of consumer credit and to eliminate usury;

(*b*) to oblige creditors and merchants to reveal the *real cost of credit* in terms of simple annual interest rate expressed in percentage form, so that the consumers may compare the costs of loans and credit terms offered and know the obligation they undertake;

(*c*) to force creditors and retailers to tell the truth as to the rate of charges when they advertise;

(*d*) to foresee the cancellation of those contracts which are not complying with this legislation;

(*e*) to oblige the lenders of money who presently come under the jurisdiction of the Small Loans Act to report to the Federal Superintendent of the Assurances on all their loans not exceeding five thousand dollars ($5,000);

(*f*) to oblige consumer goods retailers to demand from the consumer a money down payment equal to 20 per cent of the regular price of the merchandise offered, at the time of purchase, and to prevent them from charging interests and other finance costs exceeding 1 per cent per month or 12 per cent per year, and to establish interests and other financial charges on the unpaid balance of credit according to the simple annual interest method."

The Experts

In addition to the many experts who represented particular institutions or were part of delegations speaking for various groups, independent experts gave us the benefit of their technical knowledge, gained in the academic and practical worlds. Mr. Douglas D. Irwin, C.A., Financial Consultant to the Ontario Select Committee on Consumer Credit, and Dr. Jacob S. Ziegel, Professor of Law at the University of Saskatchewan and author of authoritative publications on consumer credit, prepared written submissions which are summarized below.

Mr. Irwin emphasized that pure interest rarely exists, but nevertheless the term is in common use. He suggested that the term "interest" might be

avoided and discussion could be simply in terms of "the cost of money". However, a committee member expressed apprehension that to do this could further confuse the constitutional issue.

A summary of Mr. Irwin's expert opinion follows:

"1. It is mathematically possible to determine a rate % on all loan situations by use of:

—actuarial methods

—arithmetic methods

2. Practically, it would be an intolerable administrative burden to use the above methods from first principles to determine rates on individual contracts, but rates may be readily determined for an individual contract by development of tables of universal application to all contracts of a specific lending classification (with the exception of cycle credit accounts which are subject to special circumstances).

3. Disclosure requirements should be of universal application and the basic methods of calculating rates should be determined for each classification of loan contract.

4. Use of tables would not appear to add a significant administrative burden insofar as tables are presently used, extensively, to determine finance charges.

However, practical considerations suggest that the tables should permit a measure of tolerance when applied to a particular contract. A degree of accuracy of one-eighth of 1% has been suggested but this could be further refined.

5. A common language of expression and common criteria of measurement could be sought so that rates would be comparable. Pursuant thereto it would appear necessary that all elements of the cost of borrowing in all contracts must be included in the calculations.

In the case of blended payment contracts all payments should be nearly equal (say within a variation of 10% from the average).

6. Cycle credit accounts may have to be considered separately. If the buyer (borrower) retains the initiative the lender may have to be permitted some tolerance in regard to disclosure of the effective rate applicable from day to day. Compliance with rate disclosure might be confined to declaration and imposition of a monthly and/or annual rate % on the current balance or average balance.

7. Disclosure of rate % may be in addition to, not in substitution for, disclosure in dollars thereby providing for common language and measurement without disturbing possible borrower preferences."

Dr. Ziegel's brief contributed a good deal of the historical and background information used and acknowledged elsewhere in this report.

He points out that two American economists, Nugent and Henderson, predicted more than 30 years ago that, "As in the small loans field, society will probably begin by restricting the use of certain credit instruments and end by finding complete supervision necessary." A survey of the situation today "shows that their prophecy was substantially correct, not only for the United States, but also for other countries." Generally speaking, the initial concern is to protect the buyer's or hirer's equity. Then comes prohibition or regulation of unfair contractual clauses, especially those relating to warranties and condi-

tions. "In the third—generally post-war—stage there is a belated realization of the importance of regulating the financial terms of the agreement. Hence disclosure requirements and hence the limitation of finance charges of various kinds and the statutory regulation of the buyer's right to rebate in case of prepayment."

Dr. Ziegel says "the social importance of some form of regulation can hardly be denied." And he concludes with this statement:

> "In the twentieth century, the century of the common man, the common man, paradoxically, has been at a disadvantage because of the powerful forces arraigned against him in the market place and his own excusable ignorance of legal and economic facts...."

In a supplementary brief dealing with the constitutional aspects of consumer credit regulation Dr. Ziegel listed sections of the British North America Act which in his opinion confer specific powers to legislate concerning consumer credit. They are:

Federal government: Section 91,

(15) Banks and banking
(18) Bills of exchange and promissory notes
(19) Interest
(21) Bankruptcy and insolvency
(27) Criminal law

Provincial governments: Section 92,

(13) Property and civil rights

91 (15) He considers that this section would cover "all aspects of consumer loans made by the chartered banks." He would have the position of the banks clarified, permitting them to charge more than 6 per cent, but requiring that actual, all-inclusive charges be stated in one rate. He would lay down regulations concerning advertising, and proclaim the right of the consumer to prepay a loan and save on interest payments, something that the banks now permit as a courtesy.

91 (18) He would make it impossible to deprive a consumer who is being sued on a note, of the right to raise defences which could be raised against the original seller. The businessman already has this kind of protection.

91 (19) He supports the principle of a disclosure law "which would require the finance charge component in every consumer credit transaction to be stated both in terms of dollars and cents and in terms of a percentage rate on the declining balance of the principal." He adds his support to the recommendation of the Royal Commission on Banking and Finance that the limit of the Small Loans Act be raised from $1,500 to $5,000, and that the rate structure be reviewed. He would extend the Act to cover "all other consumer credit transactions involving a sum not exceeding $5,000."

The supplementary brief discusses the need to clarify the extent of the federal government's power to legislate concerning interest and matters incidental thereto, but be that as it may, Dr. Ziegel points out that "if the federal government has no power to regulate finance charges under this head, then the provincial governments do have it."

91 (21) "Provincial legislation frequently authorizes a county or district court judge to order the payment of a judgment debt by instalments." However, it has been held that legislation to permit consolidation of debts is beyond

provincial jurisdiction. It rests with the federal government, because it deals with bankruptcy and insolvency, a subject within the exclusive jurisdiction of the federal government. Dr. Ziegel urges the federal government to exercise this power so that consumers who over-extend their financial resources can make plans "to rehabilitate themselves expeditiously and with minimum expense." (See p. 2838).

91 (27) Under the wide powers of the federal government to legislate concerning the criminal law Dr. Ziegel suggests that,

(*a*) certain types of undesirable activities which do not fall under other headings of section 91 could be prohibited (e.g. prohibition of "cut-off" clauses and wage agreements).

(*b*) criminal law power could be an alternative for legislation that may fall under one of the other headings in section 91, e.g.

1. Prohibition of usurious finance charges in instalment sales and service agreements, and
2. Disclosure law.

But whether or not this use of the criminal law powers would stand up in the courts he felt remained to be seen. Dr. Ziegel summarized his views as follows:

"1. There appears to be little doubt that, by virtue of its powers over banks and banking, the federal government has plenary powers to regulate all aspects of consumer credit loans extended by the chartered banks.

2. It seems equally clear that the federal government has the constitutional power—if not indeed the exclusive power—to curb abuses connected with the taking and negotiation of promissory notes. It is submitted that it also has a concurrent power to prohibit the insertion of 'cut-off' clauses in consumer credit agreements.

3. It is submitted that the *Barfried* case [discussed at length in the proceedings] does not impugn the validity of the federal Small Loans Act and future legislation of a similar character, and that a disclosure law would fall within the 'interest' power of the federal government, at any rate where that law is restricted to the disclosure of the cost of loans.

4. Whether the federal Interest power also extends to the regulation and disclosure of finance charges in instalment sales is a moot point, in view of the 'time-price' doctrine. The prohibition of usurious finance charges could, however, probably be justified under the criminal law power, though the justification of a disclosure law under this head would present substantial difficulties.

5. Finally, there is little doubt that the federal government has jurisdiction under its bankruptcy and insolvency powers to adopt legislation to provide relief for consumers who are overburdened with debts."

Mr. Dan McCormack is included with the independent experts because of his experience of more than two decades as sales manager for one of the largest independent sales finance companies in Canada. No longer in that business, he has, in his own words, "no axe to grind", but his intimate knowledge of "captive sales agencies and captive sales financing"—an area hardly touched on by others—was most helpful to the Committee.

Mr. McCormack did not prepare a formal brief. He made his presentation in person and submitted to extensive questioning. His evidence dealt mainly with "denial of economic freedom to dealers" because of manufacturers dictating to them the "choice" of finance companies. However, he did admit to counsel for the Committee that dealers, in turn, whether independent or captive, sometimes exert pressure on customers to direct their "choice" of financing.

VI COMMITTEE'S FINDINGS

Recent Trends

In order to place in perspective changes that have occurred in recent years in the whole consumer credit picture, we have compared the figures provided by the Bank of Canada for the years 1953 and 1963. In that ten-year period, as Table 4 shows, all segments of the consumer credit business have expanded but the rate of growth has varied widely. The most striking change is due to the entry of the chartered banks into the small loans business on a large scale. Now the banks have displaced the retail dealers as the largest segment. Both instalment finance companies and life insurance companies are relatively less active in consumer lending than they were a decade ago, and the reasons for that are discussed elsewhere. Growth of consumer loan companies has been phenomenal. Credit unions and caisses populaires have practically doubled their share of the credit business, but they continue to represent a relatively small segment of the whole (12 per cent).

TABLE 4

Change in Composition of Consumer Credit Outstanding at Year End, 1953 and 1963

Credit Grantors	1953		1963		10-Year Increase	
	Millions of $	% Distribution	Millions of $	% Distribution	Millions of $	% Increase
Retail dealers	624	31.5	1,141	21.6	517	82.9
Instalment finance companies	516	26.0	873	16.5	357	69.2
Chartered banks	308	15.6	1,432	27.1	1,124	364.9
Life insurance companies	225	11.4	385	7.3	160	71.1
Consumer loan companies	176	8.9	808	15.3	632	359.1
Credit unions and caisses populaires	129	6.5	640	12.1	511	396.1
Quebec savings banks	3	0.2	14	0.3	11	366.6
All credit grantors	1,981	100.1	5,293	100.2	3,312	167.2

Source: Bank of Canada brief, proceedings, p. 112.

The fall of the retail dealers from first place occurred in spite of tremendous growth in department store credit sales. What has happened is that the weight of the retail credit business has shifted. At the same time as many retailers have been feeling the competition from other forms of credit, the big department stores, by moving into a system of accounting which is not readily adaptable to smaller firms, have been increasing their share of the credit business within the retailers' segment. (See Table 5.)

TABLE 5

CHANGE IN COMPOSITION OF CREDIT ON RETAIL SALES OUTSTANDING AT YEAR END, 1953 AND 1963

Credit Grantors	1953		1963		10-Year Increase	
	Millions of $	% Distribution	Millions of $	% Distribution	Millions of $	% Increase
Department stores	167	14.6	456	22.6	289	173.1
Charge account credit (including oil company credit cards)	274	24.0	413	20.5	139	50.7
Instalment credit	183	16.1	272	13.5	89	48.6
At retail level	624	54.7	1,141	56.6	517	82.9
Instalment finance companies	516	45.3	873	43.3	357	69.2
All retail credit grantors	1,140	100.0	2,014	99.9	874	76.7

SOURCE: Bank of Canada brief, proceedings, p. 112.

This has no doubt been an important factor in the overall increase in their sales. Comparative data for department stores and for the other retail group in which credit granting is most common—the furniture, and appliance and radio dealers—are shown in Table 6.

TABLE 6

RETAIL SALES OF DEPARTMENT STORES AND OF FURNITURE, AND APPLIANCE AND RADIO DEALERS, CANADA, 1954 AND 1963

	1954	1963	9-Year Increase	
	Millions of $	Millions of $	Millions of $	%
Department Stores	1,062	1,649	587	55.3
Furniture, and Appliance and Radio Dealers	486	581	95	19.5

SOURCE: Supplementary brief, Retail Council of Canada, proceedings, pp. 706–7.

Next to the chartered banks, the greatest absolute increase in the 10 years ending with 1963, in consumer credit outstanding, is represented by the consumer loan companies. Although these companies continue to deal mainly in cash loans, it has been suggested that they are gradually moving into the purchase credit area. Table 7 gives some support to this theory, and it is a possibility that the Committee has kept in mind.

TABLE 7

CHANGE IN COMPOSITION OF BUSINESS OF CONSUMER LOAN COMPANIES, SHOWING OUTSTANDING CASH LOANS AND INSTALMENT CREDIT AT YEAR END, 1953 AND 1963

Nature of Credit	1953		1963		10-Year Increase	
	Millions of $	% Distribution	Millions of $	% Distribution	Millions of $	% Increase
Cash loans	173	98.3	753	93.2	580	335.3
Instalment credit	3	1.7	55	6.8	52	1,733.2
All consumer credit	176	100.0	808	100.0	632	359.1

SOURCE: Bank of Canada brief, proceedings, p. 112.

SMALL LOANS

Throughout the hearings of this Committee no subject has come up more often than the Small Loans Act, and practically all the words spoken about it have been words of praise. We were told—and the hearings have left us in no doubt—that a book could be written about this Act alone.

The Small Loans Act came into effect in 1940 at a time when it was generally agreed that the situation with respect to small loans was deplorable, and that legislation was needed in the public interest to bring order out of chaos. The provinces were consulted before the Act was adopted. Although one or two of them expressed some reservation about its constitutional validity, none opposed it at that time, nor has any province done so since. There was naturally some opposition from money-lenders, but by and large, the Small Loans bill had the blessing of those whose business it was designed to regulate. And to this day, with regulations adapted to changing conditions, the Act has continued to enjoy the confidence of those in the business. In fact the Canadian Consumer Loan Association helps the Superintendent of Insurance in policing the small loans business generally.

Administrators of the legislation assure us that enforcement has presented no serious difficulties; the few occasions on which it has been necessary to apply legal sanctions have generally arisen out of misunderstanding rather than deliberate evasion of the Act.

We heard no suggestions that operation of the Small Loans Act should be in any way curtailed, but many have urged that protection of the small borrower be improved both by increasing the size of the loan to which the Act applies, and by broadening the definition of "loan" to include specifically purchase credit as well as loan credit.

The arguments in favour of broadening the scope of the Small Loans Act are: (1) that more than 25 years' experience demonstrates the value of its provisions, and it would be in the public interest to extend the jurisdiction exercised under the Act; (2) that since the Act came into effect the whole field of consumer credit has greatly expanded and changed in nature, and that the small loans business has been much affected by these changes.

The Act has served many small borrowers well. Although the upper limit was originally $500, since 1957 protection has been extended to those borrow-

ing up to $1,500. The Royal Commission on Banking and Finance has recommended that the upper limit should be further raised to include loans up to $5,000. This recommendation has been endorsed in briefs presented to us by the Consumers' Association of Canada, The Canadian Federation of Agriculture, the Family Bureau of Greater Winnipeg and others. It is opposed by the consumer loan companies, and Mr. MacGregor, with long experience in administering the Small Loans Act, feels that to move up to $5,000 might mean going beyond consumer finance into an intermediate area.

The other way in which we have been urged to recommend extension of the scope of the Small Loans Act is to ensure that it applies specifically to purchase credit as well as loan credit. Many types of credit transaction common today were not even contemplated a quarter of a century ago, and it is becoming increasingly difficult to say whether a transaction involves mainly the sale of goods or the lending of money. At the same time the evidence shows that the money-lending business has gradually moved away from the simple matter of supplying needy borrowers with small sums of money.

The small loans business continues to grow both in amount of money involved and in number of loans made. Loans regulated under the Act advanced in one year now total more than $800 million; the number of accounts is close to 1½ million, and the average loan is $570. As Table 8 shows, the size of the loan has been gradually increasing in recent years.

We learned from the report of the Royal Commission on Banking and Finance that "the administrative expenses of the consumer loan companies are the highest of any class of financial institution." The high expenses are associated with numerous small branch offices. "They have almost doubled in the seven years ending in 1961 until now there are a quarter as many consumer loan offices as there are chartered banks." In spite of these high costs, net profits after taxes are also high compared with other major institutions. For example, they are more than double those of the mortgage loan business.

TABLE 8

NUMBER OF SMALL LOANS MADE BY SIZE OF LOAN, 1962–1964

Size of Loan	Year					
	1962		1963		1964	
$	No.	%	No.	%	No.	%
1– 500	642,108	49.2	650,678	47.1	667,082	45.4
501–1,000	584,825	44.8	608,337	44.1	646,797	44.0
1,001–1,500	77,222	5.9	121,048	8.8	155,815	10.6
Total	1,304,155	99.9	1,380,063	100.0	1,469,694	100.0
Average size of loan	$537		$558		$570	

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

Refinancing and Consolidation of Debts

It has become a widespread pattern in recent years—evidently encouraged by money-lenders—for a person who requires a further loan before he has discharged his present indebtedness, to borrow more than enough to pay off

his debt or debts, receiving at the same time a certain amount of money for his immediate use. If the transaction is with the finance company to which he already owes money, this is called refinancing his loan. If the new and larger loan is taken to pay off various debts, some to other creditors, it is called consolidation of debts.

Both practices have the effect on the borrower of increasing his indebtedness and putting off, perhaps indefinitely, the happy day when he hopes to be in the clear. Furthermore, the cost of the loan, that is the interest and other charges which he must pay for the use of the money, is likely to snowball. Those who enter into arrangements of this kind are generally low-income families in desperate need of cash, the families least likely to be in a position to secure money at favourable rates, and probably also lacking in understanding of business transactions. With current emphasis on the need to protect the family as an institution, and evidence on all sides of the threat to family solidarity that results from unmanageable debt, this seems to be an area where more protection is needed.

Without suggesting that there is no legitimate place for refinancing and consolidation of debts, we would point out that it can open the door to abuse. The practice of refinancing is now so common that only about 35 per cent of the money debited to present debtors is actually paid to them in cash. Well over 60 per cent goes to refinance previous loans. (See Table 9.)

Spokesmen for a number of consumer loan companies recently told the Nova Scotia Royal Commission that "there will be as many as three refinancings after the first borrowing and that the average borrower will remain on their books continuously for about seven years." The Nova Scotia Commissioner remarked that "a very substantial proportion of the persons who borrow from the consumer loan companies remain more or less indefinitely on the books of these companies." Because these current debtors are the source of 74 per cent of all new business, the practice of refinancing makes a big impact on the over-all accounts. So great is the impact that 47 per cent of all small loans goes into refinancing, leaving little more than half to be paid to borrowers in cash. (See Table 10.)

How the cash advanced is shared by those already on the books of the lenders, new borrowers, and those who have discharged earlier loans is shown in Table 11.

TABLE 9

REGULATED SMALL LOANS ADVANCED TO CURRENT BORROWERS, 1962–1964

Description of Loans to Current Borrowers	Year					
	1962		1963		1964	
	$	%	$	%	$	%
For refinancing.....	336,231,421	64.8	370,839,738	65.3	396,307,112	64.3
New funds advanced.....	183,014,326	35.2	196,792,439	34.7	220,078,008	35.7
Total.....	519,245,537	100.0	567,632,177	100.0	616,385,120	100.0
Loans to current borrowers as percentage of all small loans.....	74		74		74	
All small loans.....	700,906,537		769,648,673		837,636,533	

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

TABLE 10

ALL REGULATED SMALL LOANS, SHOWING NEW FUNDS ADVANCED TO BORROWERS AND MONEY APPLIED ON DEBTS ALREADY INCURRED, 1962–1964

Destination of funds	Year		
	1962	1963	1964
	$	$	$
Advanced to borrowers	364,675,116	398,808,935	441,329,420
Refinancing	336,231,421	370,839,738	396,307,112
All small loans	700,906,537	769,648,673	837,636,533

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

TABLE 11

NEW FUNDS ADVANCED IN REGULATED SMALL LOANS BY CLASS OF BORROWER, 1962–1964

Type of Borrower	Year					
	1962		1963		1964	
	$	%	$	%	$	%
Current borrowers with earlier loans undischarged	183,014,326	50.2	196,792,439	49.3	220,078,008	49.9
New borrowers	128,117,933	35.1	143,444,483	36.0	157,414,766	35.7
Previous borrowers with earlier loans discharged	53,542,857	14.7	58,572,013	14.7	63,836,646	14.5
All new funds advanced	364,675,116	100.0	398,808,935	100.0	441,329,420	100.1

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

Summary

The present situation is, then, that those who are already in debt to the small loans companies or money-lenders—and more than half of the borrowers are in that position—actually receive in cash only 36 per cent of the small loans debited to their accounts. Furthermore, nearly half of all funds advanced in small loans go, not to the borrowers, but to their creditors.

Who some of these creditors are can be deduced from the statement in the report of the Royal Commission on Banking and Finance that many of the consumer loan companies are "subsidiaries or affiliates of sales finance companies or of foreign-owned consumer loan companies." At the end of 1961 "five American-owned companies had 57% of all business and three subsidiaries of Canadian finance companies a further 28%."

That consolidation of debts is a lucrative business is borne out by a statement of a representative of the Retail Merchants Association. "At the moment," he said, "even some of the smaller finance companies are trying to get in on this credit bandwagon. They are trying to get people to consolidate their

accounts, to borrow the money from them and pay cash. Many of those dealers in Canada now are refusing to take cash for goods contracted for on credit, because the credit is a good thing. They are in the finance business rather than in ordinary business."

In view of the fundamental changes in business methods as they affect transactions regulated by the Small Loans Act, the time appears to be ripe to re-think the definition of a small loan. Perhaps the whole purpose of the Act should be reviewed in the light of current practices in the credit business in the sixties.

The primary function of the small loans companies and money-lenders used to be to enable needy people to borrow small sums. Although they continue to be practically the sole source for desperate borrowers, the business of actually providing cash has become much less important to them as they have moved into other, and more lucrative areas.

It is not a simple matter to determine an appropriate scale of maximum rates for small loans. In Mr. MacGregor's words, "The proper objective would seem to be the level at which efficient lenders only may make a reasonable profit rather than a higher level that would attract the inefficient as well. Looked at from the borrower's standpoint, one must have regard for the desirability of ensuring adequate facilities, especially for needy borrowers of small amounts, and yet of securing the best procurable rate."

What facilities are now available to the little man who finds himself in need of a loan? Unless he is a member of a credit union he has little chance of borrowing at a low rate of interest. Of the three main sources open to him one, the finance company, does not deal directly with the consumer. If the money is needed to purchase goods he may be able to buy them on credit, in which case he may become indebted to the retail dealer or to a finance company if the agreement is sold. But if his need is for cash, there appears to be no alternative to borrowing from the small loans companies or money-lenders. The trouble with that is that if the man is already in debt—a most likely situation—the condition attached to receipt of money is likely to involve him in additional borrowing, putting off even further the day when he can hope to be out of debt.

Many customers of small loans companies and money-lenders are people who are unable to obtain credit elsewhere. Some have no doubt been turned down by the banks. The main reasons for this, as revealed in the Poapst sample survey for the Royal Commission on Banking and Finance, are likely to be that they lack security, guarantee or collateral (39.3%); tight money policy (24.7%); poor risk (9.8%); insufficient income (9.5%). Furthermore, we were informed that about 50 per cent of those who apply for small loans to the consumer lending companies or money-lenders are rejected.

Even after this selection process, 60 per cent of the borrowers from these companies earn $400 or less per month, and about 80 per cent earn $500 or less. Because sales finance companies are not regulated, comparable information is not available concerning the financial status of their debtors, but there is no absolute selection of risk such as operates in the banks and insurance companies, and consequently a considerable proportion of their dealings are with people of small means. Table 12 shows that these three institutions—small

loans companies and money-lenders; finance companies; and retail merchants —charge a much higher rate than do institutions which restrict their loans to the better off.

That is not to say that all borrowers from high-cost lenders are poor people, but individuals with substantial incomes and considerable assets are in a better bargaining position and are able to borrow at lower rates. Since choices are made only among actual alternatives, for the low-income groups the striking change in the decade 1953 to 1963 was the tremendous increase in involvement with consumer loan companies. Admittedly, retail dealers and finance companies both have more money outstanding, but their lending is not concentrated among the poor. The growing importance of the banks in consumer lending has had little effect on the business of the money-lender, since the banks restrict their lending to a higher income group. Part of the recent mushrooming of consumer credit—particularly bank loans—represents borrowing by what have been called unrationed borrowers. These are the people with other alternatives who borrow money only when rates are favourable.

Sales Finance Companies

Sometimes consumers wish to make substantial purchases which they are unable or unwilling to make out of savings. The balance may be financed by the retailer, or he may assign the conditional sale contract to a finance company. Companies of this kind, which grew up following World War I to finance automobile sales, continue to find their principal source of business in this area, but financing of household goods and of commercial and industrial items is also important to them. The role that these companies play in the consumer credit finance field has grown tremendously in the post-war years, and they are the largest single group of borrowers in the money market. But their developing power and influence have not been matched by increased accountability to the public. As the Royal Commission on Banking and Finance noted, they are the only major financial institutions unregulated by any act other than normal company legislation. They make no reports to responsible officials of the kind that form the basis of published data on consumer loan companies and money-lenders.

The finance companies insist that they are neither retail merchants nor money-lenders, but they describe themselves as "in the business of extending credit". Nevertheless, the larger companies have subsidiaries which are consumer loan companies. They also have affiliated insurance companies to provide that "service". And it is these large companies that control the lion's share of the business. Like the small loans business, sales financing is highly concentrated in a few companies.

Ten finance companies do about 90 per cent of the business covered by DBS statistics; the four largest account for about 80 per cent. Most of the others—there are some 150 in all—are quite small, many with only one office. At the close of 1965 Canadian consumers owed sales finance companies $1,140 million, and more than $900 million of this, roughly 80 per cent, was for the financing of passenger cars (including those sold for commercial as

well as personal use). Financing the sale of motor cars accounted for 78 per cent of the business done in December 1965.

Although the finance company is not an actual party to the original contract between buyer and seller, it certainly seems to be looking over the seller's shoulder. The finance company has usually determined in advance for both buyer and seller the financial terms of the deal, generally including the requirement that the purchaser sign a personal note, which will be assigned to the finance company along with the agreement for sale. The finance companies even provide retailers with a standard form on which agreements are made. Once the customer has signed on the dotted line his relation to the finance company is soon made clear. In the words of one of their representatives, "We deal with the consumer after the fact, because he makes his payments directly to our offices." Some sales finance companies buy these agreements subject to recourse against the merchant if the customer defaults. The customer has no such recourse against the finance company if the goods prove to be deficient. The President of the Federated Council of Sales Finance Companies referred to the purchaser as "the customer of the dealer and therefore, indirectly, our customer . . ."

Finance companies compete to have retail dealers bring them their contracts, and the competition is in the terms on which they offer to buy these agreements. An important inducement offered to the retailer to obtain these profitable contracts is the "wholesale" financing of their inventories at much below retail rates (around 6½ per cent on new cars, 7½ per cent on used cars, including the "service charge"). Availability of credit at favourable rates is important to the retailer, and for some smaller businesses it may be essential to survival. We were informed that the sales finance company pays for the dealer's cars at the factory, and that the same arrangement may apply to appliances and boats. A member of the Committee expressed his view based on wide experience, that, "Retailers cannot possibly go into business today without the service of an acceptance corporation or a finance company."

Another bond between the finance companies and the retail dealers is that they share with the dealer the finance charges which the customer pays. The sum set aside for the dealer, sometimes called the dealer's reserve, is "the difference, if any, between the retail price for the financing established by the dealer and the wholesale price established by the finance company." The exact amount credited to the dealer varies somewhat, depending on whether the sale is of appliances, home improvement, new or second hand car. The dealer's share is said to vary from 10 per cent to 20 per cent of the total charge to the consumer.

A member of the Chamber of Commerce delegation, also Vice-President and Deputy General Manager of the Industrial Acceptance Corporation Limited, compared the dealer's share with the insurance agent's commission. The analogy implies that the finance company is paying for the service. Many retail dealers are very close to being agents of the finance companies. As one finance company representative put it, "It is the merchant who creates the business on our behalf."

Economic Effects of Consumer Credit

It is more than thirty years since Robert S. Lynd called the consumer "the man few economists know". Much has happened since that time to bring the consumer and his behavior to the attention, not only of economists, but

also of governments and administrators. It is now recognized that decisions of consumers concerning whether to buy, what to buy, and when, exert a powerful influence on the flow of goods and services. When all is said and done, the goods and services produced and consumed form the substance of our national economic life. The Royal Commission on Banking and Finance observed that "it is the individual and collective wants of persons that the other categories of borrowers (the financial institutions and markets) are ultimately designed to serve."

Personal expenditure on consumer goods and services accounts for roughly two-thirds of Canada's gross national expenditure. The importance to the economy of all this spending is beyond dispute, but the more specific interest of the Committee is in the fact that a high proportion of the purchasing power of consumers each year goes for goods and services already received; at the same time they are committing their future income for things to be enjoyed now.

What effect this growing custom will have on the overall economy is causing some concern to responsible people. As far back as 1938 the final report of the Banking and Commerce Committee of the House of Commons spoke of the need for "further information as to the relation between consumers' credit and business depressions." Today the issue may be inflation rather than depression, but in a general sense several members of the Committee repeatedly raised the same question: possible effects on the economy of either uncontrolled rise or too much restriction on consumer credit.

Nobody suggested that consumer credit was not rising fast enough now. Except for references to the reduction in consumer spending that took place during World War II—when prices were controlled and consumer goods were scarce—and fears voiced by representatives of the finance companies and retail businessmen concerning possible repercussions if credit were to be curtailed, little light was shed on the economic effects that could be foreseen if the tide were stemmed. The General Manager of the Retail Council of Canada thought that increased use of credit probably caused people to invest more in capital goods, such as labor saving devices, and less in services. We note that the Ontario Committee felt it was not within their terms of reference to evaluate "whether the total volume of credit is at a desirable level or whether legislative action should be taken to restrain the use of credit generally..." Professor Ziegel gave us his view that credit restrictions would not impede the economy. He said that British experience with fairly strict regulations speaks for itself. "Consumer credit there has doubled... in the last five years." He added: "I think the same is true of Australia."

When a country is threatened with inflation or recession various methods may be employed to deal with it. We rely mainly on monetary and fiscal policies as an antidote. Monetary policies are used to regulate the overall amount of credit. When interest rates rise, there is a general tightening of credit to business, but a rise in interest rates appears to have little effect in curbing consumer credit. The reason for this is that in a period of tight money those with money to lend become more selective, making fewer loans and investments of the kind that tend to produce lower yields. The usual high yield on money lent to consumers is not particularly sensitive to changes in

the much lower business interest rates. There may be a certain amount of credit rationing by the banks, and there are signs now that the banks are emphasizing saving in their advertising. The way Mr. Bouey of the Bank of Canada explained it was that finance companies can always get hold of money if consumers "want to pay" 15, 18 or 20 per cent.

Neither do consumer loan companies appear to make any major changes in their lending policies. Small lenders, who must depend on bank credit, may be short of funds, but the Royal Commission on Banking and Finance notes that subsidiaries of Canadian and American firms—and they do most of the business—"obtain all the funds they need from their parents and appear to be little affected by such difficulties."

So lucrative is the retail financing of motor cars that to ensure the flow of this consumer credit business, finance companies continue to undertake the wholesale financing of cars even if it is hardly worth the paper-work when they must borrow at approximately 6.25 per cent and lend at 6.50 per cent.

More than one member of the Committee raised the question whether unrestricted growth of consumer credit impairs control over monetary policy. Perhaps as good an answer as any is to be found in the evidence given in an earlier enquiry by the Governor of the Bank of Canada concerning his predecessor's efforts in 1956 to curb the volume of consumer credit, particularly instalment finance, by attempting to get voluntary agreement of the credit grantors. He was not successful. The Co-Chairman's question to the representative of the Bank of Canada as to whether "there is any indication that legislation permitting some control by the Bank of Canada over consumer credit agencies at a time of financial or monetary emergency would be beneficial" went unanswered. However, Mr. Bouey agreed with a member of the Committee that "if we felt consumer credit was getting out of bounds we could not look to the Bank of Canada to curtail it, it would have to be done through some act of Parliament."

Social Effects

The importance of the collective spending of consumers in influencing economic conditions has been considered above. But it must not be forgotten that how well Canadians manage their personal finances is of fundamental importance also to the well-being of the household and family, and indeed of the whole society.

It is reassuring to have the opinion of the Royal Commission on Banking and Finance that "by and large Canadians manage their finances with greater wisdom than appears to be popularly believed. Most households appear to have a reasonable pattern of assets in relation to family needs, income and risk-taking ability. Most, too, have made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms but in terms of convenience and ease of household living."

Overall statistical data document the striking growth of credit in the post-war years, but detailed information concerning consumers' personal finances is sparse. Available data are usually in gross figures or averages, and much of the discussion concerning possible dangers in over-extension of credit has been in terms of comparison of total consumer credit with aggregate earning power of consumers, with their total assets, or with the gross national product. When Mr. Bouey of the Bank of Canada was considering the "ratio of consumer credit to personal disposable income", he recognized that it can give only "a very rough indication of the probable capacity and willingness of

consumers to incur further increases in debt." The Nova Scotia Royal Commission on the Cost of Borrowing Money, the Cost of Credit and Related Matters, points out the need for statistics on personal finances of consumers. The report of that Commission observes that the degree to which individuals are excessively committed cannot be determined by reference in general to the financial position of consumers. Professor Neufeld of the University of Toronto has also spoken of the need for "data on personal disposable income and net worth of individuals using consumer credit."

Although it is subject to the same limitation that it deals with "the average borrower", one of the few informed opinions that has come to our notice concerning a safe amount of credit for an individual to assume, is found in a statement made to the Ontario Committee by the chartered banks. They suggest that "instalment obligations up to 15 per cent of net income, exclusive of residential mortgages" would be reasonable. One who represented the Consumers' Association of Canada at the hearings of our Committee, recently told the Canadian Home Economics Association that only families who have an income above subsistence level can afford to use credit at all. Well publicized recent studies suggest that roughly one-fifth of Canadians are in what is declared to be the poverty group. It would therefore seem that her estimate that about 10 per cent of Canadian families are unable to cope with credit is no exaggeration. The words of the final report of the Commons Banking and Commerce Committee of June 1, 1938 bear repeating to-day: "The unhappy lot of those who have a deficit economy, in the sense that they are chronically unable to live within their income, is not to be bettered by borrowing (no matter the rate)."

Consumer credit can take various forms, but not all kinds of credit are available to the low-income groups who do not usually possess assets which can be pledged for security. Banks and insurance companies lend mainly to those who are better off, leaving the poor people—unless they can borrow from credit unions—to the small loans companies, retail credit dealers and the sales finance companies, all of whom, for reasons explained elsewhere, charge high rates.

A man may borrow from one party to pay another in cash, or he may deal with a merchant who sells him an article (or a service) and at the same time lends him the money to pay for it. If, as often happens, the retailer sells the instalment contract to a finance company, the debtor may be obliged to make his payments to one who has no obligation whatever to him. But the sale of the original agreement to pay does not change the nature of the transaction. The essential unity in consumer credit is the fact that it practically always arises out of the sale of goods and services, and in every case it creates debts which the consumer undertakes to pay.

From the point of view of the consumer, then, the important first question is whether or not he can afford to add to his commitments. This is something which the wise buyer decides for himself. But temptation is great in a world of easy credit, and not everyone is sufficiently well informed to make a rational decision. The danger is that poor people will, through lack of understanding of the consequences, bite off more than they can chew. At a conference on consumer credit held at the University of Saskatchewan a few months ago, a Co-Chairman of this Committee observed that the poor need protection because "they are more gullible, more easily cheated, less conscious of the quality of goods they buy, more likely to over-commit themselves, more likely to deal with high cost neighbourhood stores and pedlars, less aware of credit charges, less able to understand and assert their rights." He added that, "For them a missed pay cheque spells disaster."

Losses on loans and on time sale agreements are relatively small. Should payments fall behind, a well organized collection system includes "reminder notices, telephone calls, letters, and, in some cases, personal calls at customers' homes." Finally, there is the threat, at least, in the mind of the borrower, of legal proceedings, perhaps the dreaded garnishee of wages. Little wonder that the sacrifices that may have to be made by the debtor's family to keep up payments over an extended period are not the lender's prime concern, particularly if all contact with the original seller ends when the customer signs on the dotted line, and the agreement is immediately sold to a finance company.

Obviously, it is before he commits himself that the unwary consumer needs disinterested advice. Today this kind of person puts himself in the hands of those whose business depends on selling goods and services. A representative of sales finance companies, arguing against disclosure of annual interest rates, told us that the interest of the common man "is not how much percentage interest he is going to pay but, basically, is he apt to obtain credit." The applicant for the loan may very well allow the urgency of his present needs to obscure a realistic assessment of his future financial position, and enthusiasm for maintaining a business quota is likely to be uppermost in the mind of the lender. These circumstances combine to create a potentially dangerous situation for the borrower with scant resources.

Counselling

The president of the Canadian Consumer Loan Association told us of experiments being conducted in Ottawa and Winnipeg by the Credit Grantors' Association with what they call a "free debt counselling service" to help those whose debts have grown beyond their capacity to cope with them. Managers of various companies contribute their time in the evenings to counsel these people. This type of counselling was provided for 310 Winnipeg families in 1963 and 225 in 1964. We were told that the plan is expected to spread. There was some suggestion that these experimental programs "are trying to give free service" to those not in a position to pay for consolidation of their debts, but, generally speaking, consolidation of debts appears to involve adding to already high interest charges. A member of the Committee asked whether it would not be better to arrange for consolidation of debts without increasing the amount of money involved and adding to the interest. The answer was: "...I think that most good Canadian citizens are not anxious, when they get into a state of indebtedness, to go to a welfare agency and get assistance in that way. They want to pay their own way." We were informed that company staff is available "to talk to people and to guide them and counsel them in how they should pay and straighten themselves out."

We have learned also of a private agency called The Credit Counselling Service set up in Toronto under a 23-member board of directors. The president, a lawyer, said in a press interview that "the service was an outgrowth of a general belief among social workers, family courts and businessmen that inability to handle money creates many personal problems in a large cross-section of the community." The president states that the agency is not a charitable organization, and that they are "just as interested in seeing that the creditors get paid for goods legally bought as we are in guiding a debtor, or managing his affairs so he can pay his way out of his difficulties". Emphasis seems to be on working out ways to meet the payments and on the use of credit. There is apparently no plan to give advice on whether or not a purchase should be made.

The brief presented to us by the Canadian Consumer Loan Association stated that, "It is a matter of record that consumer loan companies cooperate

fully with the armed forces benevolent funds and other welfare organizations when such organizations are called upon to assist families to adjust their affairs." The annual reports published by the Army Benevolent Fund Board set up by Parliament in 1947, illustrate the importance to veterans and serving soldiers, and hence to society, of this cooperation. Because families of serving soldiers and veterans form a large and probably representative sample of Canadian families, their experience with consumer credit problems provides an insight that is unique. Furthermore, many of the situations dealt with by the Fund have originated in civilian life.

In its report for the year ended March 31, 1962 the Board notes that "the consumer credit 'explosion' has had a serious effect on the financial well-being of a number of Canadian families."

> "Where the head of the household had thorough knowledge of money management based on a high educational level or perhaps sound training given by parents, no problem arose. If, on the other hand, the family had no opportunity to learn the fundamentals of domestic financing, they very often became the victim of highly-developed sales practices and easy credit with the inevitable result—a serious debt problem.
>
> Many of these families were found to have a critical lack of knowledge regarding interest rates, carrying charges, conditional sales contracts, charge accounts, revolving budgets and other forms of financing which must be readily understood if the consumer is to avoid becoming involved in personal debts."

The following extracts from two recent annual reports of the Board graphically describe contemporary problems affecting a great many Canadian families:

> 1963: "Again this year, the number of applications where a summons or judgment for debt has been issued showed a marked increase. Creditors appeared to be resorting to seizure, garnishment of wages, repossession of goods or other legal action for the satisfaction of debt in greater extent than has been the custom in previous years."
>
> 1964: "The cost of living continued to be a real problem for families living on a marginal income—and the need for assistance for such families marked the year's activities.
>
> The type of applicant assisted by the Fund is usually a good citizen. He is attempting to provide a reasonable standard of living for his family and very often his problem can be met by financial assistance, together with counselling which will permit him to overcome the temporary financial distress. The Fund has accepted the responsibility to help this group, where there is a willingness to help themselves."

Some measure of the importance of the work of the Army Benevolent Fund is the number of cases dealt with in a year. In the fiscal year ended March 31, 1964, 3,142 grants were approved, most of which were made when an unexpected contingency had caused a financial problem. These contingencies included "sickness, accident, death or other occurrence resulting in loss of income, damage to property or severe financial indebtedness." Although many individuals helped by the Board are already financial casualties, a continuous preventive program is also carried on through publication of informative material on budgeting, consumer buying, sales financing, consumer borrowing, buying and selling of automobiles, insurance and savings plans, as well as by preventive individual counselling.

There is no doubt that a great many families—especially those with low incomes—desperately need financial advice. Those who can no longer cope with their debts certainly need help, but from the point of view of the individual consumer as well as that of society, the need for advice is most urgent before any new commitment is made. We are impressed with the preventive work done by the Army Benevolent Fund Board, and feel that to make that kind of help available to all families would be in the public interest.

Because those offering to lend money or sell goods are hardly in an independent position to advise prospective customers, we believe this kind of advice should be offered through the regular family agencies in the community. Emphasis would be more likely to focus on the best use that can be made of the limited family income, and there would be less chance of stress being put mainly on "the proper use of credit" when the budget cannot reasonably provide for any extra outlays.

When it has been decided on a rational basis that the consumer can safely assume a proposed debt, then the question arises as to which form of credit is the best buy for him. That usually boils down to the cost of the loan, a subject that is discussed below. Other than the cost of the loan, and consequences that follow for those whose payments fall behind, conditions of borrowing are of greater interest to lenders than to borrowers. For it is the method of financing the loan that determines who ultimately collects, and how much, for the use of the money and services connected with the transaction (i.e. interest and other charges). Finance companies, consumer loan companies and retail dealers as well as banks and credit unions, are all anxious to increase their share of consumer credit, although some are more selective than others of their clientele.

The Cost of the Loan

It costs money to borrow, that is to rent the use of someone else's money, and individuals and families are advised to shop for credit as for other goods and services. This advice comes not only from the Consumers' Association of Canada but also from those who offer to supply the credit: finance companies, money-lenders and retail merchants. The need for a loan is often directly related to an immediate outlay. Once it has been decided that the individual must borrow, the important question for him is whether it would be advantageous to borrow cash or to deal on credit with the seller of the goods. A spokesman for the Canadian Chamber of Commerce agreed that the best way of deciding this is to determine the respective rates of interest. If the decision is to buy on credit, it is well to take into account the possibility that the credit agreement may be sold to a finance company, setting up new obligations to unknown parties.

Should the plan be to borrow and buy for cash, the next question is where the prospective borrower can get the best buy. Those who have a relatively large current income, relatively good financial prospects, and sufficient assets that can be liquidated which they are willing to pledge as collateral, are in a good bargaining position. These individuals, who are not only willing but practically certain to be able to pay, are a lender's best risk. Although consumers generally pay a higher rate for credit than businessmen, those who are considered first class risks have no trouble in borrowing from banks. They are also more likely than the average man to have insurance policies on which they can raise money. Rates charged by insurance companies are most favorable, and bank rates on consumer loans are also relatively low.

But these sources are not generally open to the low-income group. Except for those who are members of credit unions, they must borrow from loan companies or money-lenders. Some kinds of retail credit buying are also open to them. Generally speaking, only the more expensive types of credit are available to the poor.

The main reasons for this are that in the small loans business, loans are by definition of a size that raises the costs of administration; and since these loans are often made without security, there is said to be considerable risk attached. In retail sales financing, the costs of administration are generally high. Current rates paid by consumer borrowers are summarized in Table 12.

TABLE 12

ESTIMATED ANNUAL PERCENTAGE COSTS OF CONSUMER BORROWING

	Rates	
	Stated %	Effective Annual %
Cash loans		
Chartered banks	6 p.a.	9¼–11¼
Credit unions	1 per month	8–10
Caisses		6– 8
Consumer loan companies (depending on amount of loan; under $1,500)		15.24–24
Life insurance policy loans		6
Credit buying		
Sales finance companies		
New Cars		12.5–18.8
Smaller contracts		16–23
Retail stores		13–17 approx.

Source: Compiled from data provided by Research Department, Bank of Canada.

Because the above rates differ somewhat from those presented by Mr. Andre Laurin of the Confederation of National Trade Unions, Mr. Laurin's estimates are set out below:

	Approximate annual %
Cooperatives	6
Banks	6–12
Finance companies	6–24
Acceptance companies	18–60

The man on the street thinks of the cost of borrowing money as interest, and generally speaking, that is the cost as far as the businessman is concerned when he is lending mortgage money or borrowing himself. But when he is dealing with the private consumer the word "interest" is taboo. So deep-seated is the desire to avoid speaking of interest rates that a representative of the sales finance companies said they figure their business in terms of "the return per $100 that we make available". A member of the Committee quickly observed that this was really the same thing as talking about percentages. In

dealing with the consumer a separate method of calculation is used: all costs of a loan are usually lumped together in what is called the service cost for the whole transaction. Abandonment in transactions with the consumer of the age-old and otherwise universal practice of expressing yield on money as a percentage per annum was singled out by the Nova Scotia Royal Commission as "the direct and principal cause of much of the confusion which undoubtedly exists today concerning the cost of lending and credit."

The Nova Scotia Royal Commission pointed out that, without exception, disinterested Canadian sources favor disclosure of the cost of credit as a rate of interest. For loans regulated under the Small Loans Act, of course, all related charges are included in the cost of the loan. Opposition to extending this concept to larger loans and to retail credit agreements "has almost exclusively come from the industry, particularly from the highly vocal and well-organized sales finance companies who have mounted an extensive campaign against it."

Those who undertake to pay finance charges are in a poor position to assess their value when they are given no information as to how the charges are made up. Representatives of the finance companies who appeared before us estimated that more than half of the cost of the money they provide is for other than interest charges. We learned from the Chamber of Commerce delegation that "...most retail stores find two-thirds of the cost [of extending credit] is other than interest, and one-third may be classed as money cost. The other costs are legal, staff, space, telephone, stationery, investigation, collections, reserve for losses, etc. The charge for forebearance, or what we think of as interest, will cover only one-third of the actual cost of most retail transactions on credit."

No person has suggested that interest is not a factor in the cost of lending money. Professor Ziegel assured us that "so far as economists are concerned, interest means the cost of the loan or other credit being extended". That is not, however, the judicial interpretation. Admitting that other costs than interest often enter, it seems reasonable to inquire what these costs are, and to what extent they occur in different types of consumer credit. We have the word of a financial expert, that pure interest is an economic concept of the value attached to the use of money, per se. It is compensation for deferring satisfaction of wants which immediate use of the money would otherwise bring. Pure interest in this sense rarely exists, but the term is nevertheless in common use where other factors are present in the cost of the loan. "Perhaps the closest approach to pure interest", said Mr. Irwin, "is found in the case of a government Treasury Bill in regard to which service cost, direct costs and risks are, practically, non-existent."

Except for the rare case of pure interest, "every charge for the use of money includes, in some measure, at least three of the following elements:

1. Pure interest
2. Risk
3. Service costs
4. Direct outlays (e.g. legal fees)"

If the interest element is to be considered as simply compensation for forbearance of use of the money, presumably the interest rate could not depend on who borrows the money. The much higher cost of money to consumers must lie in the other three elements. As to the risk, it is true that consumer loans and consumer credit are often granted without security. However, the evidence as to losses suffered by lenders convinces us that the risk is relatively small, certainly not sufficient to account for the great difference in cost of consumer loans as compared with business loans. We agree with the Nova Scotia Royal

Commission that, "Risks are grossly overstated in the modern context." It is doubtful whether the lender's risk is any greater—or even as great—as that assumed by the unsophisticated consumer when he signs an agreement to buy goods, perhaps of doubtful quality, from an establishment which he may never have heard of before.

"Service costs" are seldom spelled out and they naturally vary a good deal. Though some services are admittedly provided for the convenience of the consumer, others, such as purchasing the contract and investigating the applicant, are more likely to benefit the lender. When it was suggested to a representative of the Canadian Chamber of Commerce that "... what you are saying is that credit is an expensive service to the customer." the answer was: "It is a service. Whether it is expensive or not is a matter of opinion." Since there are no absolute standards in this area, opinions appear to be roughly divided between those in the money-lending business and all other members of the community. It is significant that the consumer is given little or no information on which he could base a reasonable judgment, and no choice as to whether or not he wishes to buy the services.

Direct outlays, including legal fees, enter into overall costs of lending. In the case of finance companies and money-lenders, costs of this kind as well as investigation of individual circumstances, should be greatly reduced by standardization of transactions and by the large amount of business done with people already on the books. (See p. 2885.)

As for retail credit—department stores should seldom require costly legal work on individual accounts. There must be considerable expense connected with the sale of cars, but it should not be too difficult to account for necessary legal fees and disbursements in the same way as is done in mortgage deals and other transactions.

Our conclusion is that there is good reason for charging higher rates to consumer borrowers than to business borrowers, but we do not understand why the spread should be so great. If lenders refuse to reveal the elements that enter into the costs of consumer loans, we can only conclude that the charge is higher than economically justifiable. A spokesman for the finance companies defended their resistance to stating interest rates on the grounds that "people would be inclined to take a second look." This statement provoked one of our members to observe that that would be all to the good.

Honesty and Truthfulness

The Committee affirms its belief in the inherent honesty and truthfulness of the average Canadian. We include both individual businessmen and the general public—by no means mutually exclusive groups. All workers are consumers, and most adult consumers are workers. All businessmen are members of the general public, but only a minority of the public are businessmen, or even acquainted with business practices.

Borrowers

We learn from lenders that failure of borrowers to pay as promised results not so much from irresponsibility or deceit on the part of the debtor as from unforeseen changes in his circumstances such as ill health or loss of employment, making it impossible for him to fulfil his undertaking. Other evidence,

particularly that of the credit unions and social agency representatives, emphasizes the part that lack of understanding of a transaction can play in entering on the road to disaster.

A committee which appeared before the Nova Scotia Royal Commission on behalf of the local branch of the Credit Grantors Association of Canada, the retail committee of the Halifax Board of Trade and the Halifax-Dartmouth Credit Exchange, related their experience that "as much trouble had been occasioned by irresponsible credit granting and lending as by irresponsible borrowing and buying." Nevertheless, experience of administrators of the Small Loans Act—the only source of information concerning Canada-wide consumer borrowers over an extended period—is that lenders regulated by the Act seldom contravene its provisions. Any infractions have generally been due to misunderstanding rather than deliberate evasion. But even if we accept the fact that borrowers are generally truthful and that most lenders are carrying on a legitimate business in an ethical way, all admit that there is room for improvement in consumer lending practices.

Businessmen have a legitimate interest in curbing practices that give their business a bad name as well as in improving the efficiency of their methods. Legitimate operators in the small loans business welcomed the Small Loans Act which did so much to rid them of the unfavorable image of the money-lender. Obviously, a good deal of the resources of money-lenders or credit grantors go into selection of their risks and the exercise of control over extension of credit on their behalf. This helps to explain the very small losses on bad debts suffered by banks, finance companies, department stores, other retail stores, and even the consumer loan companies which deal mainly with the lower income groups. Representatives of these institutions informed us that their losses on loans are almost as low as those of the credit unions which have the undoubted advantage of personal acquaintance with the borrowers who are also their lenders. Losses suffered by these different lending institutions generally vary only within a relatively small range—from about one-half to one per cent. It is obvious that the interests of lenders are well protected.

It is the special role of government to protect society's weaker members. In transactions between corporations and businessmen on the one hand and the man on the street, there is no doubt about who is in the weaker bargaining position. Although some evidence of abuses was presented to our Committee, we learned a good deal more about this aspect from reports of individual cases brought to the attention of provincial investigating bodies. Abuses appear to be most common in the sale of used cars and in door-to-door selling; the growing practice of consolidation or refinancing of debts also gives us concern, and it is discussed elsewhere. There is evidence of changing practices in retail selling which may benefit some kinds of business at the same time as they damage the prospects of others. The second mortgage field, though not within our terms of reference, becomes relevant to consumer credit when, as sometimes happens, a mortgage is taken out to pay for consumer goods. Another practice, common in the United States, is emerging here: that of selling in a package deal with the house, a stove, refrigerator, washer and dryer—the durable goods that now make up a considerable part of consumer credit buying. As-

suming that various segments of business will each look after their own interests, the fact remains that decisions facing the average man are becoming increasingly complicated, and the consumer's need for advice and protection grows.

Advertisers

Spokesmen for social agencies have long advocated that advertising of small loans be regulated, but until fairly recent times loan companies have claimed that they were advertising to inform the public that loans were available, not to persuade people to borrow. That is hardly a serious argument today when we are continually bombarded with suggestions to travel now to far-off places, and pay later, or to see "friendly Bob Adams" who will consolidate all our debts. There is a basic conflict between the philosophy of the advertising man, "Don't sell the steak—sell the sizzle" and the consumer's desire to buy a good steak. Nowadays advertisers lure customers with repeated reminders of the importance of making this purchase or taking that trip if they want to be like the others. Children and young people are extremely sensitive to advertising of that kind, and parents are naturally influenced by the aspirations of the family as well as their actual physical requirements.

The unsophisticated are easy prey for novel merchandising devices including package deals, special offers, premiums and services of all kinds when they are represented as means of stretching a small income. The endless stream of persuasion via television, radio, magazines, newspapers, billboards and in the mail, has become a predominant part of our environment.

It hardly seems fair to pit the man on the street against the most sophisticated psychologists employed to pierce his armor, but it would be difficult to regulate the gentle art of persuasion. However, when it is a question of misleading or deceptive advertising responsible authorities must protect the gullible. The Retail Merchants Association is concerned about practices of a few retailers who "persistently and deliberately carry misrepresentations in their advertising." A representative of the Association who appeared before us, recently told the press that while misrepresentation is practised only by a small percentage of retailers, the "image of deceit" rubs off on thousands of legitimate storekeepers who are trying to do business honestly. Association members say they are happy to face fair competition, but they are hurt by a few competitors who offer bargains that the public will never get.

Concrete examples of misrepresentation in advertising were brought to the attention of the Committee. One advertisement suggested that a sewing machine would be given away free with the purchase of a cabinet, the price quoted for the cabinet and the machine together being the same as the price for the cabinet alone. Another led prospective customers to believe that by purchasing a record library it was possible to acquire a stereo set free. The price quoted for 62 records was $4.98 each. Only 15 of these records were listed on the open market at that price, 17 were selling at $1.98 or $2.98, and

the remaining 30 were discontinued records. Then there was the offer to buy $180 worth of silverware for $69.95, accompanied by a "credit gift certificate" for $110. The "balance payable" was exorbitant for the inferior merchandise offered.

Merchandising and advertising of goods and services important to health and safety have been regulated for many years by the Department of National Health and Welfare, and innovations of all kinds are constantly watched. Weights and measures are regulated with a view to preventing fraudulent and deceptive packaging. But there is strong public demand for further protection, not only from dangerous products and short weight, but from outright misrepresentation and fraud. The Retail Merchants Association would have the Combines Branch of the federal government regulate advertising in the same way as the Federal Trade Commission does in the United States, with power to order advertisers whose claims contain misrepresentations to "cease and desist."

An insurance consultant recently expressed the kind of concern that ethical businessmen have when standards of conduct in their own field are threatened, noting that advertising and sales methods employed by some accident and health insurance companies "provide an example in many cases of actions which may be legal but are far from ethical". He went on to say that, "Policy provisions which are hard for the insured to understand even when the insurer makes every reasonable effort to clarify them present problem enough. But for the unethical company, the temptation to take advantage of the insured's lack of knowledge is irresistible, and it is a simple matter so to word its advertising and its policy contracts as to trap the unwary, without actually breaking the law.[1]."

Similar concern for maintaining ethical standards in the retail business was expressed to us by a representative of the Ontario Retail Merchants Association. He referred to misleading advertising which seems to suggest no down-payment and which would convey the impression that no extra cost was involved in buying on credit. He felt that people advertising along these lines should be required by law to state what the ultimate total payment would be.

We heard criticism of those who advertise cash loans in such a way that the unwary greatly underestimate the cost of the loan. A professor who appeared before us mentioned the need for regulation of advertising practices of banks. He would make it mandatory for banks to disclose in their advertising the actual cost of the loan, stated in the same way as in the agreement itself.

Several submissions emphasized that all advertising of costs by those who extend credit, whether by lending money or by selling goods, should be

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[1] "Insurance Ethics—From the Inside Looking Out", Henry K. Duke, CPCU, CLU, *Annals of the American Academy of Political and Social Science*, January 1966, pp. 102-107.

required to state the total cost in annual percentage rates as well as in dollars and cents. That is a necessary part of applying the concept of full disclosure not only to those who are at the point of entering into a financial obligation, but to all Canadians. Only if the consumer understands the cost involved will he be able to decide freely and rationally whether his financial situation makes it feasible for him to assume credit. And his freedom to choose among different kinds of credit the arrangement that is the best buy for him, obviously depends on statement of the cost in simple and uniform terms.

All which is respectfully submitted,

DAVID A. CROLL
Joint Chairman

APPENDIX No. 1

SENATORS AND MEMBERS OF PARLIAMENT WHO SERVED ON THE COMMITTEE DURING INVESTIGATION OF CONSUMER CREDIT

(November, 1963 to April, 1966)

For the Senate:

The Honourable Senators

Bouffard (Deceased)
*Croll (Joint Chairman)
Davey
Deschatelets
*Gershaw
Hastings
Hayden
*Hollett
*Irvine
Lang
*McGrand
Robertson (Kenora-Rainy River) (Deceased)
*Smith (Queens-Shelburne)
Stambaugh (Retired)
*Thorvaldson
Urquhart
*Vaillancourt—17.

For the House of Commons:

Messrs.

Allmand
Andras
Basford (Joint Chairman)
*Bell (Saint John-Albert)
*Cashin
Chretien
*Clancy
*Coates
Cote (Longueuil)
*Crossman
*Deachman
Drouin
Duquet
Gauthier
Greene (Hon. J. J., Joint Chairman)
Gregoire
Gundlock
Hales
Irvine,

Miss Jewett

Messrs.

Lachance
Lefebvre
Kindt
*Macdonald (Rosedale)
*Mandziuk
Marcoux
*Matte
*McCutcheon
*Nasserden
Olson
Orlikow
Otto
Pennell (Hon. L.)
Pugh
*Ryan
Saltsman
*Scott
*Vincent—38.

*Served throughout the hearings on consumer credit.

APPENDIX No. 2

LIST OF WITNESSES

	Date of Appearance	Name	Title	Organization
1.	June 2 and 9, 1964..	Kenneth R. MacGregor...	Then Supt. of Insurance.	Dept. of Insurance, Canada
2.	June 9, 1964.....	H. A. Urquhart.....	Admin. Officer.....	
3.	June 16, 1964.....	Gerald K. Bouey.....	Chief, Research Dept...	Bank of Canada
4.	June 23, 1964.....	John M. Hallinan.....	General Manager.....	Ontario Credit Union League
5.	.....	John H. F. Burton.....	Assistant Supervisor of Exams.....	
6.	July 7, 1964.....	J. M. Bentley.....	President.....	Canadian Federation of Agriculture
7.	.....	David Kirk.....	Exec. Sec.....	
8.	.....	Lorne W. J. Hurd.....	Assistant Exec. Sec.....	
9.	July 14, 1964.....	Robert Ingram.....	Manager Can. Operations.....	Canadian Credit Union National Association
10.	.....	Robert Davis.....	League Legislative Specialist.....	
11.	Oct. 20, 1964.....	Mrs. V. Wilson.....	Chairman, Comm. on Planning and Organization.....	Consumers' Association of Canada
12.	.....	Mrs. A. G. Brewer.....	National Advisory Council and former Publicity Chairman....	
13.	Oct. 27, 1964.....	G. Egerton Brown.....	Director, Immediate Past Chairman of Executive Council.....	Canadian Chamber of Commerce
14.	.....	Paul Beaudoin, C.A.....	Member.....	
15.	.....	W. F. Corning.....	Research Assistant.....	
16.	Oct. 27, 1964 and Mar. 23, 1965	Keith MacDonald.....	Member.....	
17.	Oct. 27, Nov. 17, 1964; Mar. 9, 1965	N. Liston.....	Member.....	Canadian Chamber of Commerce and Retail Council of Canada
18.	Nov. 10, 1964.....	Dr. Jacob S. Ziegel.....	Associate Professor of Law, U. of Sask.	
19.	Nov. 17, 1964 and Mar. 9, 1965	A. J. McKichan.....	General Manager.....	Retail Council of Canada
20.	.....	J. W. Erwin.....	Member.....	
21.	.....	H. A. Simmons.....	Member.....	
22.	Mar. 9, 1965.....	Paul Harrison.....	Member.....	
23.	.....	W. G. Upshall.....	Member.....	
24.	Dec. 1, 1964.....	S. J. Enns.....	M.P., (Portage-Neepawa).....	Family Bureau of Greater Winnipeg
25.	.....	Daniel B. Fenny.....	Bureau Rep.....	
26.	Dec. 8, 1964.....	Andre Laurin.....	Tech. Advisor of Ed. Service, Family Budget Section	Con. of National Trade Unions

LIST OF WITNESSES

	Date of Appearance	Name	Title	Organization
27.	Dec. 15, 1964	Emile Girardin	President	La. Fed. des Caisses Pop. Desjardins
28.		Paul-Emile Charron	Assistant Director General	
29.	Feb. 23, 1965	Douglas D. Irwin, C.A.	Financial Consultant, Ont. Select Committee on Consumer Credit	
30.	Mar. 16, 1965	Don Rolling	Assistant Manager	Retail Merchants Association of Canada Inc.
31.		W. W. Boys	Second Vice-Pres. Dom. Ass'n	
32.		Vincent R. Deir	Director, Ontario Association	
33.	Mar. 23, 1965	Peter Paul Saunders	President	Federated Council of Sales Finance Companies
34.		G. E. Trudeau	Director	
35.		J. Johnstone	Chairman, Legal and Legislative Committee	
36.		W. Watson	Vice-Pres.	
37.		Dr. J. Singer	Research Director and Consulting Economist	
38.		E. Michael Howarth	Executive Vice-Pres.	
39.		Kenneth Inch	Member	
40.	Mar. 30, 1965	J. T. Wood	President	Canadian Consumer Loan Association
41.		J. S. Land	Past Pres.	
42.		E. J. Hendrie	Past Pres.	
43.		R. A. Mackenzie	Member	
44.		R. G. Miller	Member	
45.		Helmut Miller	Member	
46.		R. W. Stevens	Counsel	
47.		F. C. Oakes	Public Relations Chairman	
48.	April 21, 1966	Dan McCormack	Vice-Pres. and General Manager, Carling Acceptance Limited.	

APPENDIX No. 3

Bills Referred to the Committee

Shortly after the appointment of the Joint Committee on Consumer Credit by the 26th Parliament, eleven bills already on the order paper were referred to us for study. All but one—the well-known disclosure bill which has been introduced in the Senate repeatedly since 1960—originated in the House of Commons. Some of these bills have changed sponsors during the life of the Committee, and a few new bills were subsequently referred. It sometimes happens that an identical bill, re-introduced in a new session, is again referred to the Committee; there are other instances in which a bill which has been several times introduced in Parliament with no change in substance, has been referred to us only once.

The bills considered by the Committee (14 in all when duplicates have been eliminated) are listed below in the order in which they were officially brought to our attention. Each bill is explained briefly, and some general comments follow.

Bill Referred By	Title and Purpose	Sponsor or Sponsors
26th Parliament	(1) An Act to make provision for the Disclosure of Information in respect of Finance Charges Every person who carries on the business of extending consumer credit would be required to disclose in writing to the consumer the total cost, expressed both as a lump sum and in simple annual interest.	Senator Croll
	(2) An Act to amend the Bankruptcy Act (wage-earners' assignments) Outlines procedure for granting debt-ridden wage-earners extension of time up to three years or longer in court's discretion, at price of discipline of budgetary control, to pay debts 100 cents on the dollar. Also provides for relief against unconscionable transactions.	Mr. Gilbert (Broadview) and Mr. Orlikow (Winnipeg North)
	(3) An Act to amend the Small Loans Act (advertising) Would require licensees advertising amount of monthly or periodic repayments to state cost in terms of annual percentage rates.	Mr. Orlikow
	(4) An Act to amend the Small Loans Act (interest rates) The rate of interest or "cost of loan" would be reduced from 2 to 1 per cent per month on any part of the unpaid principal balance not exceeding $300.	Mr. Orlikow and Mr. Gauthier (Roberval)
	(5) An Act to provide for the Control of Consumer Credit Provides for disclosure of actual amount of interest charged on the sale of both real and personal property, as well as for restricting interest to 10 per cent per annum.	Mr. Scott (Danforth)
	(6) An Act to amend the Bills of Exchange Act and the Interest Act (off-store instalment sales) Amendment to the Bills of Exchange Act would give consumer three full days to cancel any bill or note given as collateral in sales made in his home or other "off-store" premises. The change in the Interest Act would compel the seller to include a clause to this effect in the contract.	Mr. Orlikow

Bill Referred By	Title and Purpose	Sponsor or Sponsors
26th Parliament	(7) An Act to amend the Bills of Exchange Act (instalment purchases) Object is to enable persons who give bills or notes in retail credit transactions to defend themselves against transferees by requiring that note on face indicate relationship with a retail transaction.	Mr. Peters (Timiskaming)
	(8) An Act to amend the Interest Act Proposal that interest be limited to 12 per cent.	Mr. Orlikow Mr. Leduc (Gatineau) and Mr. Allard (Sherbrooke)
	(9) An Act to amend the Interest Act (application of Small Loans Act) Would limit interest rates generally to those stipulated in the Small Loans Act unless otherwise provided by law.	Mr. Martin (Timmins)
	(10) An Act to provide for Control of the use of Collateral Bills and Notes in Consumer Credit Transactions Consumers who sign promissory notes as collateral in credit transactions would be warned that they could become liable to innocent purchasers of same. Interest rates would be limited to 1 per cent per month on principal amounts up to $500 and one-half of 1 per cent on any balance exceeding $500.	Mr. Ryan (Spadina)
	(11) An Act to amend the Combines Investigation Act (captive sales financing) Would prohibit practice of "captive" sales financing by manufacturers or distributors of goods or associated sales finance companies, and so permit customers to shop in a free, competitive market.	Mr. Noble (Grey North)
27th Parliament	(12) An Act to amend the Weights and Measures Act (truth in packaging) Bill is intended to ensure that a retail purchaser of packaged goods is fairly informed of the weight or measure of the contents.	Mr. Orlikow
	(13) An Act to amend the Small Loans Act (interest rates) The upper limit of loans to which the Small Loans Act appl.es would be raised from $1,500 to $5,000. For loans over $1,000 the interest rate would be reduced to one-half of 1 per cent per month on unpaid balance.	Mr. Allard
	(14) An Act to amend the Small Businesses Loans Act (trucking industry) "Trucking" would be added to the definition of a business enterprise. The definition of "small business enterprise" would be broadened to include a business with estimated gross revenue up to $300,000 instead of $250,000.	Mr. Leblanc (Laurier)

Comments on Bills

Disclosure

One of our main recommendations endorses the substance of the Senate bill dealing with disclosure in writing of the total cost of consumer credit both as a lump sum and in simple annual interest. This bill is a descendant of one first introduced in the Upper House in 1960, now simplified for the reason that

some of the original provisions are being taken care of in other ways. The revision of the Bank Act now before Parliament, which followed the report of the Royal Commission on Banking and Finance, means that banks will lead the parade of financial institutions giving meaningful disclosure to their customers of the full cost to them of borrowing money. The long-time sponsor of the bill, which applies the same principle to other lenders has said that, "We can expect and cannot accept less from other credit grantors in the field."

As to the disclosure bills originating in the House of Commons, one goes beyond our terms of reference in that it covers real property transactions as well as consumer credit. The other would require small loans licensees to specify in their advertising the cost of loans. We agree with the objective of this bill, and one of our recommendations attests to that.

Interest

There is ample evidence of widespread support for bringing down the cost of borrowing. Three members of parliament have separately introduced bills to amend the Interest Act so as to limit the interest rate to 12 per cent per annum. Another bill would extend to other types of loans the rates fixed under the Small Loans Act. Three separate bills propose a reduction in the rates under the Small Loans Act, one of them providing also for extension of the scope of the Act to loans up to $5,000, a plan which has solid support and which is among our recommendations.

Limitations on interest rates are also set out in two other bills dealing respectively with disclosure and with credit purchases. The Committee has considered these proposals as well as others made to us during the hearings. We do recommend that some limitations be put on interest rates, and we have particularly kept in mind the importance of ensuring that low-income people have access to credit at reasonable rates for essential needs.

Wage-Earners' Assignments

Recent amendments to the Bankruptcy Act will enable the setting up of machinery to make it possible for wage-earners to assume orderly payment of their debts without extreme sacrifice. This is essentially the purpose of one of the bills referred to us.

Bills and Notes in Consumer Credit Transactions

One of the bills before us would require bills and notes in consumer credit transactions to be so identified in order to warn the purchaser of the circumstances; another would give warning to the consumer that if he signs the document it may be sold to a third party against whom he will have no claim. One of our recommendations should take care of the undesirable practices which these bills are intended to do away with.

Captive Sales Financing

The Committee agrees that customers should be free to shop in a competitive market, and we believe that our recommendations will work towards that end.

Off-Store Sales

We recommend that when purchases are made from itinerant salesmen, time be allowed for a cooling-off period, something that has been urged on us by many responsible people and is contemplated by one of the bills referred to us.

Truth in Packaging

We are in sympathy with the purpose of this bill, but it is more appropriately a subject for the report on Consumer Credit (Prices).

Small Businesses

This subject is beyond our terms of reference.

Present State of Legislation

Experience has convinced us of the truth of a statement made when the Committee was set up, that there is need for "an attempted consolidation of these inter-related acts." After studying the subject for many months one of our most knowledgeable members informed the House of Commons that there was "need for complementary and cooperative action by the federal and provincial governments for the purpose of securing the protection of consumers . . ." Considerable progress has been made in this direction, and many parts of the report bear this out, but much still remains to be done in this rapidly changing area of business.

APPENDIX No. 4

Selected References

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5. Report of the Royal Commission on Banking and Finance, 1964, Queen's Printer, Ottawa.

6. Poapst, J. V., *Consumer Survey,* a study prepared for the Royal Commission on Banking and Finance, 1965, Queen's Printer, Ottawa.

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10. Ziegel, Jacob S., "Retail Instalment Sales Legislation: A Historical and Comparative Survey", *University of Toronto Law Journal,* 1962, Vol. XIV, No. 2, p.p. 143-175.

11. Ziegel, Jacob S. and Olley, R. E., Editors, *Consumer Credit in Canada,* proceedings of a Conference on Consumer Credit May 2-3, 1966, The University of Saskatchewan, Saskatoon, Canada. Note especially Professors Fortin and Neufeld.

12. Juster, Francis Thomas, and Shay, Robert P., *Consumer Sensitivity to Finance Rates,* National Bureau of Economic Research, 1964, New York.

13. "Ethics in America: Norms and Deviations", *Annals of the American Academy of Political and Social Science,* January, 1966.

14. Annual Reports of the Army Benevolent Fund, 1962-64, Ottawa.

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First Session—Twenty-seventh Parliament

1966-67

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 39

TUESDAY, MARCH 21, 1967

JOINT CHAIRMEN:

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25756—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,
Asselin (*Charlevoix*),
Basford,
Boulanger,
Choquette,
Code,
Crossman,
Horner (*Acadia*),
Leblanc (*Laurier*),
Lefebvre,
Macdonald (*Rosedale*),
MacInnis,
Mandziuk,
McCutcheon,
McLelland,
Morison,
O'Keefe,
Olson,
Otto,
Rideout,
Saltsman,
Smith,
Watson,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months:

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House of March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract from the Votes and Proceeding of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

25756—1½

Your Committee recommends that it be authorized to adjourn from place to place.

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(For text see Interim Report in Committee Proceedings No. 27.)

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(For text see Interim Report in Committee Proceedings No. 27.)

J. F. MACNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, March 21, 1967.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices) met this day at 10.00 a.m.

Present: For the Senate: The Hon. Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, O'Leary (*Antigonish-Guysborough*), Thorvaldson and Urquhart.—7.

For the House of Commons: Messrs. Basford (*Joint Chairman*), Code, Lefebvre, Macdonald (*Rosedale*), MacInnis (*Mrs.*), McCutcheon, Rideout (*Mrs.*), Saltsman and Whelan.—9.

In attendance: Dr. R. Warren James, Special Assistant.

Reference was made to recent meetings held by sub-committees in various centers across Canada.

The following documents were ordered to be printed as appendices to these proceedings:

(a) Date and place of meetings.

(b) List of witnesses—Mr. Basford's sub-committee.

(c) List of witnesses—Senator Croll's sub-committee.

(d) Minutes and briefs.

At 10.30 a.m. the Committee adjourned to the call of the Joint Chairmen.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, March 21, 1967.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-chairmen.

Co-Chairman Senator CROLL: Ladies and gentlemen, we are filing this morning for purposes of the record certain information with respect to the hearings of our two sub-committees which travelled across Canada late in February and early in March. Each sub-committee held six meetings and we are filing an appendix setting out where the sub-committees were on each sitting day. For instance, on Monday, February 20, one sub-committee was in Halifax and the other in Port Arthur. There will be a separate report for each day. We are also filing as an appendix a list of the witnesses who appeared before the various meetings. The briefs that were presented will also appear in our record.

The Clarkson-Gordon Report will be ready in a day or two. We also have a memorandum on concentration of industry, and a memorandum on trading stamps. These documents will be also ready in a day or two. It is our intention to turn all this material over immediately to the steering committee for study.

When we come back to Parliament on April 4 we will then be able to discuss these reports. I understand that the Clarkson-Gordon people will be here to answer questions that may be put by members of the committee. We hope to have their report in your hands a few days beforehand so that you will have an opportunity to study it. The steering committee will go over it first. It is a complicated report.

It is suggested that between now and our next meeting, members of the committee should turn over in their minds any thoughts they have about what should be included in our further report. Make a memorandum of it. Then when we come to discuss it, some day after we come back, you will have it available to hand to the steering committee so that we can start formulating some sort of a report, if we decide to make a further report.

Co-Chairman Mr. BASFORD: I would suggest that if anyone has some firm ideas of what should be in the final report he or she can suggest them to Dr. James by way of a letter or memorandum.

Mrs. MACINNIS: Is this going to be the final report?

Co-Chairman Mr. BASFORD: I am not sure what we will decide. There is no decision on the finality of the report. That is a question we will have to decide. We want to see what is in the minds of the committee members. That is why you are invited to send your opinions to Dr. James.

Mrs. MACINNIS: You already have had representations from the United Auto Workers. I have had another letter from George Burt, General Director, again pressing that the Consumer Prices Committee make a thorough examination of prices, costs and profits in the Canadian automobile industry. If we are going to

take this on as a committee, I would like to get the idea across that this would be a thing that should be investigated.

Co-Chairman Senator CROLL: It is a matter we will have to talk about later on. While we have this present problem, we are not going to take on any other problem.

As to whether or not ours is the final report, much will depend on the atmosphere. I think much will depend on what the Government intends to do.

Our recommendations to now have presented the Government with a great number of problems. We may be able to find out what they intend to do and, in the light of that, we will see what has to be done when that matter is before us.

Co-Chairman Mr. BASFORD: My thought is that this session is coming to an end—some time—and I think we should publish a report before that happens; otherwise, we are in difficulty with the rules.

As you know, in our interim report we recommended the establishment of a permanent committee, but this present committee will die at the end of this session unless the House of Commons and the Senate pass a resolution in the next session, either re-constituting us as a special committee or establishing a permanent committee. Of course, if our recommendation is accepted and a permanent committee is established, your suggestion for the examination of the automobile industry would be immeditaely before the committee for consideration.

Mrs. MACINNIS: I was wondering about it at this time. Is it part of our position to suggest to the Government whether we think the committee should be a continuing one, or whether this should be its final report. Should there not be some recommendation from us?

Co-Chairman Senator CROLL: We suggested in our interim report that it be a permanent committee.

Mr. MACDONALD (*Rosedale*): Mrs. MacInnis' suggestion about the United Auto Workers raises a very large question in my mind. Are we to become concerned now about people in the lower income scale who cannot afford an automobile? I am sure Mrs. MacInnis would like to have something with which to attack the Government, but I am not sure that we want to delay the report of the committee now, so as to give Mr. Burt his day. I think we should make a note of the suggestion, but surely we can decide right now?

Co-Chairman Senator CROLL: I do not think it is necessary to make a decision. The matter was before the steering committee, but it is in abeyance.

Mr. MACDONALD (*Rosedale*): May I suggest to the steering committee that we should not hear the United Auto Workers?

Co-Chairman Senator CROLL: That was the decision of the steering committee some time ago, that we stay with this present task until we complete it.

Mr. SALTSMAN: We would not rule out the United Auto Workers.

Mr. MACDONALD (*Rosedale*): Is the committee making its final report on the work appropriate to it? There will be a new session, and Parliament again can stake out the work and say whether there is any merit in the suggestion.

Mr. WHELAN: If you remember, when we were in London the farmers' organization wanted to present a brief from Essex county, and the person who was to present it was sick. They called me and I talked to you, Mr. Basford, and I told them to send the brief in here. They said it would be in. They were putting it in the mails yesterday. I said I did not know whether it would be considered or not.

Co-Chairman Mr. BASFORD: If the brief comes in, in sufficient copies, Mr. Hinds will see it is distributed to all members, as he has done already with other briefs that came in the other day.

Mr. WHELAN: I want to make sure about the United Auto Workers. I am strongly of the opinion that it makes no difference whether Mr. Burt appears before this committee, or what he does. If we have time to have him before us and he wants to express some opinions, we can let him do so, but it will mean we can also express some of our opinions, for the record, and also what we think about what he thinks.

Mr. MACDONALD (*Rosedale*): We would have the old age pensioners before us complaining about the price of cars. They have been complaining about the price of housing and food. Let us be concerned about housing and food and not about whatever grievances Mr. Burt may have.

Co-Chairman Senator CROLL: That was the decision of the steering committee for the time being, that we stay with the matters we have on hand. We must finish this task and not move to other tasks.

Mr. MACDONALD (*Rosedale*): We might leave it with Mrs. MacInnis so that she will know whether or not we would hear him. I am strongly of the opinion it would be foolish to hear him at the present time. We should deal with essentials first—housing and food—and then go on.

Co-Chairman Mr. BASFORD: The problem of the committee is to issue a report on its work to date, and then we have to decide the business for the future. If the session comes to an end, we are at an end and it would be up to Parliament whether the committee should be established again, at which time the re-established committee would have to decide its work, and at which time Mr. Burt's request will be before it.

Mr. WHELAN: I have come here from another meeting and I am not aware of what this man wanted to discuss.

Mr. MACDONALD (*Rosedale*): It concerns the costs of cars.

Mrs. MACINNIS: I have a letter, if the committee wishes me to read it.

Co-Chairman Senator CROLL: We have had it, Mrs. MacInnis. We are staying with food and housing until we finish that work. After that, as the co-chairman says, we would have a new mandate and we will then decide whatever work we want to do.

Hon. MEMBERS: Agreed.

Mr. MCCUTCHEON: Mr. Whelan mentioned a brief from the farmers' union, and you said that if sufficient copies were sent they would be circulated. A brief was presented to this committee a week or two ago on behalf of some chamber of commerce.

Co-Chairman Senator CROLL: The Better Business Bureau.

Mr. MCCUTCHEON: What happened to it?

Co-Chairman Senator CROLL: You received a copy.

Mr. MCCUTCHEON: No.

Mrs. MACINNIS: I did.

Co-Chairman Senator CROLL: Mr. Hinds mailed a copy to everyone, along with a brief from Vancouver. There were two together and you might have looked at the top one and not realized there was a second one.

Mr. MCCUTCHEON: That is conceivable.

Co-Chairman Mr. BASFORD: That brief was presented in a rather peculiar way. As I understand it, it was sent to the clerk, who distributed it to the members of the committee in the normal way. Then it was released in the Press Gallery, with a rather peculiar release date on it, to make it appear as if they had appeared before the committee—which of course was not so.

Mr. MCCUTCHEON: This is what prompted my question, because I never saw the report and did not know about it until I read the *Globe and Mail.*

Co-Chairman Mr. BASFORD: The C.B.C. news also carried it as if they had appeared before the committee. They sent a brief, as some 200 other people did.

(Discussion off the record)

Mr. WHELAN: Mr. Chairman, I notice that some of the remarks have been recorded and some have not.

Co-Chairman Senator CROLL: Everything has been recorded except what I just said about the Better Business Bureau brief, which was something I did not want to place on the record, although I told it to all of you. Everything else is on the record.

Mr. WHELAN: Everything is not on the record. What kind of meeting are we running? Do we just go on and off the record?

Co-Chairman Senator CROLL: I asked for permission to say something off the record. Would you like to say something off the record?

Mr. WHELAN: I do not care if it is on the record or not, but I still have not got it clarified how legal our meetings across Canada were. According to the information I have they were not legal and we should not be doing any business concerning those meetings held across Canada.

Co-Chairman Mr. BASFORD: Those meetings were held in accordance with authorization given to us on December 20, 1966, and the arrangements made for the two subcommittees to meet in different centres and the procedures to be followed and the minutes to be taken were all established and authorized by December 20, 1966.

Co-Chairman Senator CROLL: There you have it. That is the complete answer.

Mrs. MACINNIS: But the meeting for this morning was advertised as in camera.

Co-Chairman Senator CROLL: Anyone who wants to come in can come in. The fact that it was advertised as in camera was a mistake. There is nothing I could do about that, but no one has been stopped from coming in and there is a record of what we are doing. Now, I have nothing else. I would suggest that you think this thing over and let Dr. James hear from you so that we will have something to work on when we get back here again, because by April 4 our time will be running short.

If there is nothing else, we will conclude. Thank you, ladies and gentlemen.

The committee adjourned.

APPENDIX "A"

DATE AND PLACE OF MEETINGS

Date	Sub-Committee. (*Hon. D. A. Croll Chairman.*)	Sub-Committee. (*Mr. Ron Basford, M.P., Chairman.*)
February 20, 1967 (Monday)	Halifax, Nova Scotia, Council Chamber, City Hall.	Port Arthur Ontario, Council Chambers, Public Utilities Bldg.
February 21, 1967 (Tuesday)	Saint John, N.B. Admiral Beatty Hotel.	Winnipeg, Manitoba. Civic Centre, Conference Room, City Admin. Bldg.
February 22, 1967 (Wednesday)	Montreal, P.Q. Queen Elizabeth Hotel.	Regina, Saskatchewan, Council Chambers, City Hall.
February 23, 1967 (Thursday)	Quebec City, P.Q. Council Chambers, City Hall.	Edmonton, Alberta. Committee Room, City Hall.
February 24, 1967 (Friday)		Vancouver, B.C. No. 1 Committee Room, City Hall,
February 27, 1967 (Monday)	London, Ontario. Council Chamber, City Hall.	
February 28, 1967 (Tuesday)	Toronto, Ontario. Committee Room No. 3, City Hall	
March 1, 1967 (Wednesday)		Saint John's Nfld. Council Chambers, City Hall.

APPENDIX "B"

LIST OF WITNESSES—MR. BASFORD'S SUB-COMMITTEE

No. 1 February 20, 1967. Port Arthur, Ontario.—Mayotte Construction Co. Ltd.; Mr. E. Mayotte, President, (Brief). C.A.C., Fort William Branch; Mrs. C.E. Wachter. (no brief). Mrs. Alice Peck, President, Consumers' Action Committee, Fort William. (Brief). Mrs. D. K. Dickey, Home Economist, (no brief). Headway Builders Limited; Mr. R. D. Keenan, President, (Brief). Mr. Don MacLeod, Welfare Administrator, City of Fort William (Brief).

No. 2 February 21, 1967. Winnipeg, Manitoba.—Housing and Urban Renewal, Metropolitan Corporation of Greater Winnipeg; Mr. E. G. Simpson, Director, Mr. J. G. Thomas, Assistant Director. (no Brief). Home Development Co. Ltd.,) Mr. Phil Young, (Brief). Canadian Association of Consumers, Manitoba Branch; Mrs. D. M. McLean, President, Mrs. E. Tilheridge, Convenor of Investigations. (Brief). Canadian Consumers Protest Association; Mrs. Gail Pearase, President, Mrs. E. Heber, Recording Secretary, Mrs. Doreen Plowman, Corresponding Secretary, Mrs. Donna Hagnor, Treasurer, Mrs. Barbara Gommerman, Publicity Chairman, Mrs. Jackie Senhow, Mrs. Eva Reeves, Mrs. Frances Hall. (Brief). Mr. C. W. Gonick, Department of Economics, University of Manitoba. (Brief). Mr. O. P. Tangri, Assistant Professor, Department of Agricultural Economics, University of Manitoba. (Brief). Winnipeg Chamber of Commerce; Mr. Evan McCormick. (Brief). Age and Opportunity Bureau; Dr. C. Earle Gordon, President, Mrs. A.S.R. Tweedie, Executive Director, Mr. Scott. (Brief).

No. 3 February 22, 1967. Regina, Sask.—Cairns Homes Ltd.; Mr. R. Gerla, General Manager. (no brief). C.A.C., Saskatchewan Branch; Mrs. Gordon Moxley. (Brief). Regina Food Suffragettes; Mrs. Bonney Petruic, Treasury, Mrs. Betty Mrazek, President, (Brief). Federated Co-operatives Ltd.; Mr. L. L. Lloyd, President, Mr. L. J. Doucet, Chairman, Managers' Advisory Committee, Mr. J. E. Trevena, Director of Information, Mr. W. Bergen, Controller, Mr. A. V. Kroll, Research Director (Brief).

No. 4 February 23, 1967. Edmonton, Alberta.—Chartered Investments Ltd.; Mr. J. L. Harris. (Brief) Canadian Cattleman's Association; Mr. Fred Newcomb. (Brief). Mrs. K. Elgaard, Consumers' Association of Canada, Alberta. (Brief). Edmonton Welfare Council; Mr. L. D. Hyndman, Mr. E. S. Bishop, Executive Director, (Brief). Mr. S. C. Rodgers, Chief Planner, City of Edmonton. Mr. Atkinson, President, Mr. Paul Baby, Vice-President, National Farmers Union (Brief). Lethbridge Consumers Protest Assoc.; Mrs. Ruth Truant, President. (Brief). Consumer Protest Association; Mrs. K. Swinton, President, Mrs. Proserlo, Mrs. N. Lampton. (Brief), Dr. T. L. Powrie, Dr. M. D. Stewart, Department of Economics, University of Alberta.

No. 5 February 24, 1967. Vancouver, B.C.—C.A.C., Vancouver Branch; Mrs. S. Ettinger, President, Mrs. T. D. Stout, Mrs. L. van Blankenstein. (Brief). Co-op Wholesale Society of B.C.; Mr. K. F. Harding, Vice-President, Mr. R. L. Simpson, Assistant General Manager, Mr. A. E. Pershick, Manager, Retail Services Division, Mr. Corbin King, General Manager, Terrace Co-op. Mr. Hans Hanston, General Manager, Dawson Greek Co-op (Brief). B. C. Federation of Labour; Mr. R. C. Haynes, Secretary-Treasurer, Mr. Paul Phillips, Research Director. (Brief). Mainland Dairymen's Association; Mr. F. V. Bradley, Secretary Manager,

(Brief). Women Against Soaring Prices; Mrs. Carol Millan, President (Brief). C. A. C., Victoria Branch; Mrs. P. R. A., Coombs, (Brief). Women Against High Prices; Mrs. Elaine Podovinnikoff, Chairman, (Brief). B.C. Federation of Agriculture; Mr. R. B. Stocks, Manager, (Brief). Mr. W. E. Graham, Director of Planning, City of Vancouver. (Document). West Coast Land Development Ltd.; Mr. James Houston, Vice-President, (Brief).

No. 6 March 1, 1967. St. John's, Nfld.—Mr. A. Vivian, Commissioner of Housing, Dept. of Municipal Affairs & Housing, Government of Nfld. & Labrador. Newfoundland Co-op Union; Mr. G. Haggett, President, Mr. D. Garland, Managing Director. (Brief). Newfoundland Fish Trades Assoc.; Mr. Eric Harvey, Secretary-Treasurer, Mr. H. Lake, Mr. G. Etchegary, Mr. P. Russell, Mr. P. K. McGrath. C.A.C., St. John's, Nfld. Branch; Mrs. G. M. Walsh, Provincial President, (Brief) Women's Club, Memorial University of Newfoundland; Mrs. Evelyn Barton, Chairman, Mrs. E. T. Kelly, Member, (Brief). Mrs. J. A. McKim, (Brief).

NOTE: (All hearings listed in Appendix B were chaired by Mr. R. Basford, M.P.)

APPENDIX "C"

LIST OF WITNESSES—SENATOR CROLL'S SUB-COMMITTEE

No. 1 February 20, 1967. Halifax, Nova Scotia.—Mr. C. W. McAllister, Manager, The Housing Authority of Halifax. (Brief). (*Chmn. Senator Croll.*) Mr. Ralph M. Medjuck, President, Centennial Properties Ltd. (no brief). (*Chmn. Senator Croll.*) Maritime Co-op Services Ltd.; Mr. W. H. McEwen and Mr. Keith Russell. (Brief). (*Chmn. Sen. Carter.*) Consumers' Association of Canada (Nova Scotia); Miss Theresa MacNeil. (Brief). (*Chmn. Mr. McCutcheon.*) Consumers' Association of Canada (P.E.I. Branch); Mrs. P. B. Butt (Brief). (*Chmn. Senator Inman.*) Mr. Duncan McIntyre, Saint Francis Xavier University. (Brief). (*Chmn. Sen. Croll.*) Professor Milton Moore, Department of Economics, University of Dalhousie, (Brief). (*Chmn. Mr. Saltsman.*)

No. 2 February 21, 1967. Saint John, N.B.—Saint John Consumer Protest Committee; Mrs. Lola Mitton, Mrs. Margaret Roy, Mrs. Anna Hebert. (Brief). (*Chmn. Senator Croll.*) Urban Renewal Commission; Mr. B. R. Doucet, Mr. Donald Buck, Re-development officer, Mr. E. F. Charlton, Chairman, Saint John Housing Authority, Mr. W. M. Hazen, Manager, Saint John Housing Authority, Mr. Bernard Elliot, Shamrock Realty Ltd. (Brief). (*Chmn. Senator McGrand.*) Miramichi-Ease-the-Squeeze Committee; Mrs. F. Balser, Mrs. G. W. Yates. (Brief). (*Chmn. Senator Croll.*) The Oromocto and Fredericton Protest Group; Mrs. E. M. Doerskin (no Brief). (*Chmn. Senator Croll.*) Saint John Board of Trade; Mr. George Robinson, Mr. Wallace Trynbull, Mr. J. Watts, and Mr. G. H. Lummis. (Brief). (*Chmn. Mr. Allmand.*)

No. 3 February 22, 1967. Montreal, Quebec.—Retail Merchants Assoc. of Canada Inc., Mr. D. W. Rolling, General Manager. (Brief). (*Chmn. Senator Croll.*) Consumers' Association of Canada (Quebec); Mrs. R. Brander, Provincial President, Mrs. N. W. Duck, Mrs. Pierre Lemerise, Mrs. Lucille Forget. (Brief) (*Chmn. Mr. McCutcheon*). La Fédération des Consommatrices du Québec inc.; Mrs. Hélène Meynaud, Provincial Secretary, Mrs. Georgette Grenier, Mrs. Nicole Mougeau, Mrs. Madeleine Plamondon. (Brief) (*Chmn. Mr. P. Boulanger*) N.D.G. Angry Consumers; Mrs. Norma Myer. (Brief) (*Chmn. Mr. Allmand*) Inflation Fighters of Montreal; Mrs. Veronica Morissette. Inflation Fighters of Laval; Mrs. Pat Ball. (no brief) (*Chmn. Mr. Allmand*) Montreal Diet Dispensary; Mrs. Agnes Higgins, Executive Director (Brief) (*Chmn. Mr. D. M. Code*) La Ligue des Femmes du Québec; Mme Blanche Gélinas, Mrs. Bernadette Lebrien. (Brief) (*Chmn. Mr. Boulanger*) East End Price Protestors; Mrs. L. A. Munday, Mrs. Veronica Morissette. (Brief) (*Chmn. Mr. Boulanger*) Chateauguay Valley Consumers League; Mrs. J. D. Sizaire, Mrs. Ellen Harnest. (Brief). Mr. Adrien Létourneau, Létourneau et Frères. (Brief)

No. 4 February 23, 1967. Quebec City, P.Q.—L'Association Canadienne des Consommateurs, Quebec City Section; Mrs. Lucien Farrell, Mme. Paul Demers, Mme. T. J. Lamontagne, Mme. G. Goulet. (Brief) (*Chmn. Mr. Choquette*) La Fédération de Québec des Unions régionales des Caisses populaires Desjardins; Mr. André Morin, Senator C. Vaillancourt, Mr. Irenne Bonnier, Mr. Henri Louis Marier, Mr. Jean-Paul Langlois, Mr. René Croteau, Mr. Paul Émile Charron, Mr. Harry French. (Brief) (*Chmn. Mr. Choquette*) The Canadian Construction Association; Mr. Armand Trottier, Immediate Past President. (no brief) (*Chmn.*

Mr. Asselin) Dr. Roger Dehem, Laval University, (Brief) (*Chmn. Mr. Choquette*) Mr. Jean-Claude Allard, Manager, Yves Germain Inc., building contractors. (Brief) (*Chmn. Mr. Boulanger*)

No. 5 February 27, 1967. London, Ontario.—Consumers' Association of Canada (London); Mrs. H. S. Tennant, Mrs. W. A. Shepherd, Mrs. A. Vogelsang, Mrs. J. Askew, Mrs. R. E. K. Pemberton. (Brief) (*Chmn. Senator Croll*) Catholic Family Centre; Mr. F. P. Martin, Mr. A. McEchearn, Director Family Services Bureau. (Brief) (*Chmn. Mr. Irvine*) Kitchener-Waterloo C.A.C.; Mrs. B. M. Jackson, President, Mrs. K. E. MacIntosh. (Brief) (*Chmn. Mr. Saltsman*) Consumer Protest Shoppers Assoc. of London and District; Mrs. G. E. Ball, Mrs. Irma Reid, Mr. Andrew A. Chrisholm. (Brief) (*Chmn. Mr. McCutcheon*) Windsor C.A.C.; Mrs. Eleanor Haddow, Mrs. John Durrent, Mrs. W. H. McDowell, Mrs. W. P. Augustine. (Brief) (*Chmn. Mr. Whelan*) Consumer-Producer Assoc. of Windsor; Mrs. Nelson Dearing, Mrs. Mary McCallum, Mrs. Rose Marie Warren, Mrs. Barbara Ellis, Mrs. Bernice Lasorda. (Brief) (*Chmn. Senator Carter*) Sarnia C.A.C.; Mrs. L. J. Archibald, Mrs. E. M. McAlpin, (Brief) (*Chmn. Mr. Macdonald*) London and District Labour Council; Mr. Roland Parris, Mr. Vern Crawford, Mr. R. Sexsmith, (Brief) (*Chmn. Mr. Boulanger*) Hamilton and District Consumers Protest Association; Mrs. Susan Hammond, Mrs. Betty Bridgewood, Mrs. Peggy Robertson, Mrs. Alice Pow. (Brief) (*Chmn. Senator Croll*)

No. 6 February 28, 1967. Toronto, Ontario.—Ontario Housing Corporation; Mr. P. E. H. Brady, Mr. R. W. R. Riggs, (Brief) (*Chmn. Senator Croll*) Cadillac Development Corp. Ltd.; Mr. E. A. Diamond, (Brief) (*Chmn. Senator Croll*) Bramalea Consolidated Development Ltd.; Mr. A. F. B. Taylor, Mr. A. S. Armstrong, Mr. H. D. Smith, Mr. S. Edwards. (Brief) (*Chmn. Senator Croll*) Toronto, Humber, Oakville and St. Catharines C.A.C. and C.A.C. (Ont.); Mrs. Gordon B. Armstrong, Mrs. W. Brechin, Mrs. S. B. Karim, Mrs. R. J. O'Donnell, Mrs. G. B. Barrick. (Brief) (*Chmn. Mr. Macdonald*) Women Against Soaring Prices; Mrs. Grace Hartman, Mrs. M. Ruble, Mr. Peter Homenuck. (Brief) (*Chmn. Senator Croll*) Ontario Federation of Labour; Mr. David Archer, Mr. D. F. Hamilton, Mr. Henry Weisbach, Mr. John Eleen, Mr. J. H. Craig. (Brief) (*Chmn. Senator Croll*) The Canadian Economic Foundation; Mr. Georges J. Rogers, Mr. Walter Huebbischer. (Brief) (*Chmn. Senator Croll*) Edible Oil Foods Institute; Mr. T. S. Snowden, Mr. David Scott Atkinson, Mr. John Heggie. (Brief) (*Chmn. Mr. Macdonald*) Urban Development Institute; Mr. Grant L. Duff, (Brief) (*Chmn. Senator Croll*) Corporation of the Municipality of the Borough of Scarborough; Mr. A. Kellerman, Mr. Allan Johnson, Director of Purchasing, Mr. Karl Mallette, Controller. (Brief).

APPENDIX "D"

Council Chambers,
Public Utilities Building,
Port Arthur, Ontario,

MONDAY, Feb. 20th, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*)—2.

For the House of Commons: Messrs. Basford (*Chairman*), *Horner* (Acadia), MacInnis (*Mrs.*), McLelland, O'Keefe and Smith—6.

The following were heard and questioned by members of the sub-committee:

Mr. E. L. Mayotte, President,
Mayotte Construction Co. Ltd.,
Port Arthur, Ontario.
Brief.

Mrs. C. E. Wachter,
Fort William Branch,
Consumers' Association of Canada.

At 12.15 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Mrs. Alice Peck, President,
Consumers' Action Committee,
Fort William, Ontario.
Brief.

Mrs. D. K. Dickey,
Home Economist,
Fort William, Ontario.

Mr. R. D. Keenan, President,
Headway Builders Limited,
Port Arthur, Ontario.
Brief.

Mr. Don MacLeod,
Welfare Administrator,
City of Fort William.
Brief.

At 4.15 p.m. the sub-committee adjourned until tomorrow, Tuesday, February 21st, at Winnipeg, Manitoba.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committee Branch.

STATEMENT BY

E. L. MAYOTTE, P. ENG.

Port Arthur-Fort William

To the Sub-Committee

of the

JOINT SENATE—COMMONS COMMITTEE

on

CONSUMERS PRICES
LAKEHEAD HOUSING

A. Statistics

The following statistics will give you a brief insight of the local housing situation for Port Arthur-Fort William and the immediate surrounding area:

Population—approximately 100,000

Existing number of housing units—approximately 26,000

Owner occupancy (1961 Census)—74.9 per cent (2nd highest in Canada)

Owner occupancy of 22 cities of similar size—62.4 per cent.

Average Annual Production of new housing units over past 10 years —approximately 500 per year

Private lenders lending under N.H.A.—3

Number of housing units in 1966 financed by private lenders under N.H.A.—50

Number of housing units 1966—485

B. Rentals

As you can see rental accommodation is needed but private lenders and CMHC do not have funds for this area for rental units and this need cannot be satisfied.

A recent survey by the Lakehead Chamber of Commerce in which they contacted the president of every private lender which does business at the Lakehead (approximately 20 insurance and trust companies) it was found that there would be no improvement. In fact, it now appears that the number of firms lending under N.H.A. will be reduced to two.

CMHC has funds for 4,000 rental units but only in communities of 10,000 persons or less.

It is therefore most important that the Federal Government revise the policy of government lending for rental housing as soon as possible to permit communities such as ours to develop in an orderly fashion.

C. New Houses—Built for Sale

The down payments and monthly payments continue to rise on new houses built for sale.

The following suggestions would reverse this trend:

(a) Give rebates to house purchasers for the 11 per cent federal sales tax and 5 per cent Provincial Sales Tax.

(b) Lengthen the basic amortization period for CMHC funds.

(c) Revive the $500.00 winter works bonus.

(d) Urge CMHC to encourage technological changes in design by elimination of the penalty on appraisals for using lower cost products.

Appraisals, should be based on the usable floor space and not vary with the type of structure enclosing that space.

(e) Reduce overheads of all phases of the construction of shelter by providing a uniform flow of financing scheduled 6-12 months in advance to allow steady uniform development.

(f) Streamline the deed, transfer and mortgage documents and legal procedures relating to same to permit easy processing, thereby reducing legal and financing costs.

(g) Reduce property taxes thereby reducing monthly payments. (Share in Educational Costs)

(h) Urge municipalities to accept a lower standard of services (see later comments under Land Development).

(i) Urge local municipalities to aid and promote housing. At present they are reluctant because of the effect on educational costs.

(j) Adjust freight rates so that materials can be brought into the Lakehead on a more equitable basis.

(k) Consider paying for land set aside for recreation areas (5 per cent) out of Federal Physical Funds.

D. Land Development

There are three major land development companies at the Lakehead, and occasionally the City of Fort William will service property. These four sources of developed land for a market of approximately 500 housing units per year provide adequate competition to maintain realistic selling prices.

Land costs have increased over the years due to wages, materials, soil conditions and design.

The municipalities are continually increasing the specifications in each land development agreement thereby increasing the costs and selling prices of land. Although some of these changes to specifications have the effect of increasing the selling price of developed land they do, however, reduce the operating costs of the municipality—such as the installation of water lines, storm and sanitary sewers. However, several of the changes are just fringe benefits to the end user (the purchaser) and should not be forced upon the land developer and the purchaser. An example of these are sidewalks, paving and curbs on lateral streets, underground wiring.

An increase in inventory of developed land would allow more uniform development and reduce the developers costs and selling prices. It would also allow the builder to construct the shelter under better site conditions and reduce construction costs.

On the other hand, however, the municipalities do not wish to allow the developer to have too much inventory for fear that they lose control of the direction of flow of occupancies, thereby effecting educational and general operating costs by requiring school space, transportation, etc.

Recommendations pertaining to Land Development:

(a) The Federal and Provincial governments should take steps to relieve the municipalities of more of the educational costs, thereby reducing the taxation on shelter. This would not only encourage ownership but also minimize the effect of new development on the municipality, thereby reducing City Council's resistance to new development for shelter.

(b) Municipalities should be urged to permit approximately 30 to 50 per cent of new land projects to be developed using only the basic services, thereby allowing shelter for lower income groups to be blended in with shelter for slightly higher income groups.

(c) Municipalities should be urged to form a Housing Committee to meet regularly with a committee of local builders to originate and implement means of reducing costs of land development and shelter costs.

BRIEF

presented to

SPECIAL JOINT COMMITTEE

of the

SENATE AND HOUSE OF COMMONS

on

CONSUMERS CREDIT (PRICES)

by

CONSUMERS ACTION COMMITTEE

of

FORT WILLIAM & PORT ARTHUR

FEBRUARY 20, 1967.

We respectfully submit the following brief to the Joint Senate Commons Committee on Consumers Credit.

WHEREAS the food industry is practically a combine which is against the principals of the incentive of private enterprise, we ask that control be used in these great corporate empires so that competition may be established and maintained in the food industry.

WHEREAS we realize that advertising cannot be curtailed altogether, but since this has gone all out of proportion and now represents misleading advertising, a certain code of advertising must be established so that advertising can only follow certain boundaries. Since advertising is tax deductible, we also recommend heavily taxing this lucrative business so that some restraint may be practiced.

WE RECOMMEND standardization of brand products into small, medium and large to stop this reduction in size to different ounces with the same price. There is also an inferior quality at the same price as the regular brand product, which is not brought to the attention of the consumer, which is again misleading.

WE RECOMMEND that the use of give-aways such as premiums, bingos, stamps, coupons, cents off labels and contests be eliminated in the food industry so that price competition and quality play a larger role in attracting customers. We wish to point out that while sweepstake tickets are illegal in Canada, that at the same time contests and give-aways are forced upon the consumer in the supermarkets and in many cases consumers are paying for contests without being aware or interested of their existence on products they are purchasing. We feel that this constitutes gambling of the most vicious type.

WE RECOMMEND a code of regulations which would include calling out of a purchased item when being checked out at the cash counter which would verify the cost of the purchased item and minimize the over abundant clerical errors. There is too, the problem of prices being rung up on cash registers which are not being registered to the satisfaction of the viewing customer with the cluttering of different sales items near the cash register which makes it impossible for the customer to follow his purchases while unloading the grocery cart.

In our information regarding cheese products, government standards have only two qualifications—butterfat on a dry basis of 48 per cent and skim milk cheese with a butterfat on a dry basis of 15 per cent. In the United States there are a number of classifications which have a wide price differential. Butterfat is of prime importance nutritionally in all dairy products, but not necessarily needed in such high butterfat content to maintain nutrition. This product should be reviewed by our government agency.

WE RECOMMEND that margarine be made a basic food so that it will become exempt from taxes, both provincial and federal.

WE ASK that freight charges (rail, air, truck and boat) be investigated and actual distribution as applied to consumer prices. We suggest a thorough investigation be made as to whether additional profit is being made on freight rates by manufacturers, wholesalers and retailers in the manner in which these freight charges are applied to overall cost of products to consumers. Also we suggest that excessive freight charges be investigated pertaining to outlying Northwestern Ontario communities, where due to location, there is a lack of competitive delivery system. We would also suggest that the Committee endeavour to publicize the terms of "The Crow's Nest Pass Agreement" between the Canadian Government and the Canadian Pacific Railway drawn up in the nineteenth century, so that freight rates cannot be used as an excuse for increasing flour and bread prices.

WHEREAS we are of the opinion that the Senate-Commons Committee has become aware of all aspects of grievances by consumers in the food business, some of which are listed above, we recommend a Prices Review Board to expose to public view plans for price increases and to act as a check to the spiralling cost of living.

THE CONSUMERS ACTION COMMITTEE as a branch of the Canadian Consumers Protest Association, wish to state that we are unanimous in our support of the brief in full as presented by our parent group in Ottawa to the Joint Senate Committee on January 17, 1967.

SUBMISSION BY

HEADWAY BUILDERS LIMITED

63 South Cumberland Street—

Port Arthur Ontario

REASON FOR INCREASE IN HOUSING COSTS

STATEMENT BY—R. D. Keenan, Secretary Treasurer of Headway Builders Limited

TO THE—Joint Senate-Commons Committee on Consumer Credit

1. *Cost of Land*

(a) Increased demands by Municipalities for services—both Cities have reached maximum quality i.e. sanitary sewers, water mains, curbs, sidewalks, sodded boulevards, hydrants, manholes, catch basins, paved roads, etc., and now they are requesting underground electrical services, all to be paid for by the Land Developer.

(b) Lack of funds with reasonable interest rates to Land Developers. As we realize that the Municipalities cannot afford to install these services I would recommend that:

(1) Funds with lower interests rates be made available to Land Developers as long as reasonable profits *only* are realized by the developer.

(2) Land for income groups $6,000.00 and under be subsidized until their income increases or the land portion of their home purchase be financed on a separate mortgage at a low interest rate over 50 years. This is logical as the land will appreciate in value therefore the mortgagor will have good equity throughout the life of the mortgage.

2. *Cost of Housing Unit*

As everyone knows spiralling wage increases and the increased cost of manufactured items have created to a large extent the inflationary trend in the housing industry.

In the Lakehead area we have perhaps one of the strongest union areas in the country. In our union agreements it is prohibited to contract labour, therefore we lose the advantage of having labour compete for our contracts as is prevalent in most other areas in the country. Because of this factor we are harder hit by wage increases than most other areas.

The increase in our materials is a national trend as the manufacturers are in the same position we are, that is to say, caught in the middle of soaring wage increases, raw material increases and overhead increases. If you study the financial statements of the manufacturers selling to our industry and the house builders themselves you will note that by and large neither are making unwarranted profits.

I do not feel that a discussion on urban renewal is applicable in our area as vast acreages of land surround our area and 75 per cent of our wage earners are in the $7,000.00 and under income category. What we require is 1,000 sq. ft. bungalows with low down payments.

I feel that in order for the local housebuilders to service the northwestern Ontario Market we need the following:

(1) N.H.A. funds for multiple dwellings (These have not been available in this area in my 15 year history in the industry.)

(2) The Winter Works $500.00 Bonus was a great sales aid in the Lakehead area especially in the sale of lower cost homes. I would recommend that a subsidy of $500.00 on the down payment be given to all homes 1,020 sq. ft. and smaller.

(3) I feel that House Builders must increase their volume and by so doing decrease their overhead per unit.

(4) The C.M.H.C. formula for advancing funds to the builder are as follows:

They calculate the first draw and subsequent draws to equal the work in progress on this unit. From this they deduct:—

(a) The cost to complete

(b) 20 per cent holdback

The builder then has much more than a 20 per cent holdback and averages about $5,000.00 invested in every housing unit until it is sold. The charts that C.M.H.C. officials use to calculate the draws have not changed in 15 years since land was 10 per cent of the house cost, whereas today in our area, it is roughly 22 per cent of the builders cost.

This means a builder who has a volume of 100 units per year must have considerable working capital.

In all other construction there is a straight 15 per cent holdback which is equitable. The onerous holdbacks that exist in the housing industry definitely increase the cost per unit.

SUBMISSION BY WELFARE ADMINISTRATOR, FORT WILLIAM, ONT.

Mr. R. Basford, M.P.
Co-Chairman, Committee on Consumer Prices.

Firstly, I would like to state that because of the time available, I am not able to present an elaborate or factual comment. However, I would like to pass on some comments to your Committee based on our experiences in the Municipal Welfare Department of the City of Fort William.

Housing

Our Municipality in the past few years has been enjoying a relatively good period of prosperity. As is the case in all Municipalities, I presume, these periods of prosperity attract more people to the Community seeking employment and, of course, requiring housing. You will understand, of course, that there are people who through one reason or another are unable to enjoy the benefits of these economic booms and are forced to remain on a fixed low income such as Municipal Welfare or Government Welfare Allowances.

We had the opportunity of conducting a survey among our family units relative to their housing accommodation. Approximately 90 per cent of the people questioned expressed the opinion that their present housing was not satisfactory and the majority felt that their rental costs were in excess of what their accommodation was actually worth. In our viewpoint it appeared that because of the shortage of supply, that landlords were able to charge excessive rent for substandard housing so there was no control over rent schedules.

Food Costs

Without being able to support this comment by fact I believe I can honestly state that the majority of low income families in our Municipality are, in fact, suffering because of the recent increase food costs. Those of us who are wage-earners are in the position of being able to bargain for increased income to compensate for these increases. However, you can appreciate that those recipients of fixed incomes are not in this position and while the obvious solution is to have various Governments increase allowances, these legislative actions are never able to come up to the standard of the present times.

Consumer Credit

I have noticed with interest your Committees recommendation in its interim report asking for full disclosure of all interests and service charges on sales. I am certainly in full agreement with this recommendation. However, the greatest problem that we have encountered regarding the use of Consumer Credit is not so much the rates being charged but rather the easy availability of credit from several sources at any particular time to individuals without any apparent investigation as to their ability to repay. All too often we are approached by clients who are in financial difficulty not because of the fact that they are in debt to one source but more than likely are being pressured by two, three or even four financial lending institutions. As an example I have extracted three of our recent files and I would like to quote some relative figures from these files.

Example 1: Mr. & Mrs. P. Both parents in their early 20's, with two children, age 3 and 1. Mr. P's normal employment gives him a gross take home pay of $72.00 weekly. His debts are as follows:

Finance Company	$ 1,096.00
Chartered Bank	300.00
Furniture Store	900.00
Appliance Store	200.00
Chartered Bank	300.00
Credit Union	340.00

Example 2: Mr. & Mrs. R. Husband and wife in late 20's with six children. Net take home pay about $320.00 monthly. Debts as follows:

Finance Company	$ 600.00
3rd Division Court	1,000.00
Credit Union	1,600.00
Plus many other smaller accounts owing to local merchants for household necessities.	

Example 3: Mr. & Mrs. B. Parents in early 40's with 12 children. Husband's normal gross pay approximately $370.00 monthly. Debts listed as follows:

Local Car Dealership	$ 3,000.00
Finance Company	6,000.00
Credit Union	3,000.00
Many various other debts amounting to approximately $700.00	

It appears to me that the good intentions of your Committee in recommending disclosure of interest rates would be of little value as long as individuals are allowed to obtain credit from a multitude of sources without any ceiling placed on the amount of credit which they are allowed to accumulate. I would like to compliment your Committee on its suggestion for low interest guaranteed loans to low income families and the suggestion of a counselling service on Consumer Credit and Family Budgeting.

Thank you for the opportunity of expressing these all too few comments.

City Hall,
Halifax, Nova Scotia.

MONDAY, Feb. 20, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Inman, and McGrand.—4.

For the House of Commons: Messrs. Allmand, Boulanger, Code, McCutcheon, Morison and Saltsman.

The following were heard and questioned by members of the sub-committee:

Mr. C. W. McAllister,
Manager,
The Housing Authority of Halifax,
Halifax, Nova Scotia.

(Brief.)

Mr. Ralph M. Medjuck,
President,
Centennial Properties Ltd.,
1 Sackville Place,
Halifax, Nova Scotia.

(Verbal presentation.)

Mr. W. H. McEwen, and
Mr. Keith Russell,
Maritime Co-op Services Ltd.,
P.O. Box 750, 123 Halifax Street,
Moncton, N.B.

(Brief.)

Miss Theresa MacNeil,
Consumers Association of Canada (Nova Scotia),
Extension Dept.,
Xavier College, P.O. Box 5,
Sydney, N.S.

(Brief.)

At 12.15 p.m. the sub-committee adjourned.

At 1.30 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Mrs. P. C. Butt,
Consumers Association of Canada,
Charlottetown, P.E.I. Branch,
39 Hazelhurst,
Dartmouth, N.S.

(Brief.)

A book entitled "Voluntary Economic Planning—First Plan for Economic Development to 1968" was also presented for consideration.

Mr. Duncan McIntyre,
Saint Francis Xavier University,
P.O. Box 5,
Sydney, N.S.

(Brief.)

Professor Milton Moore,
Department of Economics,
University of Dalhousie,
Halifax, N.S.

(Brief.)

The sub-committee was welcomed to Halifax by His Worship Mayor O'Brien, and by the Honourable Gerald Doucet, Provincial Secretary, Province of Nova Scotia.

At 4.10 p.m. the sub-committee adjourned until tomorrow, Tuesday, February 21, at Saint John, N.B.

Attest.

Marcel Boudreault,
Clerk of Committee.

THE HOUSING AUTHORITY OF HALIFAX
incorporated under the Halifax housing authority act, 1948

Halifax, N.S.
FEBRUARY 15, 1967.

BRIEF FOR THE CONSUMER PRICES COMMITTEE

The terms of reference for this brief on Public Housing are taken from your letter of February 3, 1967 quote "The Committee is keenly interested in the problems of Housing and Shelter costs." unquote.

Low-rental housing, subsidized housing, rent geared to income, these are some terms to describe Public Housing. It is designed for families in the top half of the lower one third of the income limits in Halifax, as determined by figures released by the Dominion Bureau of Statistics.

Public Housing in Halifax operates on the same basic principles that govern all other Housing Authorities in Canada. Rentals are charged on verified *family* income applied to the rental scale provided by the Federal-Provincial-City Partnership. The Partnership has for years used the Carver-Hopgood scale which establishes shelter rental with additions made to cover the cost of services provided. During 1966 the Partnership tentatively introduced a new *graduated* rental scale for serviced accommodations with reductions made where services are *not* provided.

On February 9, 1967 the Federal Partner announced a third scale using a much lower percentage of income for rental. (An average monthly rental reduction of $16.00 per family). In our first three Projects we used the Carver-Hopgood scale for shelter rental with an additional 38 per cent added to cover cost of services provided. In Uniacke Square we are using the Graduated Scale with a reduction of $18.00 for unserviced accommodations. If the new scale is adopted a great deal of the present confusion will be eliminated.

1. *Shelter Costs: To the Tenant*

In our *serviced* accommodations the tenant has no choice in his shelter costs, they are controlled by the scaled rental, charged on the basis of his verified family income.

In our *unserviced* accommodations the tenant may be able to reduce his costs somewhat but only at the expense of the comfort, health, etc. of his family. Any saving on heat, light, etc. would not materially effect his final financial situation.

On the open market, tenants have a variety of choices from very poor housing at rents as low as $12.00 to $15.00 per week, to the luxury apartments.

Families with 6 to 12 children have a tremendous problem finding sufficient bedroom space *at any price*. Low income families in particular must overcrowd costs somewhat but only at the expense of the comfort, health, etc. of his family.

2. *Shelter Costs: To the Authority*

The cost to the Authority of providing shelter are built into the Projects years before at the planning and design stage. Building design and layout coupled with the method of supplying heat and other services are *unalterable* when the Housing Authority is called upon to take over the completed units. However, there are *alterable* items of annual expense such as:

(a) The standard of building maintenance
(b) The standard of grounds maintenance
(c) The standard of apartment preparation between tenancies

(d) Whether maintenance should be done by a staff or by contract
(e) Cost of providing services
(f) Administrative competence

PROBLEMS OF HOUSING

Over the years, as an administrative body, the Housing Authority of Halifax have proved themselves competent in dealing with problems of Housing within the framework of requirements contained in the Manuals of Instruction and the No. 3 agreements between the Partnership and the Housing Authority. The three principal sources of Housing Authority problems are:

1. Lack of information and knowledge of all levels
2. Income levels
3. Subsidy requirement

LACK OF INFORMATION AND KNOWLEDGE AT ALL LEVELS

A. *By our Tenants*

The head of the family is required to sign the lease which is explained to him *in detail* at the time of admission. Unfortunately, the family head usually fails to transmit this informaion to the rest of his family.

To correct this the Housing Authority has held open meetings with our tenants where staff explained the lease and then the meeting was thrown open to questions and answers. These meetings proved to be so successful that they will be repeated.

B. *By the News Media*

Halifax, like most large cities, has several T.V. and radio programmes where people air their points of view on *ANY* subject. Many uninformed and misinformed impressions were created by the giving of false or misleading information. Also, many times information in the newspapers was slanted to the detriment of the tenants of Public Housing.

To correct this the Housing Authority invited civic dignitaries and all branches of the news media for a guided tour of Public Housing. They were shown public areas indoors and out; a well-baby clinic set up by the Housing Authority and run by the City Health Dept.; a day care centre set up by the Housing Authority and run by the Halifax Rotary Club as a Centennial Project; they saw the interior of three apartments vacated the weekend prior to the Tour.

This tour proved enlightening to those who attended and has helped tremendously in doing the Partnerships job of Public Relations in the interests of Public Housing.

C. *By the Applicants*

Nearly all of our applicants are looking first for *low rental* and secondly for *good accommodations* and nearly always in that order of importance. Many find it difficult to realize that allocations are made on the basis of the bedroom requirements of the family. We say they need 4 bedrooms, they are now all in 1 room and would be satisfied with even 2 bedrooms. They nearly all want to be housed *today*.

D. *By Others*

Social and Welfare Agencies, clerics and even on rare occasions elected persons make representations which show that they have litle or no comprehension of the role, limitations or requirements of Public Housing, even though it has been in the midst of Halifax for 14 years.

INCOME LEVELS

Because the figures vary monthly, we have approximately 19% of our 728 families whose income is $150.00 or less per month. Many are assisted by Provincial or City Welfare, some are on Old Age, Disability or other pensions. It is evident too that the majority of these families will not be able to improve, to any degree, on their present income level. This means that 1 in every 5 are presently paying minimum rental and probably always will.

A survey of our approved applications having incomes of $150.00 or less per month shows approximately the same proportion, 20 per cent.

Families at this income level can't afford even the *low rentals* of Public Housing so they are presented with an almost insolvable problem. New welfare legislation may eventually help improve their financial plight but in the meantime, how do they exist?

Public Housing in Halifax is available to families with incomes up to $348.00 per month ($4,177.00 per year). What happens to those families above this, say up to $6,000.00 or $7,000.00? It is reported that it is extremely difficult for a family even with $10,000.00 annual income, to provide their own home ownership. What becomes of them?

SUBSIDY REQUIREMENT

It is an essential part of the planning of Public Housing, that besides he eventual Capital Cost and the 50 year amortization of it, there is a non-arbitrary figure set for the annual admin, operation and maintenance of the completed project. A target rental is then established so that the annual partnership subsidy will not total more than $25.00-$30.00 per unit. It has been found in Halifax that for many reasons, mostly out of the control of the Housing Authority, it is often impossible to meet these predetermined subsidy figures: a high amortization cost, a *built-in-high-cost* of providing services, coupled with a choice of tenants whose low income levels fail to provide sufficient to meet the cost of these services. *Low income families must be housed,* their needs are always greater because of limited finances. Selection of tenants *must not be* influenced by the need to meet a questionable subsidy requirement.

IN CONCLUSION

After 14 years of Public Housing in Halifax, I feel certain that the Housing Authority has experienced all the types of problems of Public Housing:

Take-over inspections of new units
Correction of latent deficiencies
Housing of people
Involvement in tenant family problems
Hard decisions involving tenants
Evictions and Court hearings
Fire damage, flooding and leaking damage
Breakdown of heating systems
Budget delays
Frustrations involving time to get an answer through channels
Etc., etc.

However we also know, as no one else in Halifax can know, the rewards from seeing the good that Public Housing has done. The Housing Authority has provided, in so many instances, the necessary interest in people, how they live and the necessary encouragement for them to make the sacrifices that have greatly improved their way of living.

Many families have been looking, with little success, to find ways to improve their lot in life; Public Housing has provided *the first step, the first incentives* and the *first glimmer of hope* that their own circumstances can improve, along with the added incentives to have their children get a full education. Of course, the knowledge that the Housing Authority provides 2 annual scholarships of $350.00 each, to help their children to go on to college, is just another reason for them to push their children on to a higher education. All 6 of the scholarship winners of the past 3 years have been boys. These scholarships are provided from the interest on the tenants deposit which are kept in trust accounts. This interest is to be used at the discretion of the Housing Authority in whatever manner they feel serves the best interests of the tenants as a whole. We may well be the pioneers of this scholarship idea in Canada.

The rewards of being actively involved in Public Housing are intangible but very evident when you are interested in people, because HOUSING IS PEOPLE.

Respectfully submitted,

C. W. McAllister, Manager
The Housing Authority of Halifax

Submission by

MARITIME CO-OPERATIVE COUNCIL,
MONCTON, NB.

SPECIAL JOINT COMMITTEE
OF THE SENATE AND HOUSE OF COMMONS
ON CONSUMER CREDIT (PRICES)

Saint John, N.B.
FEBRUARY 21, 1967

ON BEHALF OF—THE MARITIME CO-OPERATIVE COUNCIL—we wish to express our appreciation for the opportunity of submitting some thoughts, suggestions or contentions relative to what has happened, or is happening, affecting credit and prices, in so far as consumers or users are concerned.

The Maritime Co-operative Council is made up of officially appointed representatives from eight Maritime organizations interested in, or involved in, co-operative development in this area. The organizations and representatives are—

The New Brunswick Co-operative Union—D. F. MacDonald, Director, Moncton, N.B.

The Nova Scotia Co-operative Union—Rod MacSween, President, Antigonish, N.S.

The P.E.I. Co-operative Union—Ken MacLean, Secretary, Central Lot 16, P.E.I.

The Federation des Caisses Populaires Acadiennes Ltée. Martin Legere, Manager, Caraquet, N.B.

The Nova Scotia Credit Union League—Rod MacMullen, Manager, Antigonish, N.S.

The St. Francis Xavier University Extension Department—Dr. Remi Chiasson, Assistant Director, Antigonish, N.S.

The United Maritime Fishermen Ltd.—Dr. J. H. MacKichan, Representative, Roy Building, Halifax, N.S.

Maritime Co-operative Services Ltd.—W. H. McEwen, Representative and Secretary of the Council, Moncton, N.B.

The authority of the Council: "To recommend (to its constituent members) on matters intended to promote and co-ordinate co-operative effort".

Our member organizations are associated with the Co-operative Union of Canada and support its submission as made to the Committee in Ottawa, February 2nd.

Order of Reference

The explanation from the Committee Secretary contained a Section under the heading "Order of Reference", which stated—

> That the Joint Committee of the Senate and House of Commons appointed to inquire into and report upon problems of consumer credit be instructed to also inquire and report upon the trend in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months.

In another section of the explanations and under the heading "Schedule of Hearings", it states—

> Sub-Committees of the Special Joint Committee on Consumer Credit (Prices) will visit a number of cities in Canada to hear testimony from the public on cost of living problems.

The reference to "Prices" is understood then to fit into the statement and be in the "Order of Reference", and it is understood that anything that has or may have a bearing on prices to the consumers, either up or down, is pertinent to the inquiry, and the concern of consumers has arisen from the "ups" in prices and the question is what is the cause of these "ups"?

The Supermarkets

The protest from the consumers in the last few months apparently was directed against the Supermarkets, but the work of the Special Joint Committee of the Senate and House of Commons has brought out a number of revelations affecting both consumers' attitudes and the position of the Supermarkets.

On the part of the consumers it has been shown repeatedly that, while they are the victims of a number of things that we claim are unfair practices or injustices, they are also guilty of lack of planning, or of failing to take responsibility that no one else can properly take on their behalf, but on the part of those serving the consumers through the Supermarkets, the revelations that were brought out by the Committee, showed the extent and depht of the Supermarkets' chains. These revealed that the Supermarkets with which the consumers are dealing may be mainly the distributive points for manufacturers that are back of them and who are in turn responsible for many of the situations affecting prices, credit, duplication of brands, misshapen containers, misleading labelling and advertising that is more likely to fool than inform. Generally they have a tremendous influence on the whole market. We have to go back farther than the shelf price of peas, butter, beans or cornflakes in order to find some of what is wrong with the marketing system, in so far as the consumers are concerned.

Recommendation

That the government establish a department of consumer affairs to carry out various functions in the area of information and protection for consumers.

(See Co-operative Union of Canada Brief recommendation No. 2, Page 40)

Credit and Debt Making

For the purpose of this submission, we would say that Credit has two fields, one, credit buying of goods, and two, the borrowing of purchasing power direct, and we claim that the consumer is being exploited in both of these fields.

Not many years ago individuals generally endeavored to avoid going into debt, particularly for consumer goods. Hence, those who could make money out of lending found that individuals were not then a good market, but that their institutions could be used to advantage in this field. Thus, there was debt building in the field of all public institutions, such as, schools, towns, municipalities, provinces, Dominion, etc. and one has only to look at the interest cost of the federal debt alone, which is now over a Billion Dollars a year, (*See Appendix No. 1*) to have some idea of the cost that must be met by the ultimate consumer through taxes of different kinds which have to be collected direct or through the price of goods, or the price of labour or some other factors corresponding to these.

We said that the individuals had been adverse to borrowing, but in late years this has apparently not been the case and consumer credit has grown to what we consider an alarming amount, with several Billion Dollars owing in this field. The associated credit costs add to prices, and incidentally aggravates the depreciating value of the dollar, or inflation.

Recommendation

Federal legislation making necessary complete disclosure to buyers or borrowers of interest and other costs involved in granting credit. (Truth in lending legislation.)

Function of Money or Credit

In the field of trade, the function of money or credit should be to move goods or services. It should not be controlled as a commodity. Even now the chartered banks are largely bookkeeping institutions, and have the control of the creation of money or credit as a commodity which has tremendous influence in the business world and can set our interest rates. The cost of money or credit shoud not be more than the bookkeeping costs that are involved in keeping the records, but, when it is controlled as a commodity, it is used to restrict or expand the movement of goods at the will of those who control it for the purpose of making gain, and not solely for the purpose of servicing trade.

The Royal Commission on Banking and Finance

The report of the Royal Commission on Banking and Finance had an explanation on Page 94 and 95 indicating how the banks create money or credit. After an explanation of how the Bank of Canada makes it possible for the chartered banks to create more money or credit, the Royal Commission Report follows through with the ultimate statement as follows—

> —thus if the first bank finds its cash increased by 8 Million by the initial Bank of Canada purchase from one of its customers and grants a loan of 7 Million to a customer who spends it on additional supplies, the suppliers

will re-deposit these funds in other banks which will in turn find themselves with extra cash with which to add to their assets. At this point, the banks as a group will find that their deposits have risen by 15 Million. 8 Million from the original security purchase and 7 Million from the proceeds of the loan, but their cash has increased by 8 Million. Since their cash ratio is still higher than it need be, this process of expansion will continue only coming to a halt, all other things being equal, when the liabilities of the Banking System have increased by 100 Million. At this point the statutory cash ratio of 8 per cent has been restored and any further expansion would bring the ratio below the requirement.

It should be noted that the 8 per cent requirement to be held in reserve by the banks with the Bank of Canada was decreased shortly thereafter to 7 per cent, which really gave the chartered banks the power to extend that much more credit on the basis of their deposit with the Bank of Canada and it should be kept in mind that they collect interest on these figures they write down in books as loans.

(Canada Year Book—1966—Page 1066)

(Statement of Chartered bank assets—1964: Notes of and deposits with the Bank of Canada—$1,237,192,000)

Recommendation

That the Bank of Canada Assume More Control of the Creation of and Distribution of Needed Credit (Money).

Co-Operative Finance

An important answer for the consumers to their finance problem or costs can be, and indeed already is, the building of co-operative financial institutions. These institutions may include Credit Unions (Caisses Populaires), Co-operative Credit Societies, Co-operative Insurance Cos. and Co-operative Trust Companies. There is no magic in doing this. In the Credit Union the members have to save their money before it is available for borrowing. They cannot pyramid as in the bank illustration. A portion of the people are invariably saving and these savings can then be made available to the needy members at reasonable rates of interest. In any of these co-operative type financial organizations it is simply a matter of the people who have helped create the wealth retaining some control over its use, rather than for others to use which may exploit them further. This type of work and organization helps the members (users or consumers) to make savings and should be encouraged by this Joint Committee and supported by government.

Consumer Affairs—The Combines Investigation Act

Under the heading "Consumer Affairs" the Free Press Weekly of the 11th of January 1967, in an editorial, had some comment on a reported statement of Senator Croll and then went on to the Combines Investigation Act to say in part—

> The trouble is not with the administration of the Act, but with the Act itself. When in December 1966 judgments were handed down against a number of firms engaged in the manufacture of containers, which as the Committee discovered can be costlier than their food content, fines ranged from $75,000 down to $1,000, but the judgment noted that several of the convicted firms had previous convictions under the Combines Act, but what a consumer's minister could do under these circumstances it is hard to see but what the Registrar-General's Department could do with a

> Combined Act that had teeth in it is easy to see. The aspiring manufacturers or merchandisers could find themselves in jail.

Members of this Committee are well aware of the number of convictions that have arisen under the administration of the Combines Investigation Act. They are also aware that in many cases the fines that have been imposed have been little more than license fees. The efforts of firms to escape competition within their group and thereby impose higher prices on the consumers continues. This is another indication of the weak position of the consumer in our business world. The 1966 Canada Year Book lists fourteen reports on firms investigated between 1962-1964 under the heading of "Combinations in Restraint of Trade". A recent press report contained the following statistics of fines imposed in a limited number of cases—a $7,000 fine in 1958 to Bathurst Power and Paper Company which that year made a net profit after taxes of $1,500,000; a $3,000 fine in 1958 to Hinde and Dauche which had a net profit that year of $1,323,000; a $3,000 fine for the St. Lawrence Corporation which made a net profit of $5,740,-000.

Recommendation—Re the Combines Investigation Act

That the Act be so Amended so as to Impose More Adequate Penalties for Breaches of the Act, with Provision for Jail Terms for Repeat Offences, and where other Weaknesses Exist, in so far as Public or Consumer Protection is concerned, that Appropriate Amendments be Effected. (see Appendix No. 2)

Grading

We will append to this submission a copy of an article that appeared in the Co-operative Consumer, published in Saskatoon January 24th, 1967, under the heading of "Governments too may add to the confusion of consumers". This article indicates that there is inconsistency in the terminology used in official grading and we will quote one short paragraph. We might add, however, that while the article blames the government at least by implication, others than government have not been free of blame in some of the mixed up grading terms or regulations. The following then is a quote—

> The word 'choice' is used to describe the top grade of beef, but when it is used to described canned fruits or vegetables choice means the second grade. No. 1 may mean a second grade of fresh pears, but with other fresh fruits, vegetables and honey No. 1 means the highest grade.

There are many fields in which the consumers are bewildered and exploited by the lack of standard terms that would indicate a given quality. One of these is automobile passenger tires. It is difficult, if not impossible, for the consumer to have any idea what quality he is getting through the names of the tires he is buying, unless he spends a great deal more time than is normally the opportunity of the buyer.

In a list (now two or three years old) of nine companies selling passenger car tires there were five grades of tires listed—most companies had three or four—some five qualities. Each grade or quality had a different name, but none of the names were really informative as to quality and in fact the names in the third or fourth quality lines were, if taken alone, quite capable of leaving the impression of being at the top.

Recommendation—Re Clarification of Grades

That some body with adequate authority be given the task of studying and recommending to government, ways to develop and apply a suitably consistent terminology for official grades and grading. (*See Appendix No. 3*).

Business Control

The magazine "Time" of January 6th, 1967 reported on statements made by John Kenneth Galbraith, Economist at Harvard University, during a series of lectures over the BBC Radio in Britain recently, the subject "The New Industrial State". Time reports in part as follows—

> "Big Business", said Galbraith, "has freed itself from a lot besides market-place chance-taking. For one thing owners can rarely bother the managers. Ownership is so broad that the individual stockholder is a passive and functionless figure. Even bankers can be held at arm's length, because corporations to an ever increasing degree can finance themselves through retained earnings.
>
> "Charades and Spinsters—When the corporate planners do not, for whatever reason, provide for themselves, continued Galbraith, state comes through a little too miraculously.
>
> "When more technograts are needed government steps up educational spending, the state also provides the man for the more risky technology. Anti-trust is a slick charade killing unimportant mergers but not touching established giants".

Ralph Nader in his book "Unsafe at any Speed", calls the practice of killing unimportant mergers, while not touching the established giants, "No-law Laws".

The consumer's weak position is well illustrated by such books as "The Hidden Persuaders" by Vance Packard; "Unsafe at any Speed" by Ralph Nader and by what we believe to be inadequate fines imposed for convictions under the Combines Investigation Act. Where is the consumer going to find a friend and protector?

It would seem that the Economic Council of Canada has, or should have, collected a great fund of information which, if made available for the information of consumers, would be of great benefit to them, but as it is, one is left to wonder if everything is being done for the manufacturers or business concerns while the consumers are left to the sometimes questionable practices of these beneficiaries of the council's work.

When the consumer is going to find a friend or protector may raise the question as to the position of the Press, Radio and Television in this regard. They do much that is good, but are so dependent on their advertisers for income that it is hard to list them as always being the consumer's friend when there is a division of interest as between seller and buyer. It is hard to believe that much of the advertising as now used is the consumer's friend. One is tempted to ask how much there is of truth in the satire contained in the play "Major Barbara" by Geo. Bernard Shaw when the play says—

> (Undershaft the Armaments Maker speaking) 'The government of your country'. I am the government of your country. I and Lazarus. Do you suppose that you, and a half dozen amateurs like you, sitting in a row in that foolish gabbleshop, govern Undershaft and Lazarus? No, my friend, you will do what pays us, you will make war when it suits us, and keep peace when it doesn't—when I want anything to keep my dividends up, you will discover that my want is a national need, when other people want something to keep my dividends down, you will call out the police and military and in return you shall have the support of my newspapers and the delight of imagining that you are a statesman.

The Co-Operative Movement

Through co-operatives the consumers have the opportunity to protect themselves by their own efforts. But it is well to keep in mind that it is the responsibility of government to see that the field in which co-operatives are

operating is not so dominated by powerful competitors that they have little chance of getting a fair deal in the procurement of supplies, or in the legislation under which they have to operate and this point of legislation for co-operatives has been reviewed by the Co-operative Union of Canada Brief and by references to the Combines Investigation Act here.

The co-operative movement is a "do it yourself" for the consumers, or producer marketers. It is under this system that organizations can be developed with the users of the goods or services as the controlling influence. It is under this system that business can be developed to a size and importance in the market up to national or international levels and still retain basic democratic control and distribute any gains made in the whole system to those who use the goods or services at the bottom, or who market the products. Let us give an example of how this works from the individual people to a national organization, using ur own Maritime area as the basic start.

The Users Benefit

Individuals of the Maritime area have organized co-operatives of which they are members. These co-operatives in turn have federated to build a co-operative wholesale or marketing organization on their behalf of Maritime scope and this Maritime organization has joined with other provincial co-operative wholesales across Canada to set up Interprovincial Co-operatives Ltd., with Head Office in Winnipeg. In these operations, if there is a gain made at any step it is moved down to theose who finally bought the goods or services. In co-operatives there is no reason for concern as to danger of foreign domination except in basic supply. If the users of the goods or services are Canadian they will own or control the perations that serve them.

For instance, in the year 1964-65 Interprovincial Co-operatives Ltd., the national organization, Head Office Winnipeg, credited $4,250 to Maritime Co-operative Services Ltd., Head Office Moncton, N. B., from their national surplus. Maritime Co-operative Services Ltd. in turn credited the local co-operative at Moncton, Co-operative Farm Services Limited, with $14,313, being its portion of the surplus of the Maritime organization. Co-operative Farm Services Limited at Moncton, with individual members, in turn distributed to its members 4½ per cent on their consumer purchases in the year 1965, or a total of $107,503. All these refunds are based on patronage not investment in shares.

Users Should Own

When one remembers that it is out of the business of the people that all mercantile business organizations and their facilities are built, then one can truly say that consumers or users have built all services that are catering to their needs, but only in the co-operatives do they really own them, or have a chance of doing so.

We will append some articles relative to packaging and the use of gimmicks in fooling the consumers (See Appendices Nos. 4 & 5), and while some of our illustrations may have United States origin, we feel that our business systems are sufficiently similar that we can see what is happening as much the same things are true in our Canadian distributive system.

We have appreciated the work that this Special Joint Committee of the Senate and Commons has done to date, including its reports and recommendations as we have seen them. We expect much good to come of its final reports and recommendations. Your Committee is made up of actual members of Senate and Parliament and we look for great things from you on behalf of consumers by way of protection or information assistance in the fields of Credit and Price.

Recommendation

To establish legislation that will protect the parton or consumer by:

(a) Labelling that clearly displays weights or measure in uniform or consistent terms;

(b) That makes illegal the use of containers or packages obviously designed to fool the customers;

(c) The standardization of containers or weights which would permit of easy comparison;

(d) The outlawing of trading stamps and other "Gimmicks" that may and often are use to sell merchandise.

Again we wish to thank the Committee for this opportunity of presenting some views on Credit and Prices on behalf of consumers.

Re Appendix No. 5

This gives a rather graphic illustration of what the patrons encounter to confuse them in Supermarkets. It isn't known whether the beans were comparable or not as to quality, type, grade, etc. It is known that these confusing situations exist.

APPENDIX No. 1

STATISTICS FROM THE CANADA YEAR BOOK 1966

1965—Grand Total of Federal Revenue	$ 7,180,309,785
" " " Expenditures	7,218,274,552
Of the Expenses, the following is listed under Finance Charges	
Interest on Public Debt	$ 1,012,097,143
Annual amortization of bond discounts, etc	36,365,542
Servicing of public debt	1,030,443
Cost of loan flotation	1,797,469
Fiscal Tax sharing	358,357,022
Contribution to Public Services Superannuation	55,622,340
Other	122,805,408
Total Finance Charges	$ 1,588,075,367
Provinces and Territories—1963	
Net Revenues	$ 3,255,814,000
Net Expenditures	3,435,430,000
Federal Gross Debt 1965—$26,547,246,505 Interst Pub	$ 1,012,097,143
1956—$19,124,232,779 Interest Pub	$ 492,624,067

Interest paid per capita 1956—$31.38—1965—$52.62.

CONSOLIDATED DEBTS OF ALL GOVERNMENTS—1962—CANADA

Federal	Provincial	000 Municipal	Less Inter-government Debt	Consolidated Government Debt
$ 24,573,694	$ 4,497,702	$ 5,644,065	$ 383,553	$ 34,331,908

Total Foreign Investments in Canada—1965	$ 26,203,000,000
U.S. Portion	$ 20,488,000,000

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Balances outstanding on Retail Credit and Loans extended to individuals for non business purposes by certain financial institutions—

Year	Retail Trade Credit	Sales Finance Cos.	Small Loan Cos.	Chartered Banks	Credit Unions	Life Ins. Policy Loans
			(000,000)			
1955	822	599	279	780	174	250
1964	1,243	967	901	2,252	850	397

Note that Accounts outstanding on the books of retailers stood at $1,242,600,000 at the end of 1964 This is considered to be consumer credit and doesn't include lumber or implement dealers.

CONSUMER PRICE INDEX—Numbers—1955-1964
1949=100

Gross weight as percentage total

Year	Food	Housing	Clothing	Trans-portation	Health and Personal Care	Recreation and Reading	Tobacco and Alcohol	Composite Index
	27	32	11	12	×7	×5	6	100
1955...	112.1	122.4	108.0	118.5	126.7	122.6	107.4	116.4
1964...	132.4	138.4	119.2	142.0	167.8	151.8	120.2	135.4

APPENDIX No. 2

Fines?

In 1961 the large electrical firms of the U.S.A. were tried and fined under Anti-trust Legislation. A sequence to these fines if revealed in an American paper of September 8, 1966 headlined—

Price Fixers' Damages passed on to Taxpayers

Herewith is the quote—

> When 29 electrical equipment manufacturers in 1961 pleaded guilty to price collaboration in violation of the anti trust laws Caplin (Commissioner of Internal Revenue) ruled that the damages they had to pay were income tax deductible.
>
> Senator Hart's Anti-Trust Sub-Committee has before it a bill to reverse that ruling. Hart said that Caplin's ruling saved the electrical equipment manufacturers $150 Million to $200 Million, and that, over all, allowing corporations to deduct as business expenses the damage payments assessed against them in price fixing cases has cost the government more than a Billion Dollars in lost taxes.
>
> From: The Co-operative Builder of Superior Wisconsin Article By: Sidney Margolius.

It is well to remember that the most influential firms concerned in the above report operate in Canada also, hence their activities can affect consumers' costs here.

APPENDIX No. 3

IN THE CONSUMER INTEREST
GOVERNMENTS, TOO, MAY BE ADDING TO CONFUSION OF CONSUMERS

Do even well-meaning governments which sponsor investigations into matters that make wise, thrifthy shopping difficult also contribute to the confusion beleaguering consumers? The answer is yes, if might be agreed that grading terms set by governments are far from being as easy to learn or apply as they it can be if a more consistent pattern of identifying grades was followed.

Make no mistake—a lot of good, sound legislation exists to control grading and protect consumers and their health. But some it is likely not nearly as effective as it could be if made more easily understood by consumers.

Take, for example, the simple word, "fancy". In canned fruits and vegetables it denotes Canada's highest grade. But when used to describe fresh apples the word identifies the second grade; the term "extra fancy" indicates the finest grade.

The word "choice" is used to describe the top grade of beef, but when it is used to describe canned fruits or vegetables, "choice" means the second grade. "No. 1" may mean a second grade of fresh pears but with other fresh fruits and vegetables, and honey, No. 1 means highest grade.

Further confusing aspects are found in the grading of meat where terms used to denote grades may be dropped by advertisers who prefer to use in their place the word that describes the colors used to stamp the grade on carcasses.

The matter becomes even more bewildering when it is noted that neither the terms used to describe grades or colors used to stamp the grade symbol on products is the same for both meats and poultry. So far as pork is concerned, it appears that no grading system is used that directly aids the consumer to identify grade.

For purposes of paying the farmer according to quality, hogs are graded A, B, and C at the packing plants, but this classifying does not seem to extend beyond.

Admittedly there are many reasons why beef, for example cannot be graded in the same manner as potatoes. But it appears obvious that it would be far easier for the consumer to identify products by grades if a standard method for naming grades was used for all products. If the method was by numbering 1, 2, 3, or by A, B, C, it would be much easier to learn and remember, hence be much more helpful.

SOME OF THE GRADING TERMS USED IN CANADA

NOTE Terms are usually preceded by the word "Canada" i.e. "Canada Fancy".

	Highest	Second	Third	Fourth	Fifth
Butter and Cheddar Cheese[1]	First Grade	Second Grade	Third Grade	Below Third	
Eggs[2]	Grade A-1	Grade A	Grade B	Grade C	Grade Cracks
Fresh Apples	Extra Fancy	Fancy	Commercial or Cee or C		
Fresh Pears	Extra Fancy	Fancy or No. 1	Commercial or Canada Cee or C, or Canada Domestic		
Fresh Cherries	No. 1	Domestic	Orchard Run		
Fresh Apricots, Crabapples, Cranberries, Grapes, Peaches, Plums, Prunes, and Rhubarb	No. 1	Domestic			
Fresh Carrots, Parsnips, Onions, Celery, Potatoes, Lettuce, Cucumbers, etc.	No. 1	No. 2			
Canned Fruits and Vegetables	Fancy	Choice	Standard		
Canned Apple Juice, Tomato Juice, Frozen Fruits and Vegetables and Vegetables and dehydrated Fruits and Vegetables	Fancy	Choice			
Honey	No. 1	No. 2	No. 3	Sub-standard	
Maple Syrup	Fancy	Light	Medium	Dark	
Beef[3]	Choice (Red)	Good (Blue)	Standard (Brown)	Commercial (Black)	Utility (Black)
Poultry[4]	Special (Purple)	A (Red)	B (Blue)	Utility (Blue)	C (Yellow)

[1]Grades other than Canada First usually available in retail stores.

[2]Grades A1 and A are also classified by size within the grade, A1 and A extra large; large; medium; and small. Grade A also has a "peewee" size for eggs less than 1½ ounces in weight. A1 is a grade seldom used in the prairie area; Grade C and Cracks are not usually sold in retail stores.

[3] and [4]Grade is stamped on carcasses using colors indicated. Note colors used for meat are not necessarily the same as those used for poultry.

Co-operative Consumer—24/1/67

APPENDIX No. 4

FALSE LABELLING COMPLAINT LAID AGAINST MANUFACTURER

Into a Chicago court recently came a major food distributor, National Tea Company, charged with falsely labelling a well known brand name product —Maxwell House instant coffee.

The U.S. Food and Drug Administration which laid the complaint said about 5400 "giant economy size" jars of coffee it seized from the company actually cost mor per ounce than the same coffee in smaller jars.

Ten-ounce jars of the coffee were being sold in National Tea Company retail stores at $1.44 a jar or 14.4 Cents an ounce.

At the same time in the same stores six-ounce jars of the same product were being sold at 75 Cents a jar or 12.5 Cents an ounce, FDA officials said.

It's not an isolated case. Consumers all over North America have for long been taken down the garden path by confusing pricing, packaging and advertising on the part of manufacturers, processors and retailers.

In the Canadian Prairie region the consumer co-operative movement has unearthed similar merchandising techniques. In an effort to fight the unethical practices, co-operative educational teams have been sent out to report the findings to the public.

Some Examples

In the following examples prices used may vary in different areas but the relationship will be the same:

Consumers pay through the nose for fancy packaging. A tube shaker of Sifto free running iodized salt sells at 12 ounces for 15 Cents or 20 Cents a pound; in boxes the same salt comes in two two-pound packages for 33 Cents or 8¼ Cents a pound; in five-pound bags it sells for 35-36 Cents or Seven Cents a pound.

While there is no actual deception in this instance the manufacturers are careful not to spell out clearly just how much the various units cost expressed in terms of so much per pound.

The next example, however, carried much more serious implications. Halo Shampoo sold a large bottle of its product for $1.29. At the same time it put on a special, selling two bottles of apparently equal size and valued at $1.08 for only 79 Cents. Consumers flocked in to pick up the special.

The two bottles only looked to be the same size. One was mounted on the display folder in such a way as to fool the casual observer and was actually much smaller than the other. And the two together sold at 16 Cents an ounce while the big bottle sold for 9 Cents an ounce.

Helen Curtis spray net also used the optical illusion stunt. Containers with an eye-catching red cap were selling at 59 Cents for two ounces avoirdupois. Right beside identical cans marked special, 49 Cents, but minus the red cap, were being ignored by shoppers.

Not What They Seem

Be wary of bargains. They're not always what they seem. Take the case of FAB soap. A box of King-size FAB with no premium and marked—35 Cents off—sold recently for $1.24 for four pounds, four ounces.

A similar package with the same FAB but containing an eight-inch pyrex pie plate was listed at 16 Cents off (off what it wasn't explained). Price for this package was $1.63 but the weight was only three pounds and three ounces.

The pie plate thus cost 69.9 Cents. But stamped on the plates was the suggested retail price—49 Cents. Either the soap or the pie plate cost the consumer 20 Cents more.

But at the same time another box was on sale—called NEW FAB. It was a blue box with a yellow band part way down the box. The upper portion was labelled one-third free. The soap cost 2.7 Cents per ounce. But—the non-gimmick king-size package already mentioned cost only 1.8 Cents per ounce.

Doesn't Say

In this case it is somewhat difficult to decide what was free and what wasn't. Obviously it wasn't the soap; it may have been the extra cardboard or perhaps the extra printing. The manufacturer doesn't really say.

Sometimes a company fools the consumer by using different measures of weight. Air Wick for example, sells in a glass jar containing 5½ fluid ounces for 79 Cents.

The same product also comes in pressure cans, also costs 79 Cents for five ounces—but this time it is avoirdupois ounces. They're not the same. And only a veritable mathematical genius could readily convert the two weights.

Toothpaste makers use the same trick. Colgate's comes in ounces; Ipana is in grams; and MacLean's is in both ounces and grams.

Lustre Cream Shampoo recently staged a sales campaign that actually bordered on the fraudulent. It offered double packs encased in bright red cardboard sales jacket. In big letters it proclaimed: "Save 32 Cents". Price of the double pack was 98 Cents.

How much did the two packs weigh? Well, it's not easy to find out. The red wrapper is glued over the weights. And even if the customer rips it off he can still see only one weight. The weight on the other package is hidden because the two packages are also glued tightly together.

There is no suggestion that the weights aren't the same, the co-operatives point out. The point is the consumer doesn't know for sure—that is unless he rips the company carefully constructed little package to shreds. Then having treated it in so irreverent a manner there would, quite understandably, be more than a slight obligation to buy the package regardless of what information was printed on it.

If the consumer persevered in his efforts he would finally discover that for his 98 Cents he would get 3-3/8 ounces in the two tubes. If he glanced around he would also notice that the same product was on sale on the same shelf for a "special" price of 89 Cents for one four-ounce tube.

What then does the manufacturer mean by the phrase: Save 32 Cents? Perhaps the company means the consumer saved himself 32 Cents over what he might have been taken for.

Part of an article taken from
The Western Producer—10/5/62.

APPENDIX No. 5

As a side note not directed at Coop; I think the Housewives who are trying to organize a boycot against supermarkets should be educated a bit, such as boycoting some of the products in the stores not the store or supermarket itself for example a 6¾ oz. tin of meat. A 48 oz. tin of beans for 72 cents when you can buy *three* 20 oz. tins at 23 cents per tin. Also in a supermarket one day recently I noticed a large box of toilet tissues (single rolls); a sign read "Gigantic Sale", seven rolls for $1.00; the few minutes I was waiting there several shoppers picked up seven rolls. Ten feet away they could have picked up (4 roll pack) 4 rolls for 44 cents, the same brand name. In other words 99 cents would buy 9 rolls at the regular price. As I am running out of space I'll quit. You're tired of me by now anyhow, but I could write a small book on the same subject if I had...

The aforegoing is one customer's comment on Supermarket operations, and shows that the patron, like many others, is confused, dissatisfied and fed up with being fooled. W.H.M.

BRIEF SUBMITTED TO SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

Prepared by

THE CONSUMERS' ASSOCIATION OF CANADA

Nova Scotia

INTRODUCTION

Mr. Chairman and Members of the Joint Committee:

Your announcement of plans to hold hearings in each Province was enthusiastically received by Consumers' Association of Canada (Nova Scotia). Evidence of rising prices, particularly on food items, was—and is—apparent. Members of local associations in Dartmouth, Halifax, Truro and Sydney were asked to collect data to provide your Committee with helpful information about price increases in this Province.

Many examples were collected. Review of these brought forth very little information about the cause of the price problem. You have already viewed in Ottawa examples of the type we found in Nova Scotia, i.e. of misleading merchandising procedures, extravagant and misleading promotion programs, elaborate packaging and confusing package sizes. Attention was given these areas in the Brief of Consumers' Association of Canada (National) presented to your Committee in Ottawa on December 6.

It is not the intention of CAC (Nova Scotia) to duplicate the brief presented to the Committee by our National organization. We concur in the views expressed in that brief and wish to put on record our strong support for the recommendation of the National association.

We wish also to take this opportunity to express our appreciation for the encouraging views set forth in the Joint Committee's interim report published

December 20. We feel that the interim report reflects an earnest and competent effort to accomplish the great national purpose for which the Committee was appointed.

The Consumers' Association of Canada (Nova Scotia) would draw the attention of the Joint Committee to the following points which we feel are relevant to any study of cost of living in Canada.

GEOGRAPHIC DISPARITY IN PERSONAL INCOME

The submission of the National organization of the CAC remarked upon the fact that the increasing cost of living weighed more heavily on some groups of consumers than on others. In this respect we would ask the Committee to note the great disparity in personal income as between different geographical areas in Canada.

If the serious price increases of recent months have caused concern in Central Canada, one can understand how much more severe their effect has been in Nova Scotia. Here, the per capita personal income in 1965 was 74.6 per cent of the national average. It was only 65 per cent of the per capita personal income of Ontario.[1] Admittedly, the Committee's terms of reference are limited to a study of cost of living and contributing factors. We suggest, however, that no study of prices is valid without some reference to the consumer's capacity to pay them.

Statistical averages can frequently prove misleading. We feel that an individual case history, as presented in *Appendix A* to this brief, may for better illustrate the painful circumstances of a family being steadily squeezed between rising prices and an inadequate income. This case history is that of a typical full-time employee of a Nova Scotian colliery. He also may properly be considered as representative of workers in many Nova Scotian service industries.

We think that this case study speaks for itself.

CONSUMER SAFEGUARDS

Legislation

The Joint Committee's original terms of reference confined it to a study of consumer credit. In this area the people of Nova Scotia find great encouragement in the recent enactment by the Nova Scotia Legislature of the Consumer Protection Act. We consider the enactment of this law an earnest of the Provincial Government's concern over consumer problems.

Credit Unions

In addition to protective legislation of this type there is available to the public another, and somewhat more positive instrument which can exert substantial influence upon the cost of consumer credit. This is the credit union. In evaluating the role of the credit union, we can do no better than quote from the Report of the Royal Commission on the Cost of Credit, appointed by the Government of Nova Scotia:

> The character of the objectives and membership of credit unions results in their taking an extensive interest in the personal finances of the community and in their acting as a spokesman for the consumer in all public discussions of credit and personal finances. ...the credit union movement can influence the behavior of other institutions by its program of education and by the competition to other lenders which its facilities represent. ...Its impact on the attitudes and practices of other lenders and of the public can thus be considerable.[2]

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[1] Economic Council of Canada: Third Annual Review.

[2] Report of Royal Commission on the Cost of Borrowing money, Cost of Credit and Related Matters in the Province of Nova Scotia, P. 150, February 1965.

Consumer Co-operatives

Something the same may be said for the encouragement of consumer co-operatives. Co-operatives have exerted a healthy influence in maintaining favorable price and income levels for those in whose interest the co-operative functions. This is especially true in the field of farm supplies, as well as in marketing primary products. The consumer co-operative, to this date, has not become a substantial factor in merchandising in North America. In many parts of Europe, however, consumer co-operatives have attained significant stature. They give the consumer an effective measure of control over the price of many everyday products.

The experience indicated in Great Britain and Scandinavia should be pointed out here. It is, that the degree of market influence exercised by a consumer co-operative is often out of all proportion to the size of the co-operative. It has been estimated that in some circumstances a co-operative serving as little as 5 per cent of the market can have a healthily moderating influence on the price structure.

Co-operative organization serves an additional function in imparting a strong sense of participation to its membership. The educational value of such participation can have a profound effect. The co-operative member is encouraged to learn something of business management, and as a consumer quickly finds a new awareness of value. The consumer who has had some co-operative experience is almost invariably a careful and canny shopper.

For these reasons a government's sympathetic interest in co-operative affairs could very well help to develop a more sophisticated consumer public. In this way more stability would be brought to consumer price levels.

DEPARTMENT OF CONSUMER AFFAIRS

Consumers' Association of Canada (Nova Scotia) heartily endorses the recommendation made earlier by the National organization calling for the establishment of a Federal Government Department of Consumer Affairs. We cannot agree with those who suggest that such a department would only duplicate the function and responsibilities of existing departments. It is quite true that the interests of consumers find recognition in the terms of reference of many government departments. The departments of Health and Welfare; of Fisheries; and of Agriculture, are examples. This attention, however, is unco-ordinated and is incidental.

The problems and welfare of the industrial worker, as an employee, are the object of the attentions of the Department of Labour. The Canadian farmer's affairs fall within the purview of the Department of Agriculture. Health and Welfare treats the citizen as a physiological phenomenon, whose physical well-being from birth to death calls for a measure of attention. We suggest, however, that the citizen as a consumer is not receiving the attention he or she deserves, and that our whole economy is suffering in consequence.

A Department of Consumer Affairs, in our view, might profitably function in the following areas:

(a) *Consumer Education*

The Canadian Government is already involved in a variety of programs which could be classified under this heading. As noted earlier, existing departments do a great deal of useful educational work. Agriculture, Fisheries, Health and Welfare all devote a certain part of their resources to keeping the public informed. Through these departments the consumer learns about optimum use of foodstuffs and sometimes of household items. We have received many of the household-directed publications of these departments. They have been of excellent quality and content. Unfortunately their circulation is limited. In most cases

the information contained is invaluable from a technical point of view. However, it often has little bearing on the housewife's economic problems.

A central Department of Consumer Affairs could improve upon this. A planned and co-ordinated educational program could be tailored specifically for the homemaker as a consumer and as a shopper. The proper function of government is to protect its citizens where protection is needed. There is surely no area where protection is more urgently needed than in the marketplace. An educated and sophisticated consumer public, we believe, is the answer. We reject any suggestion of price control or other direct government intervention in the free play of market forces. We feel strongly, however, that government can and must do much more than it is currently doing to keep the public informed of market conditions and affairs.

We envisage a Department of Consumer Affairs which would keep the consumer continuously informed of production trends; on trading conditions; on market practices; and on price fluctuations. It would, where possible, engage in reports on quality and in forecasts on price trends. It would be responsible for flying economic storm signals.

Information of this type must be presented to the public in a modern, streamlined format. It must be designed to get the attention of contemporary generations. Dull statistical reports and pamphlets are out. We think instead of high-impact presentations; presentations delivered through the most popular media. These must be of a kind and quality able to compete successfully with galloping knights who are stronger than you know what; or with those tigers that keep getting into gas tanks and soap-flake boxes.

(b) *Consumer and Market Statistics*

The Department of Consumer Affairs would be responsible for a permanent, continuing study of the Canadian marketplace. It has been said that this function is already served by the Dominion Bureau of Statistics. It is the opinion of many competent observers, however, that the D.B.S. operation is not adequate. It does not at this time provide all the information required to obtain an accurate picture of Canadian consumer market conditions. It is not possible, on the basis of D.B.S. information, to compare living costs in various parts of Canada. Data aggregated for the whole country is of very limited use in a country as large as Canada where there exists such a variety of economic conditions in its various regions.

The gathering of such information is, of course, far beyond the scope and capacity of any private organization such as, for instance, the Consumers' Association of Canada. This function is a field for highly-trained professionals. This function requires the most elaborate computing equipment and a network of regional reporting centres. It calls for a continuing study of the effect of such extraneous factors as foreign exchange rates, fluctuations in world commodity markets, and currency control.

A statistical service of this kind, we feel, is indispensable to the kind of knowledge of the consumer market which today's conditions demand. Only government can provide it.

Referee and Leader

A Department of Consumer Affairs would in addition enable government to fulfill its proper leadership role. This role is that of an umpire and referee in the relations between producers and consumers. It would enable government to exercise leadership in the creation of a more co-ordinated, corporate national community. In our view one of the most important functions of such a Department would be to create a condition of practical liaison between production groups and consumers. The prevailing atmosphere of hostility and suspicion has

no place in a healthy society. We would like to think that there are few business people left who still subscribe to the shabby old principle that "there's a sucker born every minute". Unfortunately, far too large a proportion of consumers still feel that this is the attitude with which they must contend in the marketplace.

In the long run, we are convinced, the best interests of both producer and consumer will be served by an honest and factual approach to the problems of the market. It is more than fifty years since Henry Ford startled the business world with his revolutionary discovery that industrial workers could also be consumers. This assumption of the essential plurality of roles of the citizen is perhaps one of the most important elements in the Affluent Society.

Given the right leadership, and this can come only from government, we feel confident that Canadian producers and distributors on the one hand, and the consumer on the other, can arrive at a new level of mutual understanding. We cannot accept the thesis that the marketplace must inevitably remain an arena of conflict and quibbling. Give the Canadian people access to the facts. Encourage them to the fullest use of their intelligence. Provide them with avenues for a free exchange of views between functional groups. The Canadian marketplace of tomorrow will then satisfactorily serve the best interests of everyone.

ACKNOWLEDGEMENTS

In the preparation of this brief many members of CAC (Nova Scotia) spent much time in collecting merchandising data in various parts of the Province. Unfortunately, this information was not sufficient to provide a comprehensive picture of consumer price trends throughout Nova Scotia.

Appendix B includes some of the examples found in Nova Scotia.

Appendix C includes a listing of some areas in which CAC (Nova Scotia) is involved.

The Executive of the Consumers' Association of Canada (Nova Scotia) is grateful for the work of its members throughout the Province. It is especially mindful of the extensive information gathered by Mrs. R. C. Butt and Mrs. R. Hesson of Dartmouth, and by Mrs. D. MacNeil, Halifax.

Respectfully submitted,

Teresa MacNeil, President
Consumers' Association of
Canada (Nova Scotia)

February 20, 1967

APPENDIX A

CASE STUDY

Employed Male—Age 40, Married, 4 Children:
Boys Aged 14 and 9
Girls Aged 7 and 6

Gross Annual Income: 1962	$ 3,190
1966	$ 3,360

Monthly Payroll Deductions:

	1962	1966
Pension	—	5.20
Union Dues	4.00	5.00
Medical	5.00	8.08
Hospital	1.00	1.00
Income Tax	20.04	20.04
Unemployment Ins.	3.76	3.76
	33.80	43.08

MONTHLY INCOME COMPARISON

Year	Gross	Deduction	Net
1962	$ 266.	$ 33.80	$ 232.20
1966	$ 280.	$ 43.08	$ 236.92
Increase	$ 14.	$ 9.28	$ 4.72

MINIMUM MONTHLY COSTS FOR FOOD, CLOTHING AND HOUSING

Year	Food	Clothing	Housing	Total
1962	$ 101.96	$ 31.12	$ 61.85	$ 194.93
1966	$ 131.20	$ 37.82	$ 82.66	$ 251.68
Increase	$ 29.24	$ 6.70	$ 20.81	$ 56.75

BALANCE REMAINING FOR ADDITIONAL EXPENDITURES

1962	$ 232.20 − $ 194.93 = + 37.27
1966	$ 236.92 − $ 251.68 = − $ 14.76

Basis For Calculating Food, Clothing and Housing Costs Used in the Above Case

Food

Food costs for 1962 and 1966 are based on published results of food price surveys conducted by the Nutrition Division of the Nova Scotia Department of Public Health. These price surveys were made in December 1962 and December 1966. They appear in the annual publication "Cost of Feeding Families in Nova Scotia". The cost of feeding the family described in the above case follows calculations designed to meet minimum adequate nutritional requirements as prescribed in Canada's Food Guide. Each family member's age has been considered. The foods selected take into account the most economical food buys and do

not include such features as whole milk, expensive packaging, luxury grades or any factor which might unnecessarily inflate cost. These are staple foods to be prepared and served according to very basic recipes.

Observation

The above figures show that the food prices increased between 1962 and 1966 for the same foods for one month by $29.24. A check was then made to determine how much of this increase took place in the one-year period December 1965—December 1966. Figures in Table I illustrate our finding:

TABLE I—COMPARATIVE FOOD COSTS

	Cost/ Month	Difference
1962	$ 101.96	$ 29.24
1966	$ 131.20	
1965	$ 109.40	$ 21.80
1966	$ 131.20	

Clothing

Clothing costs for 1962 are based on approximate monthly percentage of income for two adults and four children of the above specified ages. This estimate is suggested in "Quantity and Cost Budgets for Two Income Levels", a 1959 publication of The Heller Committee for Research in Social Economics of the University of California. The 1966 figures are based on estimates supplied in the publication "Family Budgeting", a guide for welfare and health agencies published jointly by Health and Welfare Departments of the cities of Halifax and Dartmouth, August 1966.

Observation

There was extreme difficulty in collecting accurate price comparisons for clothing. Variations in quality, fabric, style and brands contributed largely to this difficulty. Further, we found no reliable, systematic, long-term accounting for clothing prices.

Housing

Figures used in the above case are based on the cost of financing a new home through co-operative housing, a program of the Nova Scotia Housing Commission. The monthly rate includes property tax payments and an interest rate of 5 3/4 per cent in 1962 and of 6 1/4 per cent in 1966.

MONTHLY MINIMUM ADEQUATE FOOD COSTS FOR LOW INCOMES

	1962	1965	1966
Man	$ 21.00	$ 21.40	$ 23.20
Woman	17.40	17.80	19.80
Child 14 yrs. (boy)	19.72	22.00	27.20
Child 9 yrs.	15.80	18.20	23.00
Child 7 yrs.	15.80	17.00	19.00
Child 6 yrs.	12.24	13.00	19.00
	$ 101.96	$ 109.40	$ 131.20

Difference between 1962 and 1966=131.20–101.96=$29.24
Difference between 1965 and 1966=131.20–109.40=$21.80

MONTHLY MINIMUM CLOTHING ALLOWANCE

	1962	1966
Man	$ 5.59	$ 10.75
Woman	6.38	9.66
Child 14 yrs.	5.05	5.67
Child 9 yrs.	5.05	4.26
Child 7 yrs.	4.52	3.74
Child 6 yrs.	4.52	3.74
	$ 31.11	$ 37.82

Difference between 1962 and 1966=37.82–31.11=$6.71

MONTHLY COSTS FOR CO-OPERATIVE HOUSING PLAN IN NOVA SCOTIA

Nova Scotia Housing Commission

1962		1966	
Amt. Loaned	Mo. Payment	Amt. Loaned	Mo. Payment
$6,200 at 5¾%	$61.85	$8,500 at 6¼%	$82.66

Difference between 1962 and 1966= 82.66–61.85=$20.81

ESTIMATE OF OTHER MONTHLY EXPENDITURES[1]—1966

Electricity		$ 9.17	
Fuel	$ 10.42		space heater (Halifax)
	20.00	14.19	oil furnace (Dartmouth)
	12.15		coal furnace (Sydney)
Water		3.00	
Bus Transportation		19.30	
Telephone		5.85	
Reading (newspaper)		2.00	
Gifts and Contributions		4.40	
School Needs		4.68	
Home Furnishings*		5.40	
Household Operation		7.78	
Medicine Chest Supplies		.75	
Personal Supplies (including haircuts)		9.00	
T.V.		2.33	
Radio		.16	
Other Reading		1.09	
		$ 89.10	

NOTE: No Medical, Drug Expenses, Life Insurance, Credit Costs, Car Costs or Dental Costs.

* Budgeting for home furnishings not possible for people receiving social assistance.

[1]Based on minimum estimates supplied in "Family Budgeting" published by Health and Welfare Departments of the cities of Halifax and Dartmouth, August 1966.

APPENDIX B

ASSORTED EXAMPLES OF PRICES AND OF MISLEADING MERCHANDISING PRACTICES

RENTALS—

Source of information; Halifax Welfare Department:
Increase of 30% to 40% since 1964.
Further increase pending for 1967.
Average monthly rent for welfare case in Halifax=$85.00.

TWO ADVERTISEMENTS for similar product; Item: Hoover Washer–Dryer

Sold in Saint John, N.B.	Sold in Dartmouth
$ 199.95	$ 229.95

Difference=$30.00
Weight of washer=115 lbs.
Express rate St. John–Halifax —3.25 (125 lbs.)
Freight rate St. John–Halifax —1.80 (125 lbs.)
Express rate Toronto–Halifax —6.40 (100 lbs.)
Freight rate Toronto–Halifax —3.32 (100 lbs.)

CAR INSURANCE—

Minimum Liability Coverage

	Halifax	Sydney
1966	$ 42.00	$ 50.00
1967	$ 46.00	$ 54.00

FISH—

Haddock landed at Lunenburg January 30, 1967:

Price to Fisherman	Price to Halifax Consumer
9c per lb.	55c/lb. (fillet)

STANDARDS—

no established standards for buying tires
no established standards for package sizes
The 14 oz. pound (decrease in contents without change in package size).

SPECIALS—

The term "special" does not necessarily indicate lower-than-regular price.
Example: "Special" display of Pancake Mix 2 lb. package for 49c
Regular display of Pancake Mix (same brand) 1 lb. pkg. for 16c

Shoes—This year has brought an unprecedented number of complaints about the poor quality of children's shoes. Following up two cases where price increases on children's shoes were reported, there was no change found in the quality of material used, design or construction of the product.

Tax Increase—The most recent tax increase announced by the Federal Minister of Finance (1 per cent) was not to affect food items. An unconfirmed suspicion is current among members re its effect on the price of paper wrappings and food containers. It also affects margarine.

Changes in Names of Firms—Complaints received from members about failure of some business establishments where name of firm has changed to abide by the terms contracted by the consumer; often fail to stand by the product sold under the "old" name.

Milk—Price per quart for milk sold in store higher than price charged for home delivery.

Margarine—1 per cent sales tax on margarine.

Retail Price—Many examples of retail price marked on the article by the manufacturer.

APPENDIX C

EXAMPLES OF RECENT CAC (NOVA SCOTIA) ACTIVITIES

Education—Displays of "use and misuse of drugs" materials issued by Food and Drug Directorate.

Discussion groups on consumer subjects.

Television and radio presentations.

Panel presentations at regular membership meetings.

Public "Consumer Information" meetings.

Problem-Solving— Processing complaints received from members.

Representations—To Board of Public Utilities re Milk regulations.

To Provincial Government re taxation of adult-size clothing purchased for children.

Two members of CAC (Nova Scotia) Executive serve on Advisory Councils in connection with the Nova Scotia Consumer Protection Act.

One member of CAC (Nova Scotia) Executive serves on Advisory Council of Consumers appointed under terms (1964) relating to the Food and Drug Directorate of the Department of National Health and Welfare.

SUBMISSION BY
CONSUMERS ASSOCIATION OF CANADA
Prince Edward Island Branch

The Prince Edward Island Association of the Consumers' Association of Canada is pleased to have the opportunity to present a brief to this committee.

In presenting our brief we wish to state that we support the brief presented by the Consumers Association of Canada on December the 6th, 1966, in Ottawa.

In Prince Edward Island there is one Association with a membership of over 115 individuals and 20 groups, mainly from the Women's Institute. The Association operates under the leadership of the National Association. In Prince Edward Island we act for all consumers answering their requests for information or help with problems to the best of the ability of voluntary workers. The Association has had a radio program for three years and has, for the same time, sent monthly letters to the Women's Institutes on the Island. Trading Stamps were prevented from appearing on the Island through the actions of the local Association. We also worked to get regulations passed regarding the Health of Animals and Meat Inspection and it was through our efforts that compulsory inspection and licensing of slaughter houses came about. (App. 1) Inspection of potatoes for the local consumer was brought about through the efforts of our Provincial Association. Also we have encouraged Islanders to shop wisely not only for merchandise but for credit.

We wish to point out today some areas that have caused Island Consumers concern in their efforts to shop wisely for food:

1. In 1965 the per capita income in Prince Edward Island was $1,370 and in Canada $1,983, a difference of $613. Yet the price of food on the Island maintains the average for the rest of Canada.

The proportion of income which must be spent for adequate nutrition is greater for the low income consumer than for the medium to high income group, therefore, each rise in the price of food means a lowering of nutritional standards for many Island consumers.

2. We note that 60% of the final retail price of food is made up of processing, packaging and marketing costs and would suggest that ways of packaging basic foods be kept as simple and economical as possible for the benefit of lower income groups. App. 2.

3. We have not been able to find proof that basic food prices are inflated to cover the cost of luxury items carried in the same store but we would ask that this be investigated and corrected if necessary for the benefit of low income groups.

4. Changing the shape or size of the container with the additional need for a change in label is often unnecessary. App. 3. The original bottle is attractive, easy to handle, easy to see the contents and convenient to use yet it is now being changed for an unattractive, oddly shaped bottle with a small opening which will not serve the consumer as well.

5. We have not been able to obtain proof but we understand that representatives of companies in areas, such as the Atlantic area, are given set amounts of money for promotion and these amounts are spent whether the product needs to be advertised to this extent in the area or not. This would seem to be an unnecessary extravagance, especially in the area of basic foods and we would like to see this investigated.

6. The change of a container often means a rise in price. App. 4.

7. Contents of packages should be stated by weight not "servings" as these can vary with the whims of the manufacturer and the appetites of the consumers.

8. The grade stamp is applied to all meat at the time of inspection but by the time the meat reaches the display counter this grade stamp is quite often not visible to the consumer. Consumers in Charlottetown are buying all four grades of meat as well as pro-ten cow steaks (in the summer) yet these are unmarked. The consumer is unable to compare prices according to grade. App. 5.

9. We object, as do other consumers across Canada, to the original price being marked out or a sticker being put on top of it, and the price increased. App. 6.

10. Large supermarkets, at least, should carry the most economical size as well as other sizes for the consumer. App. 7.

11. On checking brands of powdered laundry detergents we found that 3 companies had 15 competing brands on the shelves of one supermarket. We feel that for a company to compete with itself is unnecessary and an added expense to the consumer. App. 8.

12. Island produce which travels only a short distance from producer to supermarket often shows a sharp rise in price, as the produce is delivered by the producer to the supermarket we believe the profit made by the market is out of proportion to the work done. App. 9.

13. The consumer and the tourist association are both concerned with the non-returnable soft drink bottle. These bottles are broken on our roads and beaches and constitute an increasing hazard to consumers.

14. We are unable at this time of year to obtain fruit containers which are filled in unequal amounts but we understand that quart strawberry boxes often vary from 18 to 22 ounces in the amount of berry contents. We realize that the blame for this can be placed on the producer, the store keeper or on the consumer but would like to see fruit and berries sold by weight and perhaps covered by a plastic netting.

15. Frozen turkeys which are sold in plastic wrap often have freezer burn when this wrap becomes brittle and cracks. This means a reduction in the quality of the turkeys but we have not yet seen a corresponding reduction in the price to the consumer.

16. The price of the regular bakery bread in the ponytail bag is on Prince Edward Island—20 ounce loaf 28 cents but in Montreal a 28 ounce loaf sells for 27 cents and on weekends 2 for 39 cents. We are unable to account for this difference in price.

17. The Queen's Printer in Ottawa, the Dairy Farmers of Canada and many others have informative literature already in print which would be of value to the consumer. We would like to see this literature given more publicity so the consumer will be aware that it is available.

18. The consumer needs to be better educated and we would recommend that consumer education be provided in all schools, universities, adult education courses, etc. and that radio and television programs be used to inform the consumer.

In this brief it has been our desire to point out and emphasize the fact that the consumers of Prince Edward Island share the same problems as the consumers of the rest of Canada. Like them we sincerely hope that in bringing these problems out into the open, solutions for them will be found.

APPENDIX

1. Trading Stamps 1960
Meat Inspection 1962

2. 60 per cent—Brief on Food Prices presented by the Consumers' Association of Canada on December 6, 1966

Laundry Detergent in 5 lb containers: Omo $1.89 in cardboard box; Fab 1.63 in cardboard box; Encore $1.35 in plastic bag.

3. Schwartz spices

4. Schwartz black pepper—February 14, 1967; 1½ oz. tin 23 cents or 15⅔ cents per oz. 1¾ oz. bottle 31 cents or 17 5/7 cents per oz. 1¼ oz. bottle 34 cents or 27 1/5 cents per oz. new container 1967.

5. Dominion Stores sell Red and Blue Brand.

Ellis Bros. Supermarket sell Commercial Brand.

Queen St. Meat Market sell pro-ten cow steaks (in summer of 1966) as well as regular steaks.

6. Co-op Supermarket, February 14, 1967; All Detergent 20 lbs. $6.75 marked up to $6.99; 9 lb. 6 oz. $3.67 marked up to $3.73.

7. All Detergent 20 lbs at $6.99 or 35 cents per lb. 1 lb 9 oz. .65 or 41-42 cents per lb.

8. Lever Bros.—Breeze, All, Omo, Surf, Rinso, Sunlight. Proctor and Gamble—Oxydol, Tide, Bold, Duz, Dash. Colgate-Palmolive—ABC, Ajax, Fab, Encore.

9. Boneless Codfish in wooden box—1 lb sells at plant in Tignish for 43 cents and in Charlottetown, a distance of 90 miles, it sells for 65-69 cents or a profit of 34 per cent.

(For brevity one example only has been used.)

BRIEF

TO THE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

Prepared by the
Saint Francis Xavier University
Extension Department
Sydney, N.S.

Presented by
Mr. J. Duncan MacIntyre

February 20, 1967

MR. CHAIRMAN AND MEMBERS OF THE JOINT COMMITTEE

Preamble

My name is Duncan MacIntyre, representing Saint Francis Xavier University, Extension Department, Sydney, N.S.

It is an honor for me to present a brief to you on behalf of the Extension Department of St. F.X. and on behalf of the lower income families of the Eastern counties of this province.

St. F. X. Extension Department has been carrying on a program of promotion and education in the Co-operative housing field for the past 25 years. Over this period, our Department has witnesses Co-operative housing requisites change from little more than some neighbourly spirit, a shovel, a hammer and plenty of muscle to the complex demands of today's building codes, materials and financing. Our Department has also watched monthly payments for Co-op housing increase from $12.41 including taxes paid by 1939 groups, to approximately $75 in 1967.

To review the cost of material increases for any number of years would be an imposing task in view of the many and varied materials that go into home construction, and the number of new materials available each year.

Comparison of cost for some building materials for 1963 to 1966 are included in Table I. We are not however, in a position to suggest factors which may have contributed to these trends.

We have also listed, for your consideration, the changes that have occurred in the costs of credit for home construction through the Nova Scotia Housing Commission. (Table 2)

Co-operative housing companies are non-profit and non-subsidized, and members contribute most of the necessary labor. The amount of money borrowed from the Housing Commission, therefore, represents mainly the cost of materials needed to build a 1,000 sq. ft. three-bedroom home. The Housing Commission, over the years, has loaned to Co-op companies only the bare minimum to complete the houses, so a comparison of the maximum mortgage amounts allowed will serve as a guide to comparing building costs over the past 25 years. Table 3 gives these mortgage amounts, the cost per square foot, and the percent increase over each 5 year period since 1940.

The fact that this Committee is here to study trends in the costs of living, indicates your concern for low income people who find it increasingly difficult to provide for themselves the basic necessities of food, clothing and shelter.

With your indulgence, we would like to take this opportunity to tell you our views on the housing situation in this province, and particularly, housing for low income people. Perhaps the cost of building materials is beyond the control of consumers and even government, but we will attempt to deal with matters which are within your sphere of influence.

Nova Scotia Housing problem

Nova Scotia shares generally the same problem as the other provinces of Canada. Like other provinces, Nova Scotia has statistics to show that a very real problem exists:

One fifth of all homes in Nova Scotia are overcrowded, without running water, bath or shower.

Over one fifth of all homes do not have flush toilets.

The number of homes requiring major repairs here is twice that of the national average.

Statistics do not reveal, however, the complete picture of this areas' housing situation.

This is an old province and the last one hundred years have not produced the expansion and growth experienced in most areas of this country. As a result of the stagnant population and industrial growth situation, our housing stock has remained much as it was 50 or even 100 years ago. Many of these old homes have been maintained so that they will not appear in bad housing statistics, and therefore distort these figures. Most of these very old wood structures, residential and commercial, while sound, are not attractive. In an area which is deperately trying to attract new industries, this factor is especially important since these potential Nova Scotian employers must seriously consider community facilities. Their professional and technical staff, accustomed to Ontario or western towns or cities, would not be overjoyed at the prospect of moving to our province especially to the mining and industrial areas of the eastern counties.

For this reason, housing is not only important to us from the sociological point of view, but our very economic future depends to some degree on housing policies and programs.

A portion of our housing stock must be demolished and a much greater portion rehabilitated if our communities are to become more attractive. Existing provisions under the National Housing Act do not provide sufficient incentives to homeowners to either rehabilitate dwellings in need of repair or demolish unsightly or dilapidated buildings. Even in an urban renewal area, the only incentive for home repairs is the common home improvement loans through C.M.H.C. and approved lenders.

Personal Income

The first factor that must be considered when discussing the housing situation here is that incomes are generally lower in the Atlantic region. Average incomes in this province run 25 per cent lower than the national average. Nova Scotia, then, has more than its share of poverty.

Mr. K. Scott Wood, Economic Research Associate, with the Dalhousie Institute of Public Affairs, in his report on poverty in Nova Scotia (1965), arrived at three basic income criteria for defining poverty:

(1) Non-farm family incomes below $3,000

(2) Farm family incomes below $2,500

(3) Non-farm individual male wage earner incomes below $2,000

On this basis, Mr. Wood calculated the number of poor families in the province at 54,929 or 37.46 per cent of the total.

This study showed 30 per cent of the population in Cape Breton County, 58.9 per cent of Victoria County, 56.1 per cent of Inverness County, 57 per cent of Richmond County, and 63.7 per cent of Guysborough County to be living in poverty. These figures are of special interest to us since this is the area in which we work with Co-op housing and the situation in these counties is more familiar to us. Only three counties in the whole province, however, have less than 40 per cent of its families in the poverty group.

The extent of poverty indicated by these statistics is revealing enough but many others not included in the "poverty group" as such, are so close to this $3,000 per year subsistence level that for practical purposes, they must be considered poor. For examples:

Coal miners who work 40 hours a week for a full year earn a basic wage of $3,640 annually.

Fish plant workers who are fortunate enough to be fully employed year round earn $3,120 for their efforts.

Coal mines and fish plants are big employers in the eastern counties and represent a high proportion of our total work force.

Let us examine what is open to these people to acquire shelter for their families. Basically there are six facets:

(1) *Private Rental*

Rental accommodation in Nova Scotia, with the Halifax area excepted, is very scarce and the demand for more rental units is not great.

(2) *Cash*

The high costs of building or buying homes prevents the great majority of families in Canada from paying for shelter solely from savings. Those who try to build and pay as they go, often find themselves living in a covered over foundation for several years.

(3) *Private Mortgage Companies*

High interest rates and resulting high monthly payments and total amount repaid put private loan companies out of reach for at least half of our people for purposes of buying existing dwellings or building new ones. Those that feel that they can handle the payments are often refused loans by these companies due to a combination of their low income and the recent tight money situation. Generally then, the private sector has not and is not solving the housing problems of our low income families. As pointed out earlier, much of our housing stock is very old and beyond practical rehabilitation so that even if money were available at reasonable rates, a good part of our existing housing stock offers little to prospective buyers. Another factor is that homes in this area tend to remain in a family for several generations which further reduces the number of houses for sale.

(4) *Central Mortgage and Housing Corporation*

Individual loans through Central Mortgage, when available, are at lower interest rates than the private companies, but still the builder must repay more than double the amount borrowed over a 25 year term at the present 7 1/4 per cent rate of interest. This rate and amount of interest combined with the high building standards set by C.M.H.C. discourage many prospective builders. The standards for construction set by C.M.H.C., while good in themselves, tend to increase construction costs. Most low and middle income families cannot acquire adequate homes unless they contribute much of the labor themselves. C.M.H.C. has established a reputation, right or wrong, for strict supervision and inspection of construction. The insured loan provisions of C.M.H.C. have not drastically

influenced the housing conditions of poor people. R. T. Adamson, Chief Economist with C.M.H.C., states that the penetration for the lower income third is only 3.6 per cent in the Atlantic region and 9.5 per cent in Canada as a whole. C.M.H.C activity as a lender then, is restricted to middle and high income families.

(5) *Nova Scotia Housing Commission*

This provincial agency makes mortgage money available to low and middle income families through self-help or Co-operative companies. The basic concept of self-help housing is a relatively simple one: It is a means by which low income families can get decent housing by joining together with their neighbours in a co-operative pooling of their labor to build homes. It is a means of trading labor for an equity or downpayment in a new home.

The idea and the practice in its simplest form is as old as civilized man. In this country it is prehistoric in origin, and as far as the latecomers, the Western European settlers are concerned, the idea got off the boat with them. Log rollings, barn raisings were self-help housing in a frontier context. Some 2000 families have constructed homes this way in Nova Scotia over the past thirty years. St. F. X. Extension Department's experience with this program leads us to believe that 2000 represents only a small portion of the number of low income families who would build new and very adequate homes if this Co-op Plan was updated and better promoted. Two important changes in the existing Housing Commission program could greatly increase participation by lower and middle income families and effectively minimize one province's housing problems. These changes are:

(a) *Individual mortgages*

The present program calls for the housing company to be legally and financially responsible for its members for a 25 year loan term. The prospect of having to pay a defaulting members' house payment and taxes, for any reason, would be burdensome to most people and especially frightening to low income families. Since the housing groups range in size from four to fourteen members, each members' share of a defaulted payment can amount to from $5 to $20 per month. If the company refuses to pay the defaulted portion, the Housing Commission applies the balance of the group payment to interest first, leaving little for principal payment. Individual mortgages applied after the construction is completed, would alleviate this fear.

The Housing Commission appears quite willing to implement individual mortgages, but since C.M.H.C. loans 75 per cent of the money used, Federal consent must be granted. This consent has not been forthcoming to date and a recent press announcement indicated that it would not be given since, in the view of the Minister in charge of C.M.H.C., it would amount to favouritism toward one segment of the borrowing public.

(b) *Starter funds*

Co-op housing is designed to serve low income families and at present, is not subsidized by any level of government. The second change that would further the self-help housing process in this province is for starter funds to be granted. These funds would enable many more lower third income families to build their own homes through the existing Co-op Plan of the Nova Scotia Housing Commission. The amount granted could vary with income so that the lower the income, the greater the grant amount.

A range of qualifying incomes for grants could be established say, between $2,000 and $4,500 annually. The starter grants could range from $2,500 for a family with an income of $2,000 and decrease with additional income to 0 at

$4,500. A scale for starter funds tied to incomes and designed to benefit the lower levels of income is shown in Table 4.

A family earning $3,000 then could borrow $6,000, receive a starter grant of $2,000 and build an adequate three-bedroom home. Monthly payments on the basis of $6,000 borrowed would be:

$6,000 at $6.55/$1,000/Month	$ 39.30
Municipal taxes	15.00
Insurance	2.00
Reserve fund	2.00
Total	$ 58.30

This monthly payment of $58.30 represents approximately 23 per cent of monthly income but should be further reduced by Municipal tax concessions made within the Municipalities Act of this province. Without the starter fund or tax concessions, the monthly payment would amount to $71.40 (on $8,000 borrowed) and represent 29 per cent of income. This starter fund concept may appear costly at first sight, but a comparison with existing subsidies for public housing should alleviate this fear.

(6) *Public Housing*

Both federal and provincial governments are promoting public housing for rental purposes with such vigor nowadays, one could be led to believe that it was the end all to our housing problem. We would like you to consider that:

(i) People in the Atlantic regions have a deep home ownership tradition. Surveys and common sense tell us that public rental housing will be occupied only by those families who find it impossible to buy or build their own homes. The small pilot type rental projects, now underway in several communities, should have sufficient applicants to fill available accommodations, but we question whether the general desire for home ownership in our people should be broken down so that they will readily accept state housing.

(ii) The sociological and psychological consequences of public housing cannot be overemphasized. The experience of Ontario and western housing authorities make them better qualified to speak on this matter but we feel that the responsibility, initiative and pride engendered by home ownership is not easily substituted by the convenience of publicly owned rental housing.

(iii) (a) *Cost of Tenants:* Since our governments' involvement in public housing probably stems from the belief that it is the only way for many low or middle income families to achieve adequate shelter today, an examnation of the relative costs of shelter for public rental and Co-op housing in Nova Scotia is warranted.

Since no public housing projects have been completed in the eastern counties, we have used the progressive rental scale issued by the Housing authority of Halifax, for public housing costs to tenants. This scale may have been changed since it came into our hands one year ago, but it should suffice for a rough comparison. We have listed four family incomes:

$150/Month ($1,800 Annual)
$225/Month ($2,700 Annual)
$300/Month ($3,600 Annual)
$350/Month ($4,200 Annual)

The public housing costs to tenants do not include services and are for a family of four.

The cost of Co-op housing includes the monthly payment on a $7,500 loan (the most common amount borrowed this year) including principal and interest. Additions to monthly payment, taxes ($20), Insurance ($2), and Reserve Fund ($2) are placed in parenthesis.

	Public Rental/Month	Co-op House/Month
$150/Month	$30.00	$49.11 ($24)
$225/Month	$48.00	$49.11 ($24)
$300/Month	$66.00	$49.11 ($24)
$350/Month	$77.00	$49.11 ($24)

To give an indication of the incomes of families now building homes co-operatively, we took the incomes of 113 members of housing groups now studying, and found that 58 earned less than $4000 annually and 2 less than $3000 annually. The maximum group average income allowed under the plan is $4900. The average annual income for the 113 members was $4244.

The above figures indicate that Co-op housing is not now making a very deep penetration into the below $3000 income group, but also indicates that with some financial assistance, the plan could serve many more, at least down to a $2500 income level.

(iii) (b) *Cost to government*: Now let us compare the costs to federal and provincial governments of 100 public rental units with 100 Co-op homes.

This comparison is done on a cost basis only because the sociological and psychological arguments, although heavily weighed in favour of individual home ownership, are not needed for this purpose.

Approximate costs—Public Housing: The following summary is used by the Nova Scotia Housing Commission for the general guidance of municipalities considering public housing. The original summary was calculated on the basis of a specific number of units that one particular municipality was considering and has been changed here only to the extent that a base of 100 units has been adopted:

Amortization 50 years at 5⅞% Federal, 6⅜% Provincial and Municipal.

(a) *Capital Cost;*

Assume average unit cost of $16,000. (Subject to considerable variation depending on land cost, site conditions, house types, etc.)

$16,000 × 100 = $1,600,000.

(b) *Operating Cost;* (Per unit/month)

Principal and interest $5.27 per $1,000	$ 84.32
Administration and maintenance	15.00
Taxes (Project normally pays full taxes)	20.00
Total operating costs—say	$ 119.32
Average rent	50.00
Average subsidy	$ 69.32

Total annual subsidy: $69.00 × 100 units × 12 months is $82,800.

(c) *Cost Sharing;*

	Federal up to 75%	Provincial 12½%	Municipal 12½%	Total
Capital cost	$1,200,000	$200,000	$200,000	$1,600,000
Annual subsidy	62,100	10,350	10,350	82,800

The operating costs will undoubtedly rise over the 50 year amortization period resulting in higher subsidies, but for our purposes, we will keep them constant:

Total subsidy over 50 year amortization period for 100 units of rental accommodation:
Annual subsidy $82,800 \times 50 = \$4,140,000$.

Breaking this subsidy down to levels of government:

Federal (75%)	$ 3,105,000
Provincial (12½%)	517,500
Municipal (12½%)	517,500
Total	$ 4,140,000

Approximate Costs—Co-op Housing: 100 units of self-help housing built under the Nova Scotia Housing Commission Co-op Plan involves:

Amortization—Province borrows 75% from CMHC at 6%. Province loans to housing company at 6¼% (term 25 years) Maximum loan $8,500/Unit

(*a*) *Capital Costs:*

Assume average unit cost of $12,000
The builders' equity is estimated at $4,000
$8,000 \times 100 = \$800,000$

(*b*) *Operating Costs:*

At present NIL
The NSHC can return an after-expenses profit on Co-op loans to the provincial treasury each year.

(*c*) *Cost-Sharing:*

	Federal up to 75%	Provincial 25%	Municipal	Total
Capital cost	$ 600,000	$200,000	Nill	$ 800,000
Annual subsidy*	Nil	Nil	Nil	Nil
25 year amortization period subsidy		Nil.		

* Included in each members monthly payment is a $2 compulsory contribution to a company reserve fund which may be used by the Housing Commission to make up monthly payment shortages.

A subsidy of $4,140,000 is a high price to pay for providing rental accommodation for 100 families for 50 years. Since government recognizes the housing problem in this country, to the extent that it is willing to bear these costs, it is amazing to us that it has not taken the necessary steps to make self-help housing more attractive to our low income people.

As it stands now, low income families who show the responsibility, initiative and drive to build and pay for their own homes through self-help efforts are neglected while those who accept state housing are generously assisted.

Conclusions and Recommendations

We have not assisted you in determining why housing costs as such, have risen, but we have tried to outline other reasons contributing to the fact that adequate housing for most of our people is becoming increasingly difficult to achieve.

We have attempted to point out that, neither the private sector nor governments, through C.M.H.C. or N.S.H.C. are effectively answering the housing needs of our high proportion of poor and nearly poor. We have also attempted to point out that we are not effectively, and certainly not economically, likely to solve the problem through federal-provincial public housing arrangements.

We have further attempted to show that a self-help or Co-operative effort in housing is potentially the strongest weapon this province has for eliminating the well-known social and psychological problems associated with bad housing.

We believe that this Committee could influence both federal and provincial levels of government to provide us with the tools to make self-help housing more effective. We ask you to recommend to Government:

(1) That members of Co-operative housing companies be enabled to pay their mortgages as individuals without being legally and financially responsible for other members in the company, and without increasing the interest rate for this privilege.

(2) That CMHC be given authority to make agreements with provinces to permit granting of starter funds to low income families for purposes of home construction through self-help programs.

(3) That the tax on building materials be eliminated at least for public housing or low income Co-operative projects.

(4) That Provincial governments be encouraged to make grants to municipalities in lieu of taxes from low income housing projects.

(5) That the procedure followed by self-help companies be streamlined at provincial and federal levels to minimize frustrations now incurred through long waiting periods for loan approval.

On behalf of the Extension Department and myself, I wish to thank you for the opportunity to express our views and recommendations on the housing situation affecting the low income people of Nova Scotia.

TABLE I

PRICE RANGE FOR SOME STANDARD BUILDING MATERIALS 1963–1966

Item	Cost			
	1963	1964	1965	1966
	$	$	$	$
Wood and finish:				
Basement window 10″ × 12″	6.05	6.60	6.60	7.05
Picture window 60″ × 48″ (32 oz. sash, 2 side lights).	65.00	70.35	70.35	75.25
Entrance door 2′10″ × 6′10″	26.75	31.50	31.50	42.95
⅜″ Gyproc 4′ × 10′	2.40	2.65	2.75	2.85
¼″ Masonite 4′ × 8′	4.45	4.95	4.95	5.35
⅜″ Douglas fir Plywood 4′ × 8′	3.95	4.50	4.40	4.45
Aluminum foil insulation 500 sq. ft	9.95	12.95	13.35	13.35
2′ × 10″ Hardwood flooring per ft	.25	.27	.28	.28
Electrical:				
Loomex cable 12-2 ground with wire 250 ft	19.95	18.95	18.95	26.75
Duplex receptacle	.32	.29	.29	.38
Junction box 4″	.35	.35	.36	.39
Plumbing-Heating:				
½″ Hard copper pipe 12′	2.90	3.29	3.25	4.50
¾″ Soft copper 60′ coil	21.75	25.95	25.95	36.50
½″ Copper elbow	.09	.12	.12	.18
3″ Copper drainage 12′	16.95	18.95	19.95	26.60
1½″ Male adapter copper	.70	.93	.93	1.65
Chrome faucet without spray	13.50	13.50	12.50	15.50
2″ Plastic pipe 1 ft	.25	.22	.24	.24
Kitchen sink (double)	41.75	41.75	32.70	35.95
Miscellaneous:				
Entrance lock set	—	7.95	8.50	8.50
1 Gallon Co-op exterior paint	7.85	8.50	9.65	9.85
1 Quart Flecto varathane	3.55	3.75	3.75	3.75

TABLE 2

COST OF NSHC MORTGAGE MONEY TO CO-OP HOUSING GROUPS 1940–1967

Year	Interest Rate	Principal	Interest paid (25 year term)	Total Amount Repaid
	%	$	$	$
1940	3½	1,000	490	1,490
1945	3½	1,000	490	1,490
1950	3½	1,000	490	1,490
1955	4½	1,000	662	1,662
1960	5½	1,000	833	1,833
1965	5¾	1,000	875	1,875
1966	6	1,000	920	1,920
1967	6¼	1,000	965	1,965

TABLE 3

COSTS OF BUILDING MATERIALS BASED ON ALLOWED COMMISSION LOAN AMOUNTS 1940–1967 AND ON 1,000 SQ. FT.

Year	Amount of Loan	Cost Per Sq. Ft.	% Increase over 5 year period
	$	$	%
1940	2,450	2.45	—
1945	4,500	4.50	84
1950	4,500	4.50	—
1955	5,500	5.50	22
1960	6.200	6.20	13
1965	6,500	6.50	5
1967	8,500	8.50	30

TABLE 4

SUGGESTED STARTER FUND SCALE

Income	Starter grant
$2,000	$2,500
$2,200	$2,400
$2,400	$2,300
$2,600	$2,200
$2,800	$2,100
$3,000	$2,000
$3,100	$1,900
$3,200	$1,800
$3,300	$1,700
$3,400	$1,600
$3,500	$1,500
$3,600	$1,400
$3,700	$1,300
$3,800	$1,200
$3,900	$1,100
$4,000	$1,000
$4,100	$ 800
$4,200	$ 600
$4,300	$ 400
$4,400	$ 200
$4,500	$ —

SUBMISSION TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT AND PRICES

BY

Professor Milton Moore, Dalhousie University

Halifax, February 20, 1967

Mr. Chairman and Members of the Committee:

1. When you are formulating your final report, I suggest that you will find yourself faced with three choices:

(i) To recommend some minor changes in the rules governing the conduct of business, accompanied by some pious exhortations, such as that everyone should exercise restraints; or,

(ii) To recommend that fundamental changes be made in the behaviour of companies, trade unions and the government and its agencies; or,

(iii) To declare that only such a basic revision in conduct affords any hope of substantially reducing inflation but that the costs of making these changes outweigh the results and therefore that the behaviour of our economy during the years 1952 to 1967 is the best obtainable; we must suffer the bad with the good.

I hope you will not favour choice number one. Yours is the third extensive inquiry into inflation in Canada since the war. No important change resulted from either of the first two. But more information is now available than could be obtained in 1949 or 1959; the course which inflation follows seems to have settled into a stable pattern. It is therefore possible to be more confident now concerning its nature and causes and hence in the prescription of remedies.

I have referred to the period 1952-67 because it is generally accepted that prior to 1952 inflation could be wholly or largely attributed to excess demand while, after 1952, the causes are more complex. For want of a better term I shall call the inflation of the latter period "structural". Most retail prices, the prices of services and the manufacturers' prices of most commodities are inflexible downward in a specific sense. These prices may fall if costs are reduced but they do not decrease in the face of a decrease in demand. Accordingly, while a rise in costs such as wages or an increase in demand may be the immediate cause of the increase of some prices, the fundamental explanation of the steady, non-reversible rise in the price level is the downward rigidity of wages and prices. Given this inflexibility, an increase in any price leads to a rise in the price level. The immediate cause might be a shortage of supply of some materials or some classes of labor in some regional markets—and the immediate cause might be labelled 'excess demand'. Or the immediate cause may be that unions in a strong bargaining position demand and win large wage increases—and the immediate cause may be labelled 'cost push'. Of the two, the latter often results in a larger increase in the general price level since a rash of wage and price increases may ensue. Or the price increases of some commodities may originate in the foreign trade sector. It is likely that the prices of import-competing industries will be raised if the prices of imports rise. Similarly, if the prices of Canadian exports are increased in foreign markets, the domestic prices are also. Whatever the immediate cause of the rise in some prices may be, a necessary condition for the occurence of structural inflation is that most prices be inflexible downward.

Accordingly, the only changes which hold out any hope of a substantial reduction in inflation are those which inhibit the increases in prices and wages, and those which make either prices alone, or both prices and wages, flexible downward. Since it is probably not possible to avoid bottlenecks altogether and

the prospects of making money wages flexible downward are slight the only hope seems to lie in inducing a much greater downward flexibility of the prices of commodities and services and in restricting the increases of the prices of services and the commodities which are neither imported nor exported and of wages. Of these the last is perhaps the most crucial. To date, the only technique successfully used to restrict rises in the general wage level has been the restriction of total demand of the economy. This is the most costly remedy. To hold inflation below, say, 1.5 per cent per year, curbs upon aggregate demand would have to be so strongly imposed that the economy was never allowed to approach full utilisation closely even at the peaks of business expansions.

Why is Inflation Undesirable

Since the pace of inflation cannot be substantially moderated except at excess cost of underemployment of capital equipment and the labor force unless rather drastic changes are made in the behaviour of the economy, is moderating inflation worth the cost? I happen to have no problem in this respect since I consider the required changes in behaviour to be desirable in themselves. Nevertheless, we ought to remind ourselves what the case against inflation is because it is usually taken for granted. The case is not explicitly stated, let alone documented.

We might start by agreeing that inflation is, at the least, a nuisance and that it is inequitable in that it intrudes a capricious element into all contracs. It is usually most severely condemned because it erodes the value of savings (which, however, is now more than offset by high interest rates) and of pensions (many of which are now partially protected against inflation), and, in general, is inequitable to persons on fixed incomes and to persons whose earnings lag behind increases in the prive level (and the last group may include substantial numbers of the very poor). It has become popular to talk of "trade-offs" between low unemployment and increases in wages and prices because there is a high correlation between the level of unemploment and the rate of increase in wages (see Third Annual Review of the Economic Council of Canada, page 144). To calculate the trade-offs between inflation and the costs of measures taken to curtail it, we must know in some detail what the effects on inflation are upon the distribution of income and wealth. But this information is not available. If precise trade-offs are not being calculated, however, perhaps we do not have to know the distributional effects precisely, because it seems agreed that they are undesirable since they are capricious.

It is argued below that inflation is inequitable because it is the process by which unions with strong bargaining power win undesirably large increases in real wages.

Doubtless much of the outcry against inflation arises from families whose wage increases lag behind increases in the price level and from the disappointment felt when what were expected to be real wage gains are eroded.

The objection to inflation perhaps most often mentioned by government officials, central bankers and business men is that it has an adverse effect upon the country's international competitive position. However, this is a matter of degree. Canada's international trading position in relation to that of our largest trading partner is protected, and is improved with respect to overseas countries, so long as money wage costs per unit of output do not increase relative to those of the United States. When this cannot be achieved, devaluation or a free exchange rate offers an alternative solution. Many are opposed to this "easy way out" because they fear that any weakening of the dicipline of having to stay internationally competitive while maintaining a fixed exchange rate would decrease the resolve to curb inflation. This is a line of reasoning I have always found puzzling because it takes for granted that inflation poses a great danger

and suggests that the country should increase the damage which a small amount of inflation does to the country so that we shall be spurred on to fight the assumed evil more resolutely. The reasoning would be convincing only if a danger of very rapid inflation existed.

I do not give any weight whatever to other dangers often asserted to inhere in a moderate rate of inflation because the reasoning is spurious and the alleged outcomes are contrary to observations. Examples of these false reasons are: (i) that moderate inflation inevitably leads to "run away" inflation; and, (ii) that inflation leads to depression.

To the valid reasons I would add another which I consider to be of greatest importance. The fear of inflation greatly inhibits the willingness of governments and central banks to take strong expansionary fiscal and monetary action during periods of high unemployment. Governments are afraid that, even when the most reasonable expectation is that high unemployment will persist for the next few years, the forecasts may be wrong. If they are, a strong stimulus may push unemployment below the danger line and cause inflation. My own view is that, if such trade-offs are implicitly calculated by Ministers of Finance when making their fiscal policy decisions, too great a weight is given to avoiding inflation. In any event, of structural inflation could be brought under control, the danger of inflation would be removed so long as fiscal restraints prevented excess aggregate demand of considerable magnitude. Consequently, the average level of unemployment could be kept much lower that it has been since 1956 and the huge waste of foregone production and growth could be avoided. I consider this waste of foregone production to be by far the largest single cost of the inflation since 1952.

Inflation and Price Competition

It is obvious that, for prices of commodities and services to be inflexible downward in the face of a decrease in demand in relation to capacity, companies and industries must be free of the most severe discipline of the market. If every company in an industry engages in price competition with all the others, prices must fall whenever output decreases in relation to capacity. It is not sufficient that there be even severe non-price competition among all the firms nor is it always sufficient that there be price competition between a few small firms which account for a small proportion of total output, on the one hand, and the few large firms which account for most of the output, on the other hand. The large firms must engage in price competition among themselves; i.e. they must cut prices to increase sales whenever demand decreases in relation to capacity. The reason why this behaviour does not occur is obvious; it is not in the large companies' interest. If one lowers its price, all must follow and the second situation is worse than the first, for all companies. Nearly always, when there are only a few companies competing in a particular market (and this is the typical situation) all are sufficiently competent to realize their mutual dependence.

The cure for inflation which consists of the prescription that prices should be made to be flexible downwards would therefore seem to be ruled out. No one knows how to induce companies to act contrary to their interests. In addition, some people would argue that the amount of inflation experienced over a number of years would not be reduced by greater downward price flexibility so long as some unions possessed the power to demand and win the wage increases they do.

Unfortunately, this is not the end of the matter. The fact that companies can pass on cost increases to customers and can, within limits, realize their target rates of profit; the fact that, within limits, oligopolies possess the power to determine what their profits shall be, poses a dilemma for any exhortation to

trade unions to accept controls upon their power to determine what their wages should be.

There are other reasons for wanting as much downward price flexibility and as much price competition as can be induced. Your committee has received submissions concerning high prices *per se* as distinct from rising prices. As is usual during periods of rising prices, protests are being directed against the high cost of distribution and certain forms of sales promotion such as expensive packaging and trading stamps. The question is whether the consumer is getting the best attainable value for his money. This matter also relates to the nature of competition in the modern economy and, in particular, to the prevalent use of non-price rather than price competition. Whether and how the freedom of action of companies should be decreased by changes in the nature of government regulation is a large and complex matter. I am glad that the Economic Council of Canada has allowed itself at least two years to make the investigation referred to it last year. In this submission, I shall limit myself to one very general comment.

In his latest annual Report (for the year ended March 31, 1966), the Director of Investigation and Research, Combines Investigation Act said (at page 7):

> The purpose of Canadian anti-combines legislation is to assist in maintaining free and open competition as a prime stimulus to the achievement of maximum production, distribution and employment in a system of free enterprise. To this end, the legislation seeks to eliminate certain practices in restraint of trade which serve to prevent the nation's economic resources from being most effectively used for the advantage of all citizens. Parliament's intention, as expressed in the legislation, has been to create an atmosphere in which those who are willing to compete for economic gain are free to do so. *The statute does not require competitors to compete but merely seeks to remove certain classes of restraints on the process of competition.* Parliament has therefore enacted legislation which will inhibit or discourage the regulation of industry by members of industry and which will encourage the regulation of industry by the forces of competition. (italics added).

It may be noted that reference is made to the encouragement of the regulation of industry by the forces of competition—not by the forces of price competition.

My comment is that government regulation of business behaviour will continue to have limited impact so long as it is restricted to the protection of the right to compete. To make a substantial impact the rules must induce companies to engage in price competition and to accomplish this, the interests of competitors must be made to conflict. After years of preoccupation with this problem, I have concluded that a necessary condition to this end is that privilege of choosing their customers, which companies possess under common law tradition, must be withdrawn. Every manufacturer must be compelled to sell, at the same prices, to all distributors who wish to handle his product. I know this would be a far-reaching and drastic change in the rules of the game and that its suggestion would meet with great opposition, indignation and outrage. (But then, only a few years ago, so was the suggestion that all lenders should state the rate of interest on their loans). But I am convinced that the only hopeful avenue to inducing more price competition is by tipping the scales in the competitive struggle in favour of the professional price cutter—the discount houses and the jobbers and wholesalers who serve them. At present, scales are heavily weighted against these gentlemen and I recommend that the government redress the balance. Encouragement should be given to the distributor and retailer who uses the tactic of large volume and low mark-up rather than high margin, lower

volume and greater sales promotion. Encouragement should be given to cost-reducing competition in contrast to the usual sales promotion and service competition which is cost-increasing. Savings in real costs could be achieved as well as the imposition of modest curbs upon price increases and inflation.

In addition, if manufacturers were denied the right to distribute their products solely through their own distribution facilities or selected distributors and franchised dealers, and made to sell to all comers at the same price, there would be a greater probability that some price competition would intermittently break out among the manufacturers themselves. It would be more difficult for them to abide by the convention not to precipitate price cutting. Also, there would be a greater inducement to manufacturers to produce products of the same quality at lower cost and price rather than products of higher quality at the same or higher cost and price. Finally, it would be more difficult for companies to successfully use misleading advertising. Since I do not want, at this point, to digress into this complex matter, suffice it to say that, to avoid being misleading it is not sufficient that advertising tell the truth and nothing but the truth; it must tell the whole truth.

Inflationary Wage Increases

In a recent speech in this city I was rash enough to assert that nothing can be done about the unfairness which can result from rising prices unless a broad general agreement—a consensus—is reached concerning fairness in wages. You can talk about guide lines, prices review boards, compulsory wage arbitration, and even price and wage controls, but none of these measures would restrain increases in prices for long in the absence of a consensus concerning fairness. Last year it was said of the United States guidelines that the unions of the large industries such as automobiles and steel could say: the guidelines do not apply to us because our industry has achieved greater-than-average increases in productivity. Other unions could reasonably claim that the guidelines did not apply to them because they were far behind and needed to catch up. So the guidelines applied to none.

There can never be a reconciliation of the notion of wage increases on the basis of "productivity" on the one hand and "equal pay for equal work" on the other. Wage guidelines cannot be effective unless it is agreed that there should be no connection whatever between wage increases and increases in the productivity of the industry. When output per worker rises, it is rarely due to any action of the worker. Equal pay for equal work strikes one as being manifestly 'fair'; that some workers should receive higher wages than others on account of happenings over which they have no influence, does not.

The main reason for the differentials in wages among industries is the variation in union bargaining power. It is no accident that the highest wages are earned in the most capital-intensive industries such as petroleum refining, and lowest in the industries in which labour costs are the highest proportions of total cost.

Toward the end of last year one heard several suggestions concerning the establishment by the federal government of a 'super' wage settlement board to deal with crippling strikes which fall within federal jurisdiction. The idea apparently is that the super board should possess considerable expertise and could work out criteria for acceptable settlement which would avoid strikes in the critical industries, where union bargaining power is exceptionally strong. These suggestions were, of course, part of the reaction to the rash of such strikes last year. But surely it would be mistaken to place the onus upon a board to somehow or other develop 'acceptable criteria'. Without explicit directives the board could do no more than carry on the existing practice of "forcing a settlement" by estimating the relative strength and determination on each side and discovering

the least favourable, eleventh hour offer which each is willing to accept. That is, the board could do no more than preside over the test of strength. In any event, there can be only one criterion of a fair wage: equal pay for equal work.

Boards of arbitration should be given a clear directive. I suggest that there can be only one primary rule: if the workers are already receiving as much or more than workers in other industries doing comparable jobs, there should be no wage increase. But if the workers in the industry under review are receiving less, there should be an increase. Of course, the trade unions whose members are well ahead of the average would fight such a rule. The only thing to do is to swing the body of public opinion against them and gradually, over a number of years, win the rule's acceptance. In the meantime some inflationary wage increases would have to be awarded as the price for ending strikes which are crippling to the economy.

This may sound like a naive idea. More accurately, the idea itself is not naive; it is all too familiar. Naiveté relates to the suggestion that the equal pay notion be put into practice. However, surely there is no other hopeful course.

Trade unions are already partially committed to the rule. For example, Mr. Harry J. Waisglass endorses its operation within limits in his monograph *Toward Equitable Income Distribution* published by the National Office for Canada of the United Steelworkers of America "Equal pay for comparable or equal work" is number four of "Proposed Guideposts—Five Principles (of fair income distribution)" (page 24). The limitation to the endorsement is that the principle is not extended beyond the industry:

> The principle of equal pay for comparable work expresses a collective bargaining objective for equitable wage determination not only within the firm, but throughout an industry, aiming at the elimination of wage differences for comparable jobs, not only among the plants in one company or in one locality, but also between the regions covered by the market for the product. The extent to which a union can be successful in eliminating such wage differentials throughout an industry depends mainly on the extent to which the union is the bargaining agent for employees throughout the industry. (page 24).

If the principle is valid throughout an industry which straddles regions of unlike circumstances, however, logic compels its application among industries. Surely a night watchman of a show factory performs work comparable to a night watchman of a steel mill. It may be objected that this example is misleading because it refers to the least complex situation. Whenever the tasks performed are not identical, deciding whether work is comparable cannot be precise; it is a matter of judgment. But this is not to concede that similar judgments would not be made by reasonable men. If the principle were accepted, the trial of strength which is the essential nature of a strike, could be replaced by argument before arbitrators whether the tasks being performed in different industries were comparable and commonsense allowances could be made for departures from comparability.

There is, of course, a conflict between the equal pay concept and wage differentials arising from what is called 'productivity'. To quote Mr. Waisglass again (page 20):

> Wages in high productivity industries must be high enough to attract more workers from the other industries and to compensate them for the inconveniences and efforts of retraining and moving to the jobs where they will be more productive. Higher wages in the industries where productivity is rising, like mining and steel and primary metals, will give

> those workers more money, some of which will be spent to help raise the incomes of those workers who must remain in industries where productivity cannot be raised easily.

The objection to this statement lies in the meaning of labor productivity—the meaning which I contend should have no relevance whatever for relative wages. All the product is imputed to labor—it is the value of output divided by the number of workers. Nothing remains to be attributed to plant, machinery, technical improvements or management. It follows, by definition, that labor productivity is highest in the capital-intensive industries. The quotation is less objectionable, however, if taken in its context, which is a discussion of the need for labor mobility. *Inter alia,* it is said that;

> An efficient labour market policy facilitates the movement of workers into occupations which are in short supply and out of those where incomes are depressed by an overabundance of workers. (page 21).

This is the valid consideration which conflicts with the equal pay rule. However, if a firm or industry is expanding more rapidly than others, it can be assumed that bids will voluntarily be made by management to attract the required work force. Union bargaining is not required to compel the required wage differential. But wage differentials to induce mobility are required only for so long as the discrepancies between labor demand and supply persist. In theory, in a "perfect market" the differentials disappear as soon as the transfer of workers from a labor-surplus industry to a labor-deficit industry is completed. Similarly, in the actual world the rule of equal pay when applied to a particular regional market, could easily be reconciled with the need for labor mobility. As mentioned, in markets where there is no overall labor surplus (such as Greater Toronto or Greater Montreal), the management of expanding industries can be relied on to offer whatever wage differential is needed to obtain the workers they require. But it is not desirable that such wage differentials—and more to the point, those which are attributable to the differences in the bargaining power of the unions of different industries—should persist indefinitely. This is a major inequity of the existing state of affairs. It is assumed that the weaker unions—those in the so-called low productivity industries—would lose their wage objectives upon the equal pay for comparable work rule and awards by arbitrators would be based on that rule. Companies and industries should not be allowed to plead inability to pay. Reducing the differentials among industries would compel industries and firms with low *marginal* labor productivity to contract their operations. In the process, of course, as supply decreased the prices of the products of these industries would be bid up. This is both necessary and desirable; it is the mechanism by which the marginal productivity of comparable classes of labor can be made equal in all uses. Contraction of the low marginal productivity industries would release workers to be absorbed elsewhere more productively. Thus, the barrier which unions and customary wage differentials erect against labor mobility, would be bridged.

This may sound like a compulsion to mobility and therefore an undue interference with the freedom of action of the individual but the principle need not operate in that manner. The workers in a low-wage industry would be free to decide whether to invoke the equal pay rule in the knowledge that the number of workers employed would be reduced as a consequence, or whether to tolerate the wage differential. Admittedly there would then be a conflict of interest between workers in these industries who had the greatest seniority and those who had the least. However, since we are talking about markets in which there is no overall labor surplus, the conflict need not be sharp nor prolonged. Contraction of the industries could be accomplished by simply not replacing workers who leave voluntarily. There is therefore no necessary conflict between

mobility and the equal pay rule as it operates in a labor market which does not suffer from excess labor. Negotiated wage settlements could be made to perform the function of "perfect labor mobility" in a "perfect market". And in the process existing inequities could be removed. These inequities arise not solely from the inadequate bargaining power of workers in many industries. It is not solely a matter of bargaining power in absolute terms. It is also a matter of relative bargaining power. Inherent in the concept of equal pay there is the implication that the criterion for fair wage settlements would operate not only to increase the bargaining position of weak unions and to encourage the formation of unions in unorganized industries; it should also diminish the bargaining power of the strongest unions. It is because winning acceptance of the former would be much easier to achieve than winning the acceptance of the latter implication that I have said that there can be no resolution of present conflicts until there is a consensus concerning fair wages.

The operation of the equal pay rule is not so easily worked out with reference to areas of chronic excess labor and consequently of chronically depressed wages. It might be argued that the firms and industries in these areas which cannot pay wages comparable to those in other areas, should shut down. This would decrease underemployment, i.e. the employment of labor unproductively. But it would also increase unemployment. Such unemployment might be acceptable if it induced workers to move to the areas of tight labor supply. Since in practice it does not, few would consider this a feasible procedure for Canada although the United Kingdom is currently attempting to force an overall increase in productivity by just such a procedure. It may also be noted that, by implication, trade unions endorse this procedure when they strive for industry-wide bargaining in order to force equal wage rates for all firms and plants within an industry regardless of location and therefore regardless of the conditions of the labor markets in the different regions. Given the great difficulty of inducing labor mobility regionally sufficient to eliminate or even narrow regional wage differentials, workers are better off underemployed than not employed at all. In addition, the lower wage levels of the excess labor areas offer some inducement for new industry to locate there. It would seem therefore that excess labor supply in a region should properly be ground for exceptions from the equal pay rule even for long periods, i.e. for so long as substantial excess labor exists.

The lower pay might be regarded as part of the price the workers pay for their preference for living in the region in question. Unfortunately, plausible as this reasoning may sound at first blush, it has more of the ring of a formal solution than a substantive one. In all probability excess labor and depressed wages will persist in several regions of Canada beyond our lifetime. The mobility of capital and labor which would produce a neat balance just does not happen. People are very often immobile not by preference alone but also by reason of incapacity. Very low incomes are more likely to impede mobility than to increase it. Hence notions of fairness and commonsense dictate a strict limit be set to regional wage differentials—perhaps of the order of fifteen or twenty per cent. If the cost of living were lower in the depressed income areas, a larger differential might seem appropriate but the opposite seems to be the case.

The Unwisdom of High Interest Rates

I wish next to protest, with all the force I can muster, againt the unwisdom of Canadian monetary policy since 1957.

I have already contended that the greatest cost of inflation to the nation results from the effect which the fear of inflation has upon fiscal and monetary policy during periods of high unemployment. Since governments cannot be sure that a business expansion is not just around the corner, they are reluctant to adopt the strong expansionary measures which are required bo bring unemployment to an end. The classic Canadian example is to be found in the years 1958 to

1962. I have also contended that deflationary monetary and fiscal policies even during the late stages of business expansions are very costly ways of curbing structural inflation. The necessity for fiscal and monetary curbs arises from the danger that aggregate demand may become excessive throughout the economy. There is no quarrel with the use of these deflationary policies for this purpose—provided that the prevention of the appearance of excess aggregate demand is not given undue weight and provided that the timing is correct: owing to the lag between the adoption of fiscal and monetary restraints and their full impact upon demand and output, they may be destabilizing.

It is the fighting of structural inflation by deflationary measures which is very costly. It can only be effective if overall unemployment in the economy is kept quite high which means that the economy is never allowed to approach full utilization very closely.

In addition a heavy reliance upon monetary restraints coupled with a relative neglect of fiscal measures, is the least desirable of all the policies which might be adopted to restrain inflation (that is, of all the policies which make any sense at all).

My primary reason for making this assertion arises from the income distribution effects of high interest rates. To understand what is at issue, ask yourself the following question: if you were deciding, as an issue in its own right, the distribution of the costs of reducing aggregate demand, would you choose the distribution which results from primary reliance upon monetary restraints? The means to preventing inflation is the reduction of spending; whose incomes should be reduced and in what proportion? Usually this question is explicitly faced only when taxes have to be raised. And it may appear that monetary restraints are superior because they avoid the reduction of total real income in the economy; the objective is to confine investment to saving by reducing spending financed by borrowing. Correct as this reasoning is, there is nevertheless a substantial reduction in some peoples' real income because the inevitable concomitant of monetary tightness is high rates of interest. Consequently, there is a transfer from wage and salary incomes to income in the form of interest—a transfer from salary and wage earners to rentiers. There is a precise parallel with fiscal restraints. The budget surplus does not reduce total real income of the economy; it only reduces money incomes and total spending in money terms. The distribution of the burden of the sacrifice of reductions in spending is determined by the distribution of the increases in tax rates. If neither monetary nor fiscal restraints are imposed and inflation occurs, the distribution of the burden of foregone spending in real terms takes yet another pattern—presumably the least desirable one.

Higher interest rates increase the costs of commodities and services and result in higher prices as compared to an equivalent restraint in the form of higher personal income taxes. Although the monetary tightness reduces total spending and therefore prevents the rise in the price level from being as great as it otherwise would be, the higher interests rates enter costs and are passed on to consumers. Similarly, a budget surplus financed by higher sales taxes prevents prices from rising as much as they otherwise would but the sales taxes are passed on to consumers and increase the price level as compared to the level which would prevail if the excess aggregate demand had not occurred (and no taxes were raised).

The issue is therefore clear-cut. Is it desirable to have the income redistribution incident to the prevention of inflation decided deliberately in the selection the taxes which are to be increased or decided obliquely by the uneven increases in the costs of goods and services consequent to higher interest rates? Higher interest costs do not fall evenly upon all forms of consumption. They fall

particularly heavily on the costs of housing accommodation—on tenants and those who buy houses after the interest rates have risen. People who already own their homes escape. Consequently, the distribution of the burden is even more uneven than it would be if the cost of all housing accommodation were raised by the same percentage. In the latter event, the distribution of the burden would still be regressive since it would turn upon the percentage of the family's income spent upon housing. One reads comments almost weekly that the single-family dwelling has been priced out of the reach of the low to moderate income family. The largest single cause of this situation is the great increase of the monthly mortgage payment.

Heavy reliance upon monetary policy is inseparable from the stop-and-go behaviour of residential construction, as the flow of funds for N.H.A. mortgages is turned off and on. There is increasing talk of a national housing policy. Surely the stop and go supply of mortgage funds makes it difficult, to say the least, to follow an orderly policy of urban development.

I am also old-fashioned enough to consider the payment of interest as an unrequited transfer. The correlation between personal saving and the level of interest rates is not statistically significant. Therefore, when interest rates are raised the reward is increased for action which the person would undertake in any event. I can see no logic in increasing the share of national income going to people who have done nothing or given nothing in return.

However, all this argument may be beside the point. The fact of the matter is that the high level of Canadian interest rates is not to be explained in terms of reducing inflation at all. Canada has bartered away her power to vary monetary restraints as the condition of the domestic economy dictates. The Canadian government is committed to maintaining the fixed exchange rate of the Canadian dollar. They are also under an obligation to the government of the United States not to add substantially to central bank reserves of foreign exchange and under a self-imposed restraint not to substantially reduce these reserves. Usually, a fixed exchange rate is protected by the central bank's making whatever purchases and sales of foreign exchange are required to make demand equal supply at the fixed price; that is, by increasing and decreasing the reserves of foreign exchange. Since this course is not open to the Bank of Canada, the only way it can protect the fixed exchange rate is by inducing Canadian corporations, municipalities and provinces to borrow in the United States whatever capital inflow is required to make the surplus on capital account equal to the deficit in the current account of the balance of payments. This is accomplished by varying the differential between the Canadian and American interest rates. Accordingly, whatever monetary restraints are adopted in the United States dictates those which Canada must follow.

In my view these arrangements have two very unhappy consequences. One is that we are not free to choose to make greater use of budget surpluses and less monetary restraint to avoid excessive aggregate demand. There is no alternative to maintaining the currently excessively high rates of interest. The other bad consequence is that Canada has given up its right to decide how large a capital inflow—and simultaneously how large a current account deficit—is in the best interests of the nation. This consequence flows directly from the adoption of the fixed rate of exchange. It is argued that no other course was open to us; that the devaluation to the present discount of 7.5 per cent in relation to the United States dollar is the most which we could reasonably expect under the rules of fair international trading. In my view this contention is nonsense. There is no prospect that the existing exchange rate will eliminate the deficit in the balance of payments current account. I cannot think that the rules relating to the fair play in international trade and finance requires that a country should indefinitely increase its foreign debt whether it wants to or not.

I assume that someone would have raised his voice in protest against this state of affairs before now if it were not for all the talk about Canada's need for foreign capital. This is a bogey. Borrowing abroad does not increase the flow of investment funds available in a country; only increased domestic saving and an increase in domestic supply of money does—and there was excessive saving in six of the last ten years. From a national point of view, the only reason for borrowing abroad is to enable a deficit in the current account of the balance of payments—an excess of imports over exports. It is the current account deficit and not the surplus on capital account that is wanted. And the only sensible reason for wanting a surplus of imports over exports is that the nation wants to consume and invest more than it produces. This reason is valid only when there is full utilization of labor and production facilities so that investment in plant and equipment can be increased only if imports exceed exports.

It is high time that the fixed exchange rate be abandoned and the Canadian request for exemption from the United States tax on foreign security issues be withdrawn.

Politics—the Art of the Possible

As I approach the end of this brief, you may be wondering what I expect to accomplish by suggesting such radical changes. Are the recommendations actually suggestions for change or are they only a form of protest? The answer is that, while there is much to be said for voicing protest in the form of specific proposals for change, I should not be making these remarks to you if I thought that the avenues of reform which I have broadly sketched were politically impossible. My political judgment is that of an amateur only; but the public mood seems to be favourable for basic reforms. There is an impatience with tinkering which has little effect. Also, academic economists in Canada are far too reluctant to propose that radical changes in the structure and working of the economy be seriously entertained. This is part of the reason why I have wandered in this submission beyond my fields of specialization and into areas where I have only a general competence, namely, the theory of inflation, industrial relations and monetary policy.

The broad directions for change suggested are, I think, desirable in their own right in addition to whatever promise they hold for curbing inflation. An infusion of more price competition into the rivalry among oligopolists would increase efficiency by reducing waste. Evening out the bargaining power among unions would reduce one of the greatest inequities of structural inflation: the determination of relative wages on the basis of relative bargaining power. A policy of low interest rates achieved by a much greater reliance upon fiscal policy would facilitate the pursuit of a coherent public policy with respect to income distribution.

In this last matter I expect to be told that I really am being naïve. Is it not obvious that in all western countries at the present time primary use is being made of monetary rather than fiscal restraints because the parties in power, whomever they may be, do not care to risk being turned out of office for imposing the higher taxes required to produce the larger surpluses? Is this not the valid justification for entrusting monetary policy to non-elected, non-responsible central banks? If the governor of the central were an elected official he would hesitate to impose the monetary tightness required to curb inflation because these curbs are unpopular. If this skeptical view of public myopia were accepted, one might be prompted to urge that the logical thing to do is entrust fiscal policy to central banks and transfer monetary policy to governments. However, support for a more sanguine view of the matter is available for the seeking. For example, if all parties always behaved according to the simple theory of "stay in power at all costs", how would one explain the pending

amendment to the Bank of Canada Act which makes perfectly explicit that the Minister of Finance has over-riding responsibility for monetary policy?

It is my conviction that the adoption of one economic policy in preference to another is powerfully influenced, if not entirely determined, by the economic theory, the comprehension of the facts and the value judgments of elected officials and the senior civil servants who advise them. Therefore it is not an exercise in futility to urge your committee to seriously investigate proposals for change no matter how radical they may appear.

Civic Centre Conference Room,
City Administration Building,
Winnipeg, Manitoba,

TUESDAY, Feb. 21st, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators McDonald *(Moosomin)*, O'Leary (*Antigonish-Guysborough*) and Thorvaldson—3.

For the House of Commons: Messrs. Basford (*Chairman*), MacInnis (Mrs.), Mandziuk, McLelland, O'Keefe, Otto and Smith—7.

The following were heard and questioned by members of the sub-committee:

Mr. E. G. Simpson,
Director,
and
Mr. J. G. Thomas,
Assistant Director,
Housing and Urban Renewal,
Metropolitan Corporation of Greater Winnipeg,
Winnipeg, Manitoba.

Mr. Phil Young,
Home Development Co. Ltd.,
Winnipeg, Manitoba.
Brief.

Mrs. D. M. McLean,
President,
Canadian Association of Consumers,
Manitoba Branch,
Winnipeg, Manitoba.

The brief read by Mrs. M. W. Menzies, Research Director. Mrs. E. Tilheridge, Convenor of Investigations, was also present.

At 12.45 p.m. the sub-committee adjourned.

At. 3.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Mrs. Gail Pearase, President,
Canadian Consumers Protest Association,
Winnipeg, Manitoba.
Brief.

Delegates from the Canadian Consumers Protest Association:
Mrs. E. Heber,
Recording Secretary.

Mrs. Doreen Plowman,
Corresponding Secretary.

Mrs. Donna Hagnor,
Treasurer.

Mrs. Barbara Gommerman,
Publicity Chairman.

Mrs. Jackie Senhow.

Mrs. Eva Reeves.

Mrs. Frances Hall.

Mr. C. W. Gonick,
Department of Economics,
University of Manitoba,
Winnipeg, Manitoba.
Brief.

Mr. O. P. Tangri, Assistant Professor,
Department of Agricultural Economics,
University of Manitoba,
Winnipeg, Manitoba.
Brief.

Mr. Evan McComick,
Winnipeg Chamber of Commerce,
Winnipeg, Manitoba.
Brief.

Dr. C. Earle Gordon, President,
Age and Opportunity Bureau,
Winnipeg, Manitoba.
Brief.

Mrs. A. S. R. Tweedie, Executive Director, and Mr. Scott were also present.

At 5.45 p.m. the sub-committee adjourned until tomorrow, Wednesday, February 22nd, at Regina, Sask.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

Statement by

WINNIPEG HOUSE BUILDERS ASSOCIATION

to the

JOINT SENATE-COMMONS COMMITTEE ON CONSUMER CREDIT

WINNIPEG, 21st February, 1967

I represent the Winnipeg House Builders Association, whose 60 builder members construct approximately 90 per cent of the single family dwellings in this area. A small segment of our membership is also involved in the erection of apartment buildings.

We propose to outline some of the problems facing the housing industry in Winnipeg, which have the effect of increasing end costs, and to suggest possible remedies and improvements.

Mortgage Lending

The Winnipeg House Builders Association rates the erratic flow of mortgage funds and shortage of same as a prime problem. We feel that the decline of housing starts in this area because of this difficulty may affect the overall economic growth of the Province, as well as forcing shelter costs up. The drastic falling off of housing starts in best illustrated by the N.H.A. insured loans issued by CMHC and approved lenders in Winnipeg for the period 1962-1966:

TABLE 1

Period	No. of Loans
1962	1,681
1963	2,328
1964	2,168
1965	2,007
1966	1,456

Included in the number of loans column above are a large number of direct loans made by CMHC in support of the Winter Incentive Program. Many builders were forced to construct housing under the rigorous conditions which exist on the Prairies at this time of year. This could have no other effect than to increase costs. The on and off flow of mortgage funds is very disconcerting to say the least, and this stop-start type of building operation boosts production costs. Material manufacturers have stated that they cannot plan economic operations because of disrupted schedules and this tends to raise material costs. The shortgage of mortgage financing and shelter must also have the ultimate effect of increasing rents in apartments.

We also direct the Committee's attention to the inequitable distribution of N.H.A. insured loans by approved lenders:

TABLE 2

	January to March	
Region	1966	1965
Atlantic	0.2	1.2
Quebec	2.2	11.1
Ontario	90.2	73.7
Prairie	6.5	8.4
British Columbia	0.9	5.6

It is hoped the revisions to the Bank Act will make mortgage funds more plentiful and that the revised interest rate on N.H.A. loans will make this type of investment attractive to the approved lenders. However—faced with an ever increasing demand for shelter, it is important that the housing industry have a constant flow of money available to finance residential construction and every possible avenue should be explored by the Federal Government in this connection. Pension funds would appear to be a good possibility.

With further reference to mortgage lending, we suggest the cost of housing could be reduced substantially if the present 2 per cent insurance fee on N.H.A. loans were reduced to, say, 1 per cent. It would also make it easier for purchasers to qualify for housing built with N.H.A. loans if:

(a) Amortization periods could be extended
(b) Amount of loan as related to estimated value were to be raised
(c) Maximum amount loan available could be increased

Federal Sales Tax

The National House Builders Association has suggested to the Federal Government many times that the 12 per cent sales tax levied on residential building materials in June, 1964 should be eliminated or rebated. The Winnipeg House Builders Association supports this stand. The statistics below show the average construction costs (excluding land) of new bungalows built under N.H.A. in the Winnipeg area during the period 1962-1966:

TABLE 3

Period	Average Finished Floor Area in Sq. Ft.	Construction Cost	Cost Per Sq. Ft.
1962	1,098	12,561	11.44
1963	1,115	12,596	11.30
1964	1,147	13,144	11.46
1965	1,166	13,685	11.73
1966	1,186	14,918	12.58

It is significant that a sharp upward trend in costs commenced in late 1964. We believe this increase to be primarily the result of the Federal Sales Tax. The move toward larger houses shown above also softened the increase in cost per square foot. A basic need such as housing should not be taxed as are luxury items. In addition, the Province of Manitoba is considering a 5 per cent tax and construction materials may be included. The attitude of successive governments with regard to shelter is incomprehensible. Not only are Federal and Provincial sales taxes levied in full upon the materials with which our homes are built, but the very homes themselves are subject to municipal taxes that are in a vicious upward spiral.

Labour Costs

In keeping with increasing costs of living, labour rates for key trades used in the construction of housing has been rising steadily:

TABLE 4

Period	Minimum Rate Per Hour		*Wages Rates—All Construction Workers
	Carpenters	Plumbers	
1962	2.50	2.80	209.7
1963	2.60	2.95	217.5
1964	2.60	3.00	228.0
1965	2.80	3.25	239.9

* 1949=100

Mechanization and new methods of production presently under study will, it is hoped, increase productivity and reduce unit costs. A broadened immigration policy to build up the pool of skilled labour would assist in stabilizing labour costs

Material Costs

Increasing prices of material are directly responsible for higher shelter costs. The erratic production schedules mentioned earlier and higher wage rates are contributing factors, as are increased transportation costs. One item that deserves attention is the existence of instances in the supply industry of certain identical products which are priced at exactly the same level, even though produced by entirely separate companies. Examples of this phenomenon are cement and plasterboard.

*Building Materials Increases—	1962	129.7
	1963	134.4
	1964	143.5
	1965	150.7

* 1949=100

Legal Costs

One way to reduce housing costs would be to have a fixed rate for legal services provided by the solicitors acting for CMHC on direct loans. It is our contention that the work and responsibility are the same regardless of the size of loan. Work on this type of loan is so stereotyped that many solicitors give it to their stenographers to perform. The fact is, however, that the rates charged for this service vary widely and, in many instances, are exorbitant. Since this is a cost that is paid for by the builders and thus passed along to the purchaser, we feel that the rate should be fixed and also that the builder should be able to select which solicitor he wishes to use.

Municipal Tax Costs

At the present time taxes are levied against the land on which a house sits and also on the house prior to the time it is occupied. The Winnipeg House Builders Association suggests that full taxes should not start until the house is occupied by the purchaser, since it is at this point the municipality starts rendering full services, such as school, garbage disposal, etc. Under present practice, the home owner is actually pre-paying his way into a subdivision when the builder has to include in his costs taxes prior to occupancy.

Allowable Deductions for Income Tax Purposes

Industrial and commercial companies including those operating apartment blocks or office buildings are permitted to deduct interest and taxes when calculating their taxable income, but as yet the home owner has not been granted this prerogative. In order to encourage home ownership, we suggest that the Income Tax Act be amended to allow home owners to deduct from their taxable income, yearly payments of municipal taxes and mortgage interest on the homes in which they reside.

Land

In Metro Winnipeg between 1964 and 1966 fully serviced land for single detached dwellings has increased in cost approximately 22 per cent. During the same period there has been an increase of some 27 per cent in the cost of

installing the essential municipal services in developer-sponsored subdivisions. An analysis of contracts let between 1964 and 1966 shows the following:

TABLE 5

Installation	Percentage Increase
Storm Sewer	22.7%
Sanitary Sewer	26.6%
Water Mains	20.9%
House Services	36.3%
Concrete Pavement	33.3%
	27.4%

The increased costs represent higher costs of concrete, steel, labour, equipment rental and copper pipe and, in some cases, increased specifications and demands by the municipalities involved. We are advised by developers that their margin of profit is down. In that 70 per cent of the cost of fully serviced land is represented by the improvements to the land, it would seem that some alternative method of financing these must be found. We understand that, under present legislation, CMHC is providing some assistance to local government on the construction of interceptor sewers and treatment plants. In the hope that it will be of some assistance in reducing land costs, we would recommend that this program be extended through the National Housing Act to include drainage, transportation and all other facilities associated with urban development.

It is possible that land costs could be lowered by building a higher percentage of row housing and semi-detached units, but there is some doubt in our minds if there is public acceptance of this type of housing in this area. We agree that the 3 or 4 lots per acre as required for single family dwellings is wasteful and uses a lot of land. It also creates transportation problems as the city spreads out, but it is our opinion that people do not want to be pushed into row housing, be it for sale or rent, but prefer single family dwellings. It would be more desirable to assist in the development of reasonably priced land for single family dwellings than to force people into subsidized row housing proejcts.

During the period 1955-1965, price increases were as follows:

Food	21.2%
Housing	15.1%
Clothing	12.4%

The rising costs of housing are not totalling the fault of the construction industry, who have good reason to be proud of many steps taken to improve efficiency, quality and design of housing. Many factors beyond the control of the builder contribute to the increases. The customer who purchases the house is also more demanding as regards features in the dwelling and the size of same.

The housing industry is attempting to provide better and cheaper housing, but is hampered by governments increasing both costs and taxes, thus nullifying all efforts. We do not regard subsidized housing as the total answer to the problem facing the lower income group, but suggest that other methods of assistance be investigated so that all Canadians of all income groups can become responsible home-owning citizens. Statistics show that purchasers in the $4,000.00 to $6,000.00 per annum wage category purchase 42 per cent of new housing under the National Housing Act and we feel that this group deserves assistance through the methods outlined in the preceding pages and not simply through a subsidized row housing rental program.

WINNIPEG HOMEMAKERS' PROTEST COMMITTEE BRIEF TO JOINT COMMITTEE ON CONSUMER CREDIT (PRICES)

February 21, 1967.

SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS.

1. Review and Strengthen Combines Legislation—Fines do not seem to be a sufficient deterrent. The practice of closing firms down for a certain period of time after they have been convicted of an offence, should be considered as an added deterrent.

2. Abolish the use of all trading stamps and merchandizing gimmicks such as bingo games, prizes and contests.

3. Despite the complexity of determining when advertising becomes excessive or misleading, stricter laws, which clearly define such misuses, should be introduced so as to stop such practices.

4. Investigate whether large retail food stores are affecting the accuracy of the Dominion Bureau of Statistics cost of living index on food. By increasing the prices of foods not used to determine this cost of living index to a greater extent than the other foods, they could thereby affect the accuracy of these statistics.

5. Investigate fully the price spread between producer and consumer.

6. Establish a Prices Review Board that would review price increases on essential foods.

7. Endorse recommendations made by the Joint Committee on Consumer Credit (Prices) in its Interim Report as regards to abolishing the use of "cents-off" labels and coupons; the standardization and simplification of package sizes and grades; the introduction of uniform weights and measures.

8. Endorse the recent recommendations of the Joint Committee on Consumer Credit (Prices) as regards low interest loans to low income families and other recommendations regarding interest and service rates on consumer credit, etc.

The Homemakers' Protest Committee was formed, at the end of October 1966 by a group of Metro Winnipeg housewives, who were concerned and disturbed with the rapid rise in food prices. As most of the members have large families, they find it even more difficult to provide them with an adequate diet, based on Canada's ten basic health rules.

Our first project was to collect signatures on the petition we presented to your Committee in Ottawa at the beginning of December. We collected 38,278 signatures.

We held a public rally on the grounds of our Manitoba Legislature, where we announced a boycott on pork products and dry breakfast cereals. Since then, we have held a series of boycotts. These included a boycott of the six major chain supermarkets, and a boycott of certain food products.

On October 24, 1966, we led a delegation of 200 women to the Winnipeg City Council. On October 25, 1966, the Winnipeg City Council unanimously passed a motion asking the Federal Government to establish a Prices Review and Consumer Protection Board. On November 14th, the St. Boniface area group, of the Homemakers' Protest Committee, appeared before the St. Boniface City Council with a delegation and asked for their support. The St. Boniface City Council passed a motion going on record in support of our petition, and requesting the Federal Government to investigate the high cost of food products.

Our committee is affiliated with the Canadian Consumers' Protest Association. Mrs. Gale Pearase, our president, is a member of the Board of Directors of the Canadian Association.

On January 31, 1967 we appeared before the members of the Manitoba Legislative Assembly with a brief. We urged them to pass a resolution, which would ask the Federal Government to implement the recommendations made by your Committee in your Interim Report. We also asked the Manitoba Legislative Assembly to enact legislation which would abolish the use of trading stamps and merchandizing gimmicks, and to provide municipal governments with proper legislation for regulated, uniform store hours.

On February 1, 1967 we appeared before the Prairie Provinces Cost Study Commission with a brief and are presently awaiting the results of this Commission's inquiry.

During this entire period, we have won the support of the Winnipeg City Council, the St. Boniface City Council, the Manitoba Federation of Labor, the Winnipeg and District Labor Council, the Manitoba Farmers Union, and many other organizations and individuals in Winnipeg and Manitoba.

We are concerned with certain areas which were not included in the recommendations made by your Committee in its Interim Report. We would like to elaborate on the following points and make some specific recommendations for your consideration:

1. Strengthen Combines Legislation.
2. Abolish the use of all trading stamps, and merchandizing gimmicks such as bingo games, prizes and contests.
3. Misuse of advertising and excessive advertising.
4. Price Comparisons of foods used by Dominion Bureau of Statistics to determine the cost of living index on food.
5. Investigate price spread between producer and consumer.
6. Establish a Prices Review Board to review price increases on essential foods.
7. "Cents-off" labels and coupons.
8. Introduction of uniform weights and measures.
9. How the rise in the cost of living has lowered the standard of living.

1. *Strengthen Combines Legislation.*

The possibility that a monopoly exists in the food industry, is a question that we wish to pose.

In your Committee's Interim Report, you state:

"In one part of the food processing industry, one firm controls 100 per cent of the market in the Maritimes and Western Canada, and at least 80 per cent of the market in Ontario and Quebec."[1]

You also asked: "Is this in the public interest?"[2]

We are not economists. As consumers and housewives, when we read the above statement by your Committee—"that one firm controls 100 per cent of the market", then this indicates to us that a monopoly does exist.

But then if this is not the case, and a monopoly does not exist, then perhaps the answer is an oligopoly. In the book "Fundamentals of Economics", Professor Reuben Bellan, an economist and professor at the University of Manitoba, explains an oligopoly in the following manner:

"An oligopoly is an industry, consisting of a number of firms. These firms can by collusion, achieve practically all the advantages of a complete monopoly. They can agree to charge the same high price, with each firm undertaking not to cut its prices, in order to lure customers away from other firms."

We are of the opinion that an oligopoly is as detrimental to the interests of the public, as is a monopoly.

Our laws today outlaw price fixing agreements by member firms of a given industry. They also prohibit mergers of firms that would thereby seriously reduce the degree of competition in an industry. We feel that our combines legislation needs strengthening. Fines do not seem to be enough of a deterrent. Perhaps the practice should be looked into, of closing firms down for a certain period of time, after they have been convicted of an offence under the combines legislation.

As evidence, we wish to submit the enclosed letter we have received from Mr. J. R. Morley of the Board of Trade of the United Kingdom. In this letter, Mr. Morley states:

"Since 1948 the Board of Trade have been able to ask the Monopolies Commission to investigate and report upon industries in which monopoly conditions appear to apply. In May 1963 the Board of Trade referred the supply of household detergents in the United Kingdom to the Monopolies Commission for investigation and report because of the predominant position in this industry occupied by Unilever and Procter and Gamble. After an investigation lasting for some three years the Monopolies Commission made their report to the Board of Trade, recommending that there should be a 20 per cent cut in the wholesale price of detergents accompanied by a reduction in selling expenses (principally advertising and promotion) of 40 per cent. The Board of Trade are currently negotiating with Unilever and Procter and Gamble the implementation of the recommendations by the Monopolies Commission. As yet no price cuts have arisen because of the Report by the Monopolies Commission."

We feel that a similar situation to the one described in the letter from Mr. Morley exists in Canada, as regards the large detergent companies. We, therefore, pose the question to you—should not a similar investigation be made in Canada.

2. *Abolish the use of all trading Stamps, and Merchandizing Gimmicks such as Bingo Games, Prizes and Contests.*

We are opposed to the use of trading stamps and are opposed to merchandizing gimmicks involving bingo games and prizes. The cost of a trading stamp scheme is approximately 2 per cent of sales, and such stamps must increase sales by at least 20 per cent in order to cover the cost of the scheme.

In September 1959, Loblaws predicted that trading stamp plans, resulting in dividends in the form of valuable gifts to Loblaw customers, might well stand to reduce food prices further. Loblaws also stated at that time: "It stands to reason that this should be so, as overhead costs would be reduced through increased sales volume."[3]

However, according to the Royal Commission on Price Spreads of 1959, such gains are quickly dissipated, as competitors are forced to introduce stamps. With everyone doing it, a 20 per cent increase in the aggregate food demand is out of the question, and the cost of stamp schemes then must be absorbed by higher prices.[4]

The Lucky Chain Stores in the United States, who run over ninety stores, are dropping stamps and gimmicks, which they admit add to the cost of food.[5]

Safeway in the United Statse announced in December 1966, that as of January 1, 1967, they were dropping their bingo games. We can well ask the question: Why are they not doing to same in Canada? Probably, because the profit on food sales in Canada is 2.3 cents on the dollar, while in the United States it is 1 cent on the dollar.[6]

British Columbia, Alberta and Saskatchewan have all passed legislation providing for severe penalties for a wide variety of unauthorized business practices, including the use of trading stamps.[7]

In a brief, which we presented to the Manitoba Legislature, we urged them to lead not only in outlawing the use of trading stamps, but also such merchandizing gimmicks, such as bingo games and prizes.

We urge this Committee to make this one of your major recommendations to the Federal Government.

3. *Misuse of Advertising and Excessive Advertising*

Advertising expenditures are so great that there is an exclusive "Million Dollar Club", solely for food and beverage companies, spending a million dollars or more per year on newspaper, radio and T.V. advertising. There are 144 such companies. Topping this list is General Foods with $88,453,200.00 in advertising expenditures per year. Fourth on the list is Kelloggs with $39,008,400 in advertising expenditures per year.[8]

In Canada alone, Canadian companies spent $800,000,000.00 last year on advertising—$400,000,000 of this was at the retail level. We feel this involves an excessive amount of duplication, such as chain stores sending out fliers and at the same time advertising in newspapers, on radio and TV.

The breakfast cereal industry spends 2 per cent of the dollar on advertising. 12 per cent of this is spent on T.V. advertising alone. All of this is directed at our children, and is so excessive, that every child of three or more, can recite more cereal commercials than nursery rhymes.[10]

We admit that advertising is necessary, but there is a difference between necessary advertising and excessive brainwashing.

An example of advertising brainwashing is the consumer's assumption that buying large economy sizes is less expensive than buying smaller sizes. This often is not the case.

The report of the National Commission on Food Marketing states: "An unknown but substantial portion of advertising and sales promotion serves only to urge consumers to patronize firm A rather than firm B, or to buy brand C rather than brand D. It is highly unlikely that costs thus incurred add value to goods purchased by the consumers."[11]

Last year in Ottawa, M. Loeb Ltd. (IGA) was found guilty of misleading advertising and fined $500.00. We feel this is another example of an insufficient fine for such an offence.[12]

Another example of unnecessary advertising is the method used by some supermarkets to advertise goods. One of our members purchased a can of floor wax recently in a supermarket. This can of wax, like all the other cans on the shelf, displayed a special sticker advertising a reduction of 8 cents and sold for 71 cents. However, the original price, found underneath the white sticker, was the same as the sale price—71 cents. Perhaps if these stickers were not used, a real reduction in price would be possible. This form of advertising is not only unnecessary, but is very misleading as well. It leads consumers to believe that there has been a reduction in price, when actually this is not the case.

We wish to pose the question to you: In such a case, when a store advertises an article as being reduced in price by 8 cents; but doesn't actually reduce the price, then can the supermarket, that put on such a sticker, be charged, and are they liable to prosecution?

We realize the complexity of determining when advertising becomes excessive or misleading. However, we feel that stricter laws, clearly defining such misuses, should be introduced, so that such practices as we have dealt with, will be stopped.

4. *Price Comparisons of Foods Used by Dominion Bureau of Statistics to Determine the Cost of Living Index on Food.*

Mrs. W. Wassell, of 638 Sherburn Street, is a Winnipeg housewife, who has been doing price comparisons at the same store since 1962. She has repeatedly checked the food items, which the Dominion Bureau of Statistics use to determine the cost of living index on food. Mrs. Wassell has indicated that she would be willing to give your Committee any additional information you may require.

From December 1962 to December 1966, some food items have increased in price by as much as 12 cents. Here is a list of price increases, that Mrs. Wassell has given us:

Macaroni—9.7 cents; soda crackers—2.4 cents; Jam—5.8 cents; 2 lbs. of honey 6.8 cents; margarine—9.5 cents; lard—8.4 cents; 28 oz. tin of tomatoes—9.9 cents; baby foods—2.5 cents; onions—5.8 cents; 6 oz. jar of instant coffee—18.5 cents.

Mrs. Wassell also points out that this list of thirty food items, are part of the food items which the Dominion Bureau of Statistics uses to determine the cost of living index on food. This list of food items is also known to the food stores. We believe, that it would be possible for these stores to keep prices down on these items, while raising the price to a larger extent on other articles. If this is the case, then the food index, for any given month, would not be accurate. We say that this is a possibility. Since you are trying to determine what is causing the sharp increase in the cost of living, and a whole number of areas are being investigated, then we are of the opinion, that this possibility should also be investigated. We urge this Committee to look into this question.

5. *Investigate Fully the Price Spread Between Producer and Consumer.*

In June 1966, the price paid to producers for Grade A hogs was 38.5 cents per lb. while the price paid by the consumer for pork products was 91 cents a lb. In the very next week, the price paid to producers went down to 37.63 cents per lb., while the price paid by the consumer remained at 91 cents per lb. In August 1966, the price paid to producers went down to 33.55 cents, and the selling price paid by the consumer went up to 95 cents per lb. In September 1966, the price paid to producers went down to 33.47 cents per lb., and the price paid by consumers soared to $1.04 per lb.

Producers receive 20 cents per lb. for chickens, while consumers pay from 45 cents to 85 cents per lb.

A 16 ounce loaf of bread costs the consumer 24 cents, while the producer receives only 3 to 4 cents for the amount of wheat contained in a loaf of bread.

We have not been able to receive a satisfactory explanation of why there is such a wide price spread between the prices paid to the producer, and the price paid by the consumer in the retail food stores. What happens to the large price spread? Where does all that money go?

We feel that this is an area which is in need of a thorough investigation, and would urge your Committee to investigate this price spread thoroughly.

6. *Establish a Prices Review Board to Review Price Increases on Essential Foods*

We are firmly convinced of the need to establish a Prices Review Board. Such a Board would be able to examine the books, the profit and loss statements and cost accounting material of the particular industry concerned, in order to find out whether or not increased wage costs and increased costs of raw materials warranted any increase in price. We urge your Committee to recommend that such a Prices Review Board be established. Such a Board would review price increases on the essential foods, that make up Canada's ten basic health rules. This Board could be a part of the department of Consumer Affairs.

7. *"Cents-Off" Coupons and Labels.*

We were very pleased with the recommendations that your committee made in your Interim Report regarding "Cents-off labels and coupons". As we have done considerable research in this field, and have not had the opportunity to present evidence to your Committee regarding "cents-off" coupons and labels, we would like to bring the following examples to your attention:

Recently, a monthly publication called "Homemakers' Digest", hit the mail, and many housewives began receiving it free of charge. It contained a printed shopping list, which contained many suggestions as to specifically named company products, the housewife should buy. This was actually another form of advertising for certain companies.

The "Homemakers' Digest" also offered many "cents-off" coupons. It was from this booklet, that one housewife clipped a coupon for 15 "cents-off" for Vaseline Bath Oil. In the store, the bath Oil was advertised at a deal price of $1.29. An old price sticker, underneath, however, showed the price of $1.19. This housewife maintains, that the price was put up purposely, in the first place, to make up for the 15 "cents-off" coupon. This resulted in a saving of only five cents, instead of the promised fifteen cents, on an article that already had a mark-up of 25 per cent.[14]

From the Western Grocers Order and Stock Control Record Book of 1966, which we have, we find the following:

Borden's Chocolate Malt sells to the retailer for twelve tins for $6.30, and is sold to the consumer for 67 cents a tin—a 22 per cent mark-up. This same product, with a 10 "cents-off" label, sells to the retailer for twelve tins for $5.10, but still sells to the consumer for the regular price of 67 cents. This increases the mark-up to 37 per cent.[15]

A similar situation applies to the following products: Cadbury's Choco; Instant Nestea; Cheer detergent; Omo detergent; Ivory Liquid; and Kraft Peanut butter.[16] Some products, advertising as much as a 30 "cents-off" label still sold for the regular retail price. What is even more startling, these products with "cents-off" labels, were in every instance sold to the retailer at a reduced price. The saving was not passed on to the consumer. In fact, the stores made a better profit on these items, offering so-called "cents-off", than they did on the regular priced articles.

Your Committee, in its Interim Report, stated that:

"Cents-off labels, in view of their tendency to cause confusion and distort price relationships, should be prohibited. This committee feels that this device tends to create uncertainty about what the regular retail price is. "Cents-off" labels, therefore, confuse the consumer and lead to abuses.[17]

We endorse and support the recommendations made by your Committee in your Interim Report, that these practices be abolished.

8. *Standardization and Simplification of Packaging and Grades.*

The different names of package sizes, such as: Economy, Giant, King and Family—do not tell the consumer very much. For example, one company's King size may be another company's Family size. The housewife is confused by the many different sizes and is even more confused when it comes to determining the price differences. Here are a number of examples which illustrate this point:

A laundry detergent, bearing the supermarket's own brand name, is packaged in a box precisely the same size as all other detergents of that size, but it only contains 2 lbs., while the other detergents contain 2 lbs. 10 oz.[18]

Colgate's Florient—the 6½ oz. size sold for 67 cents and now the new 6 oz. size—offering the "new low price" sells for 89 cents.

Old Dutch potato chips are sold in a 12 oz. box and a 13 oz. box. Both appear to be the same size and sell for the same price.

Shredded Wheat—the family size—used to contain 18 oz. and sold for 45 cents. Now a new family size package has been introduced and contains 15¾ oz. When it was first introduced, it sold for 43 cents, but a few weeks later, the price was increased to 45 cents—the same price as paid for the old 18 oz. box of Shredded Wheat.

All these changes in package sizes are very misleading, and unless you stop to read the number of ounces as marked on the box, you would not realize the boxes do not weigh the same, because they look exactly the same.

The Chicago Hyde Park Co-operative Supermarket, with the aid of a computer, broke down prices of 2,000 items into a price per ounce ratio. They found that a 6 oz. jar of coffee was cheaper than the 10 ounce size. Besides proving that there is deceptive pricing, they also proved it is possible to have comparative shopping without having to resort to slide rules.

Another thing which puzzles us is why there is such a price difference between the United States and Canada on so many commodities. As an example, we wish to submit as evidence a bottle of White Rain, which was purchased in the United States for 80 cents, and sells in Canada for $1.72.

Another area, which is equally as confusing is the different grades for food items. For example: eggs are graded by A, B, C and cracks; butter—by 1 and 2; beef—by red, blue and commercial; chickens—by A, B, Utility and C; canned goods—by fancy and choice. Each company has its own brand name for their bacon.[20] Therefore, it is difficult for the consumer to be able to determine what is the best quality to buy. Why can't all grades be named as A, B, C and D; and package sizes as small, medium and large; and thereby avoid all this confusion?

We endorse the recommendations contained in your Interim Report—

1. That immediate steps be taken to promote standardization and simplification of grades, nomenclature, and packaging for commonly purchased consumer items.
2. That manufacturers of consumer products should be required to modify their packaging techniques so that where applicable, the weights or contents are expressed in terms, which minimize the difficulties of calculating and comparing prices.[21]

9. *Examples of How the Rise in the Cost of Living has Lowered the Standard of Living.*

We would like to give you a number of such examples—that of an old age pensioner and two families. We can give you the names and addresses of the two families, if you want them.

Old Age Pensioner

In the spring of 1965, the Age and Opportunity Bureau of Winnipeg, undertook an investigation to ascertain the minimum amount of money required each month to provide adequate quantities and kinds of goods and services necessary for a single-retired person, to live with a measure of independence and self-respect, allowing for some active participation in the life of the Greater Winnipeg community.

The Montreal Diet Dispensary, a reputable, nationally known independent agency which draws support from the Community Chest, is a recognized authority in this field. Data prepared by this agency are used by the Social Allowance Branch of the Department of Welfare of the Government of Manitoba.

The Montreal Diet Dispensary Study "1963 Minimum Monthly Budgets for Elderly Persons Living Alone" was used as a basis for this investigation.

Pricing was done in Winnipeg in July, 1965 with the assistance of elderly persons.

BUDGET	
Food	$ 35.45
Clothing	6.45
Personal Incidentals	2.29
Household Supplies	1.63
Electrical Power Consumption	2.02
Housing	35.00
Newspaper	1.73
Religion	1.08
Recreation	2.09
Transportation—bus	3.00
Entertaining	1.28
Tobacco, candy, stamps, etc	2.87
Replacements—dishes and linen	.80
Telephone	3.41
Health	12.65
Total	$ 111.75

This budget comes to $111.75 per month. Yet at that time, old age pensions were only $75.00 per month.

Since then, at the end of 1966, the cost of living had risen by more than 4.3 per cent. Even with the recent increase of $30.00 in the old age pension, to those who are in need of the extra income, this only gives the pensioner an income of $105.00 per month today. In the spring of 1965 according to the budget, $111.75 was needed. Obviously, the old age pension is not adequate today.

A FAMILY OF SIX	
Annual Income	$ 3,600.00
BUDGET	
Mortgage Payment	$ 900.00
Heat	180.00
Hydro	120.00
Telephone	49.20
Medical	160.00
Property Tax	250.00
Food	1,400.00
Clothing	200.00
Car Payments	480.00
Car Insurance	60.00
Car License	20.00
Gas for Car	104.00
Total	$ 3,923.20

This family is managing to buy a home and feed four children. If the expense of the car were removed, then they would be within their budget. However, stop and consider, the mother would then have to shop at the nearest store, and not be able to shop around for bargains. With small children, a car is often the only form of recreation. The family goes to parks and visits friends for entertainment.

You will note that they have no allowance for entertainment, recreation, vacation, dental work, house insurance, home repairs or improvements. This is not because of lack of planning, but because of lack of money.

However, they have no outstanding debt, outside of their car payments, which is quite remarkable. While their total annual expenditures exceed their income by $323.00—they manage because the husband puts in some overtime.

Any other unforeseen expenses that may occur, are covered by cutting the food budget. However, if the husband should become ill, then they would be in serious financial difficulty. The wife is very thrifty and penny conscious, but if prices continue to rise faster than the husband's wage, then they will not be able to manage.

A Family of Three

Our next example, will be that of a family, who are not so good at planning and keeping a budget. We believe that there are more people in this category.

This is a family of three, earning $226.00 per month during 1965.

1965 Budget (Monthly)	
Rent	$ 79.50
Food	82.00
Hydro	6.00
Telephone	4.45
Dental Work Payments	9.00
Car Payment	20.00
Gas, license and insurance	27.00
T. V. Payment	15.00
Vacuum cleaner payment	15.00
Life Insurance payment	5.00
Total	$ 259.95

This family's expenses exceed their income by $34.00 per month. In order to manage, they took out a loan from a finance company and consolidated their debts. Their monthly payment to the finance company was $32.50—only $11.50 less than they were paying out previously on individual payments. They still remain $12.50 short each month. At the same time, by borrowing money at a high interest rate, they have increased their total debt. If the husband had not received a wage increase at that time, and they had continued to go into debt at the rate of $12.50 per month, they would have found themselves with a $150.00 debt at the end of the year. This would have possibly meant taking out another loan from a finance company. However, with the new wage increase, their income was now $320.00 per month. The average monthly wage in Manitoba as of November 1965 was $346.00.[22]

In an attempt to get on their feet, they moved to a low-rent housing development in 1966. Their monthly budget now is as follows:

1966 Budget (Monthly)	
Rent	$ 68.00
Food	125.00
Telephone	4.45
Hydro	8.00
Heat	15.00
Vacuum Cleaner Payment	12.00
Car Payment	15.00
Repairs to Car (garage)	16.00
Gas and repairs for car	25.00
Car Insurance and license	14.00
Total	$ 302.45

This same family, after a $100.00 increase in monthly wages, has only $17.55 left at the end of each month. Out of this amount, they have to buy clothing, furnishings, pay for laundry, entertainment, recreation, and any medical or drug expenses which may occur.

With a new baby on the way, and in anticipation of new expenses in view of this, they are considering taking out another loan from a finance company. They have just finished paying for their first loan. They have also bought another used car, as their old one was in such bad condition, that it was not worth repairing. So, they bought a "good used car" and paid $400.00 for it. Six months later, they had to make transmission repairs amounting to $400.00. Again, we have an example of how owning a car, can cut deeply into a family budget. But again, it is the only source of family recreation.

The mother finds it very difficult to live with their financial difficulties. She became very depressed at having to continually dress her baby in hand-me-down clothes; at seeing her husband going to work everyday in clothing too large for him; and of never being able to buy herself a new dress.

Their furniture consists of odd bits given to them by friends. Their total home furnishings that they bought in one year were: a used T. V. set; a new vacuum cleaner, which they bought on payments; a used stove which cost them $15.00; a used chesterfield for $10.00; and a used refrigerator for $30.00. Their other furniture consists of two borrowed beds; ornaments found in a neighbor's garbage, and which they repainted; and a coffee table, constructed from rough lumber.

Is it any wonder that this woman became emotionally disturbed, and took an overdose of drugs?

From the example of this last family, we see a real need for help. The government should set up facilities which would give people in their position, financial counselling. Something should also be done, so that they should not become the victims of high interest rate financing.

We welcome and endorse the recommendations that your Committee has recently made in this connection.

We are constantly hearing about the affluent society in which we live. We are told that wages have gone up, and that in general we are much better off than our parents were. In the last twelve month period, the cost of living has gone up in Canada by 4.3 per cent, while food increased by almost 8 per cent.[23] Some of us are dubious that we are living in such an affluent society, when we see, that in spite of wage increases, our financial position does not improve.

While 30 per cent of the working force belong to trade unions, the rising cost of living puts extreme hardship on the people unable, through organized efforts, to demand higher wages. How do old age pensioners, veteran pensioners, and people on fixed low incomes manage to survive in the face of the continuing rise in the cost of living? They don't! They must stand helplessly by and watch their fixed incomes shrink in real value, as each month the cost of living continues to rise. We are gravely concerned over the consequences of this inflationary trend.

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BRIEF

to the

JOINT COMMITTEE ON CONSUMER PRICES

February 1967

Presented by Dr. C. W. Gonick,

Editor, Canadian Dimension,

Assistant Professor of Economics,

University of Manitoba.

Biographical Note

— C. W. Gonick, born 1936, Winnipeg, Manitoba

— received doctorate in Economics at the University of California, Berkeley, in 1965

— now assistant professor of Economics at University of Manitoba and editor and publisher of Canadian Dimension Magazine

— Canadian Dimension magazine is an independent journal of fact and opinion begun in 1963. In the past year it has become more and more interested in the question of Canadian sovereignty and several of its issues have been devoted to this question. It is sponsoring the forthcoming conference, *Canada and the American Empire*, to take place in Montreal, March 3-4-5 at the Sir George Williams University.

* * * *

The rash of strikes in recent months and the current outbreak of inflation have frustrated and confused both public and parliament. The investigation of prices undertaken by the Economic Council of Canada in its Third Annual Review is most welcome, for up to now our economists have notably failed to clarify the issues relevant to the phenomenon of inflation in Canada. In fact, their analysis and prescriptions have served to compound the confusion—in large part because of their insistence on analyzing the Canadian economy as an integral national economy subject only to the influences, profound as they may be, of the world economy.

There is growing evidence that, on the contrary, the Canadian economy can be best analyzed and understood as a sub-region within the North American economy. This thesis is corroborated in the Council's report, though it is not given its due emphasis and was thereby missed by most of the commentators in the daily press and the broadcasting media. The structural tie between the two economies is clearly reflected in price movements (as it also is in the secular and cyclical movements of other economic indicators such as wages and output). Indeed, the secular and year to year movement of prices is remarkably similar in both countries. Between 1913 and 1965 the U.S. Consumer Price Index rose from 42 to 132; over the same period, the Canadian Consumer Price Index rose from 50 to 138. In the shorter period 1958-1964 the percentage change in Canadian prices and in U.S. prices were very similar and together they were markedly different from the price changes experienced in other countries. This again illustrates the regional aspect of the Canadian economy vis-à-vis the U.S. economy.

CHANGES IN CONSUMER PRICE INDEX
1958 – 1964

Country	Consumer Price Index % change
Canada	8.2
U.S.	7.3
Great Britain	15.4
France	29.1
Germany (Federal Republic)	14.6
Italy	23.8
Netherlands	18.8
Belgium	10.7
Sweden	19.3
Japan	32.0

SOURCE: Economic Council of Canada, Third Annual Review.

Year to year changes, with few exceptions, are in the same direction and move by approximately the same amount in both countries. And sector for sector price changes both over long periods and year to year show virtually identical patterns. This is true not only for items which are internationally traded such as food and clothing, but also for items such as housing and health care which are not traded across international boundaries.

This conclusion differs from that of the Council which argues that the so-called "unexposed" sector of the economy, whose products do not move across international borders, are largely exempt from foreign price influences (see page 56 of the Council's Third Annual Report). Yet, an examination of the price changes of some of these "unexposed" sectors reveals a very similar movement in the U.S. and Canada.

CONSUMER PRICE INDEX

	1947		1961	
	Canada	U.S.	Canada	U.S.
Housing	100	103.3	133.2	132.5
Health	100	140.1	140.6	147.9
Transportation	100	108.5	140.6	147.9

Moreover, the difference in price levels between the U.S. and Canada is less than the price spread between many of Canada's metropolitan centres.

The conventional view among economists is that Canadian price levels can be adequately explained in terms of the supply of money, wage rates, the rate of unemployment (and aggregate spending), indirect taxes and industrial structure—all domestic factors—along with import prices and foreign exchange rates reflecting external factors. The price level can, in this view, be effectively regulated by fiscal, monetary and exchange policies of the federal government. On the other hand, a far lesser degree of control over the price level is implied by the view expressed here, that Canada is essentially a satellite economy. Given the integrated nature of the North American economy, the Ottawa government does not have levers of control to combat inflation. It must depend on the efficacy of the economic policy emanating from Washington. It might be said, in passing, that the increased control over public revenues being passed on to the provinces weakens still further the ability of the federal government to hold back inflation.

INSTRUMENTS OF CONTINENTALISM

The substantial industrialization of the Canadian economy over this century and especially since World War II has in no way altered the traditional Canadian pattern of external dependency. Rapid and large-scale changes in the level and rate of growth of Canadian output along with changes in its direction are still generated externally—by developments taking place largely in the American economy.

The instruments of economic integration are exports and investment. The great bursts of economic activity in Canada, such as that which we are experiencing today, are generated in the U.S.A. American factories consume great quantities of raw and semi-fabricated materials, and many of these are supplied largely or solely by Canada. Needless to say, the bulk of this primary production is financed and controlled by American corporations—very often by the American consumers of the materials. To give only one example, the Iron Ore Company of Canada, the great iron ore mine around Ungava Bay straddling the Quebec-Newfoundland border, was developed and is owned by seven interrelated U.S. steel producers to feed their own mills.

Large-scale expansion of American output requires an increased supply of Canadian-produced inputs. Rapid growth of the American economy, therefore, is automatically reflected in greatly increased exports to the U.S.A. and in greatly increased investment in Canada—to expand the productive capacity of our mines, forests and refining facilities. Together, the expansion of investment and exports create a Canadian boom which very often outstrips the boom in the U.S. Much of the increased investment is financed with American capital (most of it, however, representing undistributed profits earned in the Canadian operations of U.S. corporations) and is part of the process of the Americanization of the Canadian economy. What is of particular importance, considering the national interest being focussed on the question of foreign ownership, is that the links which bind our two economies—trade, investment, trade unions, advertising and the mass media (which create common tastes and common values) are all, in large part, the consequence of the increasing presence in Canada of the American multi-national corporation.

THE NEW WAGE DEMANDS AND INFLATION

The influence of the United States on Canadian price levels can be seen as both direct and indirect. The direct effect occurs by virtue of the transmittal of U.S. prices via Canadian imports of U.S. consumer and producer goods, and, to a lesser extent, via Canadian exports which sell at world prices and are not largely affected by economic conditions in Canada. By far the most important influence is indirect and that is first by means of the impact of export demand and induced changes in investment, on aggregate spending in Canada. Canadian exports to the U.S. and related investments in Canada, of course, closely follow the fluctuations of U.S. economic activity, as discussed above. Other important indirect influences on Canadian price levels appear via trade union links, the use of similar technology transmitted by multinational corporations through their Canadian affiliates; the subjection of households to similar taste-inducing sales promotion campaigns, also transmitted through multi-national corporations through their Canadian affiliates; the easy movement of factors of production, especially skilled and professional personnel, across the international border, creating at least for these factors a continental labour market.

Under the influence of the Kennedy-inspired and Johnson-executed tax reduction and more importantly the increased government expenditures associated with the Viet Nam war, the U.S. and Canadian economies have enjoyed

continuous prosperity since 1962. (Wheat sales to the Soviet Union and China offered an additional fillip to the Canadian economy.) Five fat years have followed five lean years. The years 1957-1961 have been commonly characterized as years of economic stagnation in both Canada and the United States. The post-WW II boom—boosted by the pent-up demands carried over from the Great Depression of the 1930's and WW II, together with the high volume of liquid assets accumulated during the war, and the large government expenditures needed to finance the Korean War—was petering out by the mid 1950's. The aftermath of very slow rates of economic growth and high rates of unemployment was accentuated in Canada by the massive over-expansion of productive capacity just at the peak of the post-war boom. Between 1957 and 1961 the annual rate of economic growth in Canad averaged only 2.1 per cent while the rate of unemployment averaged 6.4 per cent. Per capita income fell during this period, and the 1956 level was not regained until well into 1962. In the current period, 1962-1966, the annual rate of growth has been in excess of 6 per cent while the rate of unemployment has averaged about 5 per cent (in recent months around the 3 per cent level).

During the lean years organized labour hardly felt itself in a position to demand large increases in wages. These were the years of the great automation scare. The working man was haunted by the fear that a temporary lay-off would turn out to be permanent as his job disappeared among the myriads of new automated transfer machines and programmed machine tools. Indeed, the rate of economic growth in this period was not rapid enough to absorb all members of the working force displaced by machines as well as the new entrants into the labour force. Under the circumstances the bargaining position of labour was weak. Trade unions stressed security over wages and sought severance pay, improved pensions and the like. Wage increases fell behind increases in productivity; labour costs per unit of output, which are determined jointly by productivity and wages, fell between 1960 and 1963. Compared to the previous period (1952-1957) increases in average weekly wages weere small. In manufacturing they were about the same, but in mining they rose on the average only by $2.37 per week in 1957-1962 compared to $3.25 in 1952-1957, and in construction the disparity was even greater, $2.17 compared to $3.51. While wages were rising by much less in these lean years, prices were increasing somewhat more rapidly—7.3 per cent as compared with 4.5 per cent in the fat years (1952-1957). The relative improvement of labour income, then, was much smaller.

In order to make up for the very slight increases in living standards in the immediate past, and in anticipation of a renewed slowdown and higher unemployment rates in the immediate future, trade unions are taking advantage of the favourable circumstances of today and insisting on unprecedented increases in wages. Unexpected full employment since 1965, transmitted to Canada via the export requirements associated with the acceleration of the war in Viet Nam, has greatly strengthened the bargaining position of organized labour, as do also the pressures of wartime. Increases in the cost of living, also stimulated largely by the war, have made rapid gains in wages more urgent, and immense gains in profit by business have given legitimacy to militant demands of labour.

The economic imperatives are compounded by an internal revolt within the trade union movement which, together with the intense rivalry between the Canadian Labour Congress and the Confederation of National Trade Unions, accounts in part for the particularly agressive mood of labour in recent months. (The reasons for this internal revolt are explored by Ed Finn in his articles, "The New Militancy of Canadian Labour", *Canadian Dimension*, Vol. 3, No. 1, and "Why Canadian Labour is Kicking" in *Canadian Dimension*, Vol. 4, No. 2.)

INFLATION—1966-67

There was no evidence of abnormal price increases until mid-1965. That increased labour costs had nothing to do with the emergence of inflation was attested to by the Economic Council of Canada in its Second Annual Report. Having said this, however, it must be added that wage increases of 20 per cent, 30 per cent and even 40 per cent being sought by many trade unions, if they should become general, would no doubt add fuel to the inflationary pressures.

Many critics of the government, including irate housewives, have mistakenly linked the current inflation with monopoly power. No doubt the giant corporations (oligopolists) that dominate most of our industries are able to set prices artificially high and thus earn excessive profits. But this is simply "business as usual". It is not the cause of inflation—at least not the cause of the inflation which we are experiencing today. Inflation is always accompanied by abnormal profits. But again these abnormal profits are a reflection of the inflation, not the cause.

The current bout with inflation occurs largely as a consequence of the strains placed upon the North American economy by the Viet Nam war, although the proliferation of Centennial projects is an added feature in Canada. So far the inflationary impact in both Canada and the U.S. has been decidedly selective and restricted to those sectors of the economy such as food, clothing, housing and services, where the producer is typically small in scale and where supply is not very flexible. Until the announcement at the end of September of the rise in automobile prices, the prices of mass-produced durable goods were remarkably stable, as supply in these industries has been elastic enough to adjust to even such large increases in spending as the $1.2 billion each month for the Vietnamese war. This elasticity of supply in the durable goods sector has contained inflationary pressure to a large degree. For compared to the normal annual price increases in European countries' and despite the recent increases, the rise in Canadian and American prices is still quite mild. In this light the prices terror being spread in the daily press is outrageous, especially when inflation is attributed to trade union demands and equated solely or largely with domestic economic factors. In any event, the anti-inflationary measures proposed by the Johnson administration should slow down the inflationary pressures somewhat. But it is clear that we shall have to live with some inflation until the Viet Nam war is ended.

CONCLUSION

In the third chapter of its third annual report (p. 56) the Economic Council succinctly summarized its position with regard to the scope of Canadian price policy.

> The power of the underlying forces making for longer-term similarity of price movements in the two countries is apparent. Given these conditions, it is clearly not realistic for Canada to aim at a price performance that is very different in either an upward or downward direction from the parallel performance in the United States. Barring a large and continuous offsetting movement in the exchange rate, or a deliberate insulation of the whole economy on a scale and at a cost that few Canadians would be prepared to tolerate, an attempt to do very much better or very much worse than the United States in achieving reasonable price stability would not be sound policy.

Such is the Council's conclusion with regard to the scope for independent price policies. Similar analysis would also show that the Canadian government has limited scope for influencing output and employment. As a region within a continental economy Canada's economic destiny is largely out of the control of Canadian authorities. It is vested instead in the offices of the corporate and

political decision-makers who reside in the United States. Within the continental framework the task of the federal government is to adjust its policies to changes in the economic conditions of the metropolis (United States) and to changes in the economic policies emanating from the metropolis. This is the only freedom of action open to satellite nations.

My conclusion is not as pessimistic as that of the Council, however. The Council assumes that the cost of independence, erroneously equated with large-scale isolationism, would not be acceptable to the people of Canada. The truth of the matter, of course, is that nobody knows that the cost of independence would be or even what are the possibilities for independence. This is because nobody in recent years has questioned the need for continentalism. Continentalism has been created by the pull of the market forces and therefore it is deemed good and necessary. Is independence rejected out of hand because it is "unrealistic" or because it would require a rejection of the market, a gigantic restructuring of the Canadian economy by the conscious use of non-market forces, the use of comprehensive economic planning and direction of the kind which, except for wartime, has been unacceptable to corporate and political leaders. Is continentalism and satellite status necessary because within the framework of a corporation-centred, market economy, independence is impossible?

These are hard questions and I have put them as plainly as possible. If the Committee is primarily concerned with recommending policies designed to help Canada adjust to conditions prevailing in the U.S. and to American economic policies, then it will ignore these questions. If it is interested in recommending policies which will permit the government of Canada to deal objectively and independently with such questions as the rate and direction of economic growth, the rate of unemployment and the level of prices—as objectively and independently as any nation-state can be in this interdependent world—then it will take these questions seriously and it will ask the people of Canada to take them seriously.

THE WINNIPEG CHAMBER OF COMMERCE

THE CHAIRMAN AND MEMBERS,
THE SPECIAL JOINT COMMITTEE
OF THE SENATE AND HOUSE OF COMMONS
ON CONSUMER CREDIT (PRICES)

Gentlemen:

The Winnipeg Chamber of Commerce which represents a broad segment of the business community of Greater Winnipeg, has followed with interest the hearings of your Committee and the evidence contained in many of the submissions made at your hearings in Ottawa. It is a pleasure to welcome you to Winnipeg. We are pleased to see that the Committee is prepared to travel across Canada so as to provide the widest possible opportunity for interested groups to be heard.

With respect, we suggest that it is equally important to make certain that inquiries you conduct and the studies you set in motion are conducted in as much depth as possible.

We do not propose to repeat much of what has already been said to the Committee but the suggest areas in particular which call for study beyond the ability of this Chamber and which, in two cases, do not appear prominently in the discussions of the Committee. These areas are:

Context of the Inquiry;
Taxes;
Cost of Labour;
Processing and Packaging;
Value of Advertising.

Context of inquiry

The first of these is the context in which the matter of price increases must be considered.

We submit a table (see appendix "A") extracted from a publication of the Organization for Economic Co-operation and Development published last year at its headquarters in Paris. It is entitled "Economic Growth 1960—1970", and the table indicates the rise in average prices from 1960 to 1965. It would seem to suggest that, over the period, the rise in prices in all reporting countries, with the exception of the U.S.A. has been greater than in Canada.

Does this indicate that the rise in prices is caused by economic forces that are world-wide or at least international in scope? Can we do much to isolate Canada from this trend and the forces behind it?

Taxes

The other major area about which far too little has been said is the tax content of the dollar which the consumer pays to the retailer.

In its recent 3rd Annual Report, the Economic Council of Canada touched on the subject in general terms. Here are two excerpts:—

The Effects of Indirect Taxes

A further aspect of Canada's post-war price performance, and one which has not received a great deal of attention, has been the increasing extent to which indirect taxes and other government levies have affected costs and prices. From 1949 to 1965, indirect taxes per unit of output rose

more sharply than any other major cost component of GNP, and such taxes now account for about 15 per cent of total GNP. They rose, in fact, at a rate more than 50 per cent faster than the GNP price deflator over the whole period, and at more than double the rate of the GNP price deflator since 1960. This development mainly reflects increased revenue requirements of provincial-municipal governments to meet growing expenditures in their fields of responsibility. More recently, since 1963, there has also been a sharp advance in such taxes at the federal level as a result of the application, in progressive stages, of the 11 percent federal sales tax to machinery and equipment and building materials. The figures do not, of course, reflect the imposition of a payroll levy on business firms to meet part of the cost of the recently inaugurated Canada and Quebec Pension Plans which came into effect in 1966. This has operated to raise the total labour costs of business by about 1 percent in 1966. To the extent that this cost is "shifted forward" to customers through higher prices, it also represents an element in the price rises which has occurred between 1965 and 1966*.

NOTE: The Canada and Quebec Pension Plan contributions by business firms are not classified as indirect taxes either in the National Accounts or in government accounting records. However, if they are shifted forward, their effect on price is the same as that of an indirect tax or any other business cost which is shifted forward.

(extracted from Pages 103 and 104)

It is important to recognize that although indirect taxes and other charges levied by governments may be shifted forward and show up as price increases in the price indexes, they are of a rather different character than the conventional type of price rise. They represent in effect, the price which the community in a collective sense pays for increased government services including capital and pensions. Had the community chosen some other method of financing such increased government services—by higher direct personal taxes, for example—the effects on prices and the measurements of price change would have been quite different. When increased indirect taxes represent a major source of financing for rising government spending, however, the community in effect pays for an increased level of government services by accepting a higher price for the goods and services which it purchases in general. There is no doubt that this has been a significant factor in the "measured" rise in prices which has taken place over the past decade and a half.

Indirect taxes per unit of output have risen by close to one third since 1960, and have been the most steeply rising component of costs per unit of output in the national accounts.* Indirect taxes have therefore become, as emphasized in Chapter 4, a significant factor in the over-all costs and price increases taking place in the economy over the past few years.** Moreover, their impact was further re-inforced in 1966 by similar effects produced through the business payroll levy to pay part of the costs of the newly introduced Canada and Quebec Pension Plans. The combination of increased indirect taxes and the introduction of the Pension Plans may have had a particularly pronounced and pervasive cost-push effect on prices in 1966.

*Indirect taxes include federal and provincial sales taxes, real estate taxes, customs duties, liquor and tobacco taxes, and various licenses and fees.

**Increases in direct taxes, including corporate profits taxes and personal income taxes, may also tend to contribute to price increases—in the case of personal income taxes, perhaps largely through the route of increased wage demands. But the cost-push effects of direct taxes on prices tend to operate more indirectly. Increases in both direct and indirect taxes, of course, have various effects in addition to cost-push effects on prices, including restraints on private purchasing power. (Extracted from pages 223 and 224).

Indirect taxes as a means of financing increased government spending—taxes which have been enlarged at the federal level and even more rapidly at the provincial level in recent years—in effect result in a growing package of government services being embedded in the rising prices of goods and services purchased by consumers and business. This is therefore a rather special, if not illusory, element in rising prices; it is a means of financing increased government services through the tying of purchases of such services to the purchases of goods and services for private use. But it is important to recognize that this element exists in various measures of price increases. It is also important to note that it may have conceivably accounted for somewhere in the vicinity of a quarter of the over-all increase in prices in Canada over the past few years.

We are not aware that any study in depth has been made of the effect of taxes on the increase in prices from producer to consumer. We have an article written in the U.S.A. a few years ago (see Appendix "B") which makes the claim that 50 per cent of the retail price of a loaf of bread is taxes. We concede that there is probably not enough evidence to substantiate that claim and there is need for study in depth to determine approximately how much is siphoned off by the tax gatherers along the way.

Taxes and Profits

Many unfounded charges have been made about exorbitant profits and yet, when firms have spread their books before the committee, food retailers have shown that their profit is measured in terms of 1 to 3 cents on the consumer's dollar. It is well, too, to remember that for each $1.00 that a company pays out in profits to its shareholders or retains for future development, it pays out $1.04 to the government in corporation tax. This happens at each step along the way—processor—manufacturer—wholesaler—retailer—so that on any given article, the governments' share of any profit is several times that of any company. This is for one tax alone and there are many, at each level of government and at each step along the way from producer to consumer, of which the consumer is only vaguely aware, if indeed, he is aware at all.

OTHER SIGNIFICANT FACTORS

There were three other cost factors in the spread between producer and consumer which have occasioned much discussion and on which we should like to comment briefly.

Labour

The first of these is the cost of labour. Wages and salaries have increased considerably over the past 20 years and continue to rise at a significant rate. To the extent that such increases accompany an increase in productivity they seem to be justified. For them to outrun any increase in productivity can be dangerous to the health of the economy.

Here again let us quote briefly from "Economic Growth 1960-1970" published by the O.E.C.D. From pages 58 and 59, we extract the following three quotations:—

1. Canada is the only Member country where the growth of employment in both 1960-61 and 1965-1970 accounts for a larger part of the rate of expansion of GNP than does the increase in output per employed person. The rapid increase in the labour force primarily reflects high birth rates in the early post-war years, when they were, in fact, considerably higher than in most other OECD countries.

2. The increases in output per worker in Canada are in the lower range of the countries shown in Chart 4, in spite of a very large investment programme, a significant shift out of agriculture, and, since 1961, a high level of demand associated with rising rates of utilisation of productive resources.

3. The Economic Council, an autonomous agency, which made the projections to 1970, notes that the balance of payments deficit on current account, in that year is too high 'as a standard of performance for the Canadian economy on a long-term sustainable basis'. This emphasizes the importance of improving performance in this respect if the balance of payments is not to act as a constraint on the rate of expansion that Canada will be able to sustain.

We are aware, as the Committee is, of the further work in this field being undertaken by the Economic Council and of the importance of maintaining proper economic balance in this field but we have no particular recommendations to make to the Committee.

Processing and Packaging

This matter, which has been well aired before the Committee, is the much more extensive preparation and packaging of foods which has developed over the recent past. Whether this is in response to consumer demand or whether consumer demand has resulted from manufacturers' and retailers' promotion, it is true that in most cases the housewife still has the option of purchasing unprocessed foods and doing her own cooking and preparing. Certainly the availability of frozen foods and easy-to-prepare meals has released many women and permitted them to enter the labour force.

Advertising

There has been much discussion as to the value of advertising. We believe that most business men accept the premise that the firm which does not advertise does not stay in business for long. New inventions, new ideas, new uses—all of these need to be advertised if the general public is to be able to take advantage of them.

Certainly we oppose misrepresentation or fraud in advertising. In general, responsible advertisers, agencies and media observe satisfactory advertising codes.

Our Faith in Canada's Economic System

Finally, this Chamber of Commerce, in concert with other Chambers of Commerce across Canada believes that the Competitive Enterprise System provides the only sound way of producing maximum growth in our economy and maximum benefit for all Canadians. For your information, we attach as Appendix "C" the statements on Canada's Economic System and Ethics in Business and Government as approved at the Annual Meeting of the Canadian Chamber of Commerce in Edmonton last September.

The whole respectfully submitted on behalf of

THE WINNIPEG CHAMBER OF COMMERCE

by: W.S. DUNLOP, President.

APPROVED BY THE COUNCIL,
THE WINNIPEG CHAMBER OF COMMERCE,
February 14, 1967

APPENDIX A

Economic Growth

TABLE A-III.—THE RISE IN AVERAGE PRICES, 1960–65

IMPLICIT GNP DEFLATORS

	Annual percentage increases				
	1960-1961	1961-1962	1962-1963	1963-1964	1964-1965
MAJOR COUNTRIES					
Canada	0.7	1.5	1.8	2.5	2.8
France	3.2	4.5	5.6	3.8	2.5
Germany (F.R.)	4.3	4.3	3.0	2.8	3.7
Italy	2.8	6.1	8.7	6.8	3.5
Japan	5.2	4.6	5.8	2.4	4.7
United Kingdom	3.2	3.7	1.6	2.6	4.6
United States	1.3	1.1	1.3	1.6	1.8
Total above	2.2	2.4	2.5	2.3	2.6
SMALLER INDUSTRIALISED COUNTRIES					
Austria	5.1	3.6	2.7	3.7	4.2
Belgium	1.1	1.7	2.9	4.6	3.5
Denmark	4.2	6.4	4.8	4.4	7.5
Iceland	17.6	11.3	9.1	18.7	—
Ireland	2.6	4.5	2.4	9.7	4.7
Netherlands	2.2	3.2	4.5	7.3	5.7
Norway	2.4	4.3	1.3	3.8	3.0
Sweden	3.3	4.5	3.4	3.0	5.9
Switzerland	4.3	5.6	4.6	5.0	3.8
Total above	3.2	4.1	3.6	5.0	4.9
DEVELOPING COUNTRIES					
Greece	1.8	2.3	2.2	3.0	3.0
Portugal	1.0	0.4	2.0	2.8	2.5
Spain[1]	1.0	5.9	8.4	6.9	14.0
Turkey	2.0	6.1	5.7	2.1	—
Total above	1.3	4.8	6.2	4.8	10.3
Total OECD	2.2	2.5	2.6	2.6	2.9
North America	1.3	1.1	1.3	1.7	1.9
European OECD	3.3	4.4	4.2	4.0	4.2
EEC	3.4	4.5	5.0	4.2	3.4
EFTA	3.3	4.0	2.3	3.1	4.7

[1] Consumer price index.

SOURCE: 1960-64: Country submissions to OECD; 1965: National statistics and Secretariat estimates.

APPENDIX B

PUBLIC ENEMY NUMBER ONE—TAXES

by

PAUL HARVEY

News Commentator

American Broadcasting Co.

I, Paul Harvey, started out chasing a sneak thief...and I ended up with the detection of Public Enemy Number one. I have been two weeks on the trail. I am very tired, but the job is done. No conviction yet, but I can name him now. And he is yours to prosecute as you see fit. Before I tell you his name...here's what happened:

Two weeks ago I got a letter from a farmer on the subject of the last election. But he included this question, "Who is the middle man who is getting rich off the farmer?"

He said he sells a bushel of wheat for $1.73. By the time that bushel of wheat is made into 66 loaves of bread it costs housewives $15.84. Whoa, there! "Who's getting rich on me?" the farmer wanted to know.

Well, I've heard that question repeated so often that I stopped listening to it. But suddenly I decided the one way to silence that noisome question—nobody had tried—was to answer it.

With my limited staff, we started playing detective. For the wheat in a loaf of bread the farmer gets 2½ cents. But you pay 24 cents. So you are both being robbed by somebody. Who?

I figured I'd backtrack on the culprit. So I went to the grocery store. "How much do you take out, Mr. Grocer, when you sell a loaf of bread?" I asked. "There's more than 20 cents missing that somebody's getting. Is it you?"

Well the grocer showed me that his markup is confined by competition to only three cents. In view of his salaries, overhead, that markup seemed fair enough, especially when he explained that he has to pay more than half of it back in corporate income taxes not covered in the sales tax. And also he contributes to the social security and unemployment taxes of his employees. He pays an electric bill every month, plus a tax on it. And his delivery truck was taxed when he bought it and the gasoline it uses and the license plates it wears are all taxed.

So all this overhead, not to mention his own income taxes, made three cents seem a fair enough "profit" for the grocer to make on that loaf of bread. Anyway, he was not the robber I was looking for.

I went to the wholesaler and rode on one of the trucks that delivers the bread. Maybe this driver was the boy who's been picking the farmer's pocket. But I divided the number of loaves of bread the man delivers by his wages per week and his take is less than 1/20 of one cent a loaf. So he's doing all right. But he's not stealing anything.

There's too much spread between the price and the cost of a loaf of bread. The guy I was looking for doesn't have just a finger in the kitty. He's in there with both fists.

I kept looking.

There were two tedious days of sleuthing for this sneak thief before I backtracked on that loaf of bread as far as the flour mill. But I made sure I didn't

miss any possible middle man in the bakery or in the railroad that hauled the flour...or anywhere. And not one was getting away with anything. I mean the profit slice which each took for his services was an infinitesimal fraction of one-tenth of one penny per loaf. Not even measureable.

Then I got a tip. Check the sugar source. If nobody in the wheat-flour ingredient was robbing us—maybe the sugar people. I backtracked to a New Orleans refiner and it was another dead end. The price you pay for the sugar and the salt and the yeast and the milk solids and the shortening in the loaf of bread...all put together...comes to less than one-fourth of one cent per loaf.

So...and here is where I stubbed my toe. By the time I added everybody's profit for handling the materials and finished product plus the cost of the ingredients I figured it all up and it came to 12 cents for a loaf of bread. You should be paying 12 cents for a loaf of bread.

But I can't get my grocer to sell me a loaf of bread for less than 24 cents. Who's doubling the price of my loaf of bread? Who's getting away with that other 12 cents? I had figured every handler's wage down to the most minute fraction. My figures could not be wrong.

A loaf of bread added up to 12 cents and it's still selling for 24 cents. I was getting as angry as the farmer who'd written to me that letter. It's frustrating to have your wife go to the grocery store and—somewhere in there—get robbed by a ghost!

I went back to the farmer. I decided to start all over again, but working forward from the farmer. The research went faster this time because I knew the direction.

And this time I caught him. Red handed. The guy who's picked your pocket every time you buy a loaf of bread. And he's been dealing himself in when you buy milk, too. There are 206 separate transactions involved in getting a quart of milk from the pasture to your doorstep. And sure enough, I found the same guy doubling the price.

The Syndicate he operates is so smooth and so subtle that it's little wonder he's escaped the rap for this before. But I'm going to expose him, because he's gradually aiming to double the price of your loaf of bread again. And again.

While the farmer fusses and fumes and shadow boxes with imaginary villains, the real one has been hiding.

I took the farmer's bushel of wheat to the market. The farmer got $1.73 for it—2½ cents per loaf of bread. But when the flour mill added its fraction for milling...wait a minute...the flour to make one loaf of bread has suddenly doubled! It comes out of the mill costing five cents. Not 2½. Still the mill is getting only a minute fraction of a penny for itself.

But the mill is required to pay...now the trail is getting warm...the mill has to add on seven Federal taxes and eight separate state taxes.

The railroad which hauls the finished flour...now the trail gets hot...keeps only a tiny fraction of a penny for its services, but adds on two pennies to pay five Federal taxes, plus state taxes, in every state through which the shipment passed. In this case there were three.

Jumping jehosephat! I thought taxes just soaked the rich! This is soaking anybody who buys a loaf of bread.

And when I backtracked on those other ingredients, I found the sugar refiner paid eight Federal taxes and six Louisiana state taxes. The railroad that hauled the sugar paid taxes. The warehouse where the salt was stored in Chicago paid taxes. The shortening manufacturer and the yeast factory

and the producer of the mild solids. . . each was keeping for himself such a minute profit that the total cost of the ingredients had added only two pennies. But the taxes had pyramided to more than twice that!

I am an amateur detective. But I did the best I could, and when I finally retraced the loaf of bread back to the grocer's shelf, I understood why that price tag is more than ten times what the wheat farmer gets. Because there are 151 separate taxes on that loaf of bread!

You and I have been complaining, however, feebly, about the whack the income tax takes out of our weekly paycheck. But while we've been watching our wallet pocket, the hidden tax has been emptying our coin purse! And again and again and again. After all, we've consoled ourselves, the tax man gets only 20 percent of my income. It's worth that to live in America.

But that's a lie and a delusion. The "tax man" has been picking your pocket for twelve cents every time you buy one loaf of bread. But with such clever sleight of hand and by such an involved and complicated multiplicity of hidden taxes his hand was quicker than our eye.

You think you pay a $100 tax when you buy a new $2,000 car. Listen: there have been $228 in hidden taxes collected on that car before it ever leaves the factory. And then there are all the taxes the dealer pays, taxes on income, property, taxes when you transfer the title, when you pay the state tax. So when you pay $2,000 for a car, more than one-fourth of that price is just taxes.

You've been figuring the corporation tax would cost only the big corporations. But look what happened. They added it to the price of the car. We pay it!

The grocer, the trucker, the baker, the miller—they don't pay their taxes. We do! When we buy that loaf of bread.

Railroads don't pay taxes. Coporations don't pay taxes. Just people pay taxes. All the rest of those fellows add their taxes onto the stuff they sell us. Only people pay taxes.

We hear that our Federal Government is sending a billion dollars to Tito. And we figure "so what. . ." But every time our Government spends a billion, it taxes the average American family another $25.00.

Only people pay. How much different it might have been if our Government had said it the other way—that "every American family is asked to chip in $25 this year for Tito." Wow!

Conversely, every billion dollars which our Government saves (every billion dollars "less" that it spends) decreases the tax load for the American family of four by $25. Wow!

I'm going to remember that. Every time the Washington or state spenders speak of spending another billion for something or other, I'm going to remember it's 25 of my dollars they're spending. It'll make a difference.

Yes, I finally tracked down the pickpocket. The middle man every farmer has wondered about. The guy who's behind the high prices every housewife complains about. I found him and his name is Sam.

But Uncle Sam is not alone. His accomplices are the tax laws of 50 states which add one-third to the price of one quart of milk. The farmer's truck and tractor are taxed. The deliveryman's truck and the tires on it and the battery in it. Even the air in the tires of that truck has four hidden taxes on it! I mean it.

The power to run the compressor motor is taxed, as are the oil for the compressor and the gas station attendant. There are sales taxes on the compressor motor and the rubber hose. There are four taxes on the air in the tires of the truck that hauls your milk.

When you get that explicit, counting the indirect as well as the direct taxes, there are more than one thousand taxes on one quart of milk. Taxes have crept up on us—like too many beers.

> Historically, whenever any nation has taxed its people more than 25 per cent of their income, that nation has been eating its seed corn—headed for economic decay. Already our taxes are devouring more than a third of every income dollar. They sought to slip the money painlessly from our paychecks by withholding it before we got it. But like an iceberg, the far greater hunk of our tax load is under the surface—out of sight.

Congress has been labeled a spending Congress. But if they spend more money, it will be your money. When they spend a billion for anything it will cost you $25.00. Both parties will try to buy your vote with your money. For the small wage earner, hidden taxes are far more costly than income taxes. The best kept secret in the United States today is the whole size of the tax load.

There are 150 taxes on one ladies' hat. Gasoline would sell for two cents a gallon—except for the tax.

I started out on the trail of a sneak thief and ended up with Public Enemy Number One. Now he's yours to prosecute as you see fit.

HUMAN EVENTS - Vol. XVI, No. 43. October 28, 1959.

APPENDIX C

COMPETITIVE ENTERPRISE

Canada's Economic System

44. Canada's economic system is based upon competitive enterprise. This system, which permits maximum individual freedom, encourages the exercise of individual initiative, broad dispersal of decision making, and the most economic allocation of human and material resources. It promotes dynamic economic growth and a steady rise in living standards. One of the major roles of government in such a system is to maintain an equitable and favourable climate for private action.

45. The operation in Canada of the competitive market economy, motivated by opportunities for profit and the dangers of loss, is responsible in large measure for the improvements in social and living standards which have been achieved over the years. The competitive enterprise system develops maximum managerial capabilities, technical knowledge, operating skills and competitive attitudes required for sound growth. The profit motive exercises a determining influence upon the use of resources, the level of savings, the volume of investment, and it compels private enterprise to operate efficiently.

46. The role of government is: (a) to establish, promote and enforce the rule of law in all relations between individuals and between groups in the economy including the government; (b) to foster an equitable and favourable climate for the private sector, enabling it to utilize its resources, both human and material, with the utmost efficiency; the greater the efficiency in this respect, the better able is this sector of the economy to contribute to the improvement of the nation's social environment; and (c) to give appropriate encouragement and financial support to the provision of social capital, consistent with the growth of the economy.

47. Sustainable social betterment depends on healthy competitive enterprise. The responsibility of business includes proposing and promoting sound solutions and public problems.

48. Competitive markets function best when the public is well informed and understands the principles of our economic system. To this end, the Chamber is committed to further the public understanding of our economic system and the essential role played by the profit motive.

49. The Annual Reviews of the Economic Council of Canada have depicted great potential for long term economic growth in Canada. If Canada is to realize this potential, however, and attain the goals outlined by the Council, rational and consistent policies must be developed and followed by business and by government at all levels. Sustained, well balanced economic growth cannot be based on succession of opportunistic decisions as the needed policies, for the most part, can be effective only in the longer term, particularly where they are concerned with such basic questions as education and training, research and patterns of investment and trade.

50. As the Council points out, the attainment of maximum growth for the future rests on sound national economic and industrial policies, as well as on the efforts of individual businessmen. Thus, the goals, and the means of reaching them, are a matter of prime concern to all Canadians.

51. *Recommendations:*

1. that each Canadian busniess carefully examine the Goals for 1970 suggested by the Economic Council of Canada, translate them into individual objectives and then enlist its resources, human and material, to attain these objectives.

2. that business promote a greater appreciation and understanding of our economic system, and take advantage of every opportunity to bring to Canadians, and particularly employees, the story of the role of business in the economy, and to speak out on related matters of public interest.

3. that community and provincial Chambers of Commerce and Boards of Trade urge local and provincial authorities to emphasize teaching in the schools the principles of democracy, of our economic system, and of freedom of the individual, and that maintaining these heritages depends on each individual's acceptance of social and civic responsibility.

4. that member Boards and Chambers establish active Public Affairs Committees with a view to developing at the community level programs of study and action with respect to community, provincial and national problems.

5. that member Boards and Chambers place emphasis on liaison with educational authorities and teachers and that organized efforts be encouraged to assist young Canadians to gain a better understanding of economics and how our competitive enterprise system operates, to the end that students may better understand the economic as well as the cultural and political principles of freedom.

6. that the Federal Government, in consultation with other levels of government and various segments of the economy, concern itself with fostering an economic climate conducive to optimum economic growth.

7. that government confine to areas which are not being or cannot be served adequately by private enterprise.

Ethics in Business and Government

52. Sound business relations will prevail only if all concerned observe the highest ethical considerations in their transactions.

53. *Recommendations:*

1. that members observe the highest ethical considerations in relations affecting customers, shareholders, employees, suppliers, governments and the public.

2. that members insist that their employees uphold these considerations in all transactions entered into on their employers' behalf.

3. that members of government at all levels, legislative bodies, the civil service and those administering the laws, maintain and observe such high ethical standards of conduct as will place their actions beyond reproach and will serve to create confidence, respect and dignity between government and people at home and people abroad.

DO ECONOMISTS KNOW ENOUGH ABOUT FOOD PRICES?*

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I. *Introduction*

Many housewives and politicians have for some time been quite vocal about rising food prices in both Canada and the United States. Boycotts of supermarkets have been followed by petitions to the government for appointment of Federal and Provincial inquiry commissions. The hope of the petitioners is that these commissions, with the help of business and economic experts, will spot the guilty party (or parties) and/or find a food policy which will make everybody happier.

Such hopes are utopian and this is well illustrated by the recent U.S. National Commission on Food Marketing. This commission included ten congressmen and five public members appointed by the President. The Commission, in turn, hired a staff of over 30, including people from the food industry, legal experts and over 15 experienced economists, assisted by a secretarial and clerical staff of 19. The Commission members themselves worked for two years and in spite of having had prepared for them ten technical studies, were unable to agree with each other on either the findings or the policy recommendations. Six members disagreed with the other nine. The six contended that the data and analyses did not support the verdict of the nine. They maintained that the report of the Commission was contrived in order to give credibility to "conclusions" which had been decided even before the inquiry began.

A major difficulty in dealing with problems of this type is the lack of detailed long-run statistical records and analysis and complementary economic interpretation and discussion. Investigation based on emotion and/or short-run crisis phenomena is necessarily limited and likely to be at best merely indicative of causes and possible relevant policies. More helpful answers can be provided on a continuing basis by a non-partisan, independent body whose integrity is recognized by society at large and especially by agriculture, trade, government and the consumer.

Such an authority will not be easy to establish nor staff, nor will it come cheaply. On the other hand, experience of the current types of investigation shows, as the U.S. case in particular illustrates, the unsatisfactory and incomplete investigation leaves no one happier and nearly everybody more frustrated.

II. *Some Major Difficulties*

There are two main types of problem involved in any such inquiry. First, it is necessary to agree on norms or value judgments. For instance, should good prices be dictated by the market, or should we have a cheap food policy? Second, we must discover the relevant facts such as the effects on food prices of imposing a tax on advertising, or the impact of trading stamps and other promotions on variety, location and prices. Let us now turn to the problem of deciding norms.

III. *The Problem of Establishing Norms*

The claim that food prices are too high raises several questions. For example, (1) What do we mean by "too" high? (2) Are all food prices or some specific prices too high? (3) At what stage(s) in the marketing channel are these prices too high? A meaningful discussion of these questions requires a norm (or norms)

*Brief presented to the Joint Committee of the Senate and House of Commons on Credit (Prices), Civic Administration Building, Winnipeg, February 21, 1967.

for comparison with observed prices. One must also look at some of the basic value judgments that are unconsciously applied when considerations such as distribution of income and choice of products become dimensions of the problem at hand.

The distribution of income often appears more impoortant than the size of margins. Otherwise why, in investigations, is a large store with low margins criticized for making high profits, while the "corner grocery store," probably with high margins, is excused? Again, high margins have been alleged to result from excessive product differentiation. This allegation may or may not be true, but so far this relationship has not been demonstrated empirically. Even if it were, there would probably remain a conflict between the desires for low prices and a wide range of choice in food products. It is doubtful whether housewives could agree among themselves on the best range of choice in brands.* It is generally agreed that high income consumers place relatively more emphasis on their freedom of choice (with respect to brands and retailer's services) than on the effect of rising food prices on their real income. The opposite seems to be the case for "low" income consumers. There is probably no policy which will completely satisfy both these groups, but a policy can aim at maximising the areas of agreement. Further discussion of the normative issues is postponed to the policy section which follows discussion of some of the positive questions.

The most significant phenomena affecting prices and margins seem to be rising incomes, technological change and fluctuations in activity in the farm-food and other sectors of the economy. A fair amount of work has been done on the effect of rising incomes on food prices and margins. However, existing theoretical and empirical studies are inadequate to explain the effects of technology and level of business activity on food prices and margins. Likewise, available economic theory does not provide sufficient guidance to predict the effects on food prices of advertising and competing demands of other industries for resources used by the food industry.

IV. *Rising Incomes, Marketing Margins and the Food Basket*

Previous workers, such as Wold and Jureen, and Goreux have shown that as incomes rise, the market basket is replenished with increasing proportions of foods which (1) tend to be priced higher per pound and per calorie at the farm gate, e.g. people buying more beef and less potatoes, and (2) contain more built-in kitchen services.[1] The quantitative relationship may, however, be less well known. Figure 1, reproduced from Goreux,[2] summarizes and illustrates this relationship for total food expenditures using data from seven European countries and the United States. The figure shows that as incomes rise, the income elasticities for foods valued at the farm gate decline more rapidly than income elasticities for the foods valued at the retail level. The coefficients of expenditure elasticity of total food evaluated at retail prices, estimated for urban families in Canada in 1953 and 1955, are 0.54 and 0.45, respectively.[3] Unfortunately, available data did not permit us to estimate the corresponding elasticities evaluated at farm-gate prices.

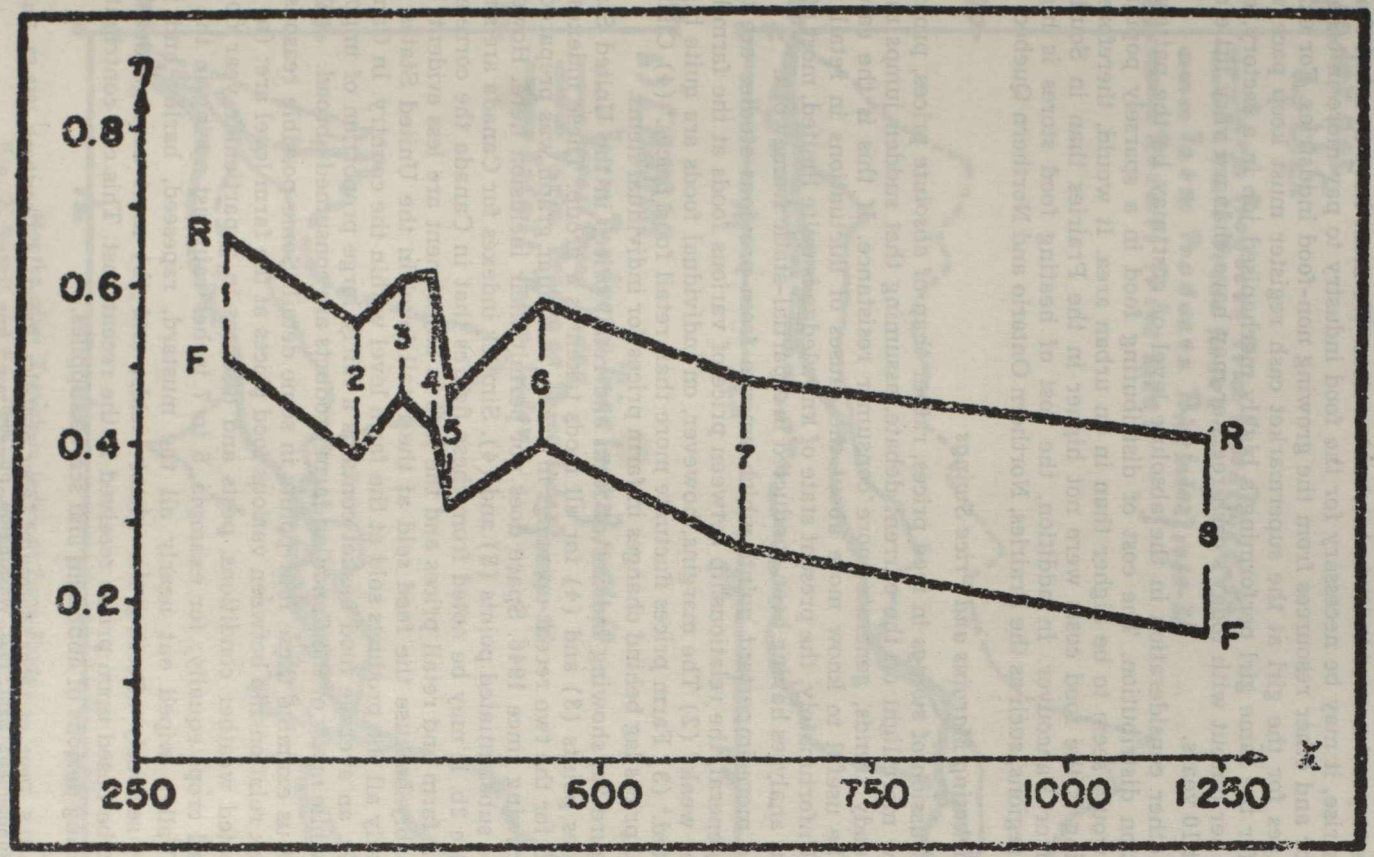
*A somewhat nebulous boundary exists between product differentation and the resulting confusion of some buyers. This has led to demands for legislation to improve merchandising standards, including the elimination of fractional weights and prices, outmoded measures of volume and weight, vague labels, oversized packages, etc. The level at which the buyer becomes confused depends on his or her knowledge and experience, both in general and as they relate to the specific product. However, a considerable increase in consumer satisfaction could probably be achieved through further legislation in this area.

[1] Wold, H., and L. Jureen, *Demand Aanalysis*, John Wiley and Sons, Inc., New York, 1953, Chs. 16-18; Goreux, L. M., "Income and Food Consumption," *Monthly Bulletin of Agricultural Economics and Statistics*. Vol. IX, No. 10: 1-13 (Oct. 1960) FAO, Rome.

[2] Goreux, *op. cit.*, p. 6, Figure 6.

[3] Based on data contained in Dominion Bureau of Statistics (Labor and Prices Division) *City Family Expenditure, 1953 and 1955*, Reference Papers No. 64 and 83, respectively;; Queen's Printer, Ottawa, 1956 and 1957.

Figure 1. – Elasticity of Food Consumption Valued at Retail and Farm-Gate Prices



x = value of total per caput expenditure (US dollars at 1955 prices converted at official exchange rates, logarithmic scale)

η = coefficient of elasticity referring to: RR: total expenditure on foodstuffs evaluated at retail prices; FF: total food consumption in quantities weighted by farm-gate prices.

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V. *Rising Incomes and Costs*

It is probably inaccurate to attribute the entire increase in marketing margins to purchases of built-in kitchen services. We must keep in mind that as incomes rise, it may be necessary for the food industry to pay more in order to bid labor and other resources from the growing non-food industries. For example, wages for the girl at the supermarket cash register must keep pace with wages for the same girl performing a highly mechanised job in a factory, even though her output with today's cash register may have changed very little over the past 10 years.

Another consideration in the absolute level of cost may be the pattern of population distribution. The cost of distributing food in a sparsely populated region would seem to be higher than in an urban area. It would, therefore, be surprising if the food costs were not higher in the Prairies than in Southern Ontario or Vancouver. In addition, the cost of heating food stores is higher in cold regions, such as the Prairies, Northern Ontario and Northern Quebec.

VI. *Marketing Margins and Price Swings*

Discussion of *swings* in food prices, rather than of *absolute* prices, promises to throw more light on the current debate, assuming that sudden jumps rather than steady trends, generate more consumer resistance. If this is the case, it would be useful to know more about the causes of fluctuations in retail food prices. Unfortunately, the present state of knowledge is quite limited, most of the previous analyses having been conducted in a partial-static framework.

The more important points which emerge from previous studies are that: (1) In general, the relationship between price of various foods at the farm level is rather weak.[4] (2) The margins, however, on individual foods are quite highly correlated.[5] (3) Farm prices fluctuate more than retail food prices.[6] (4) Changes in retail prices lag behind changes in farm prices for individual items.

Figure 2a, showing indexes of farm and retail prices in the United States, illustrates points (3) and (4) for all foods taken as a group. These indexes are graphed for the two recent upswings in prices. A similar graph was prepared for each upswing since 1946. Space does not permit their inclusion here. However, they too substantiated points (3) and (4). Similar indexes for Canada are shown in Figure 2b. It may be noted from these figures that in Canada the correlation between farm and retail prices and the lags in adjustment are less evident. This is probably because the food sold at the retail level in the United States uses essentially all the products sold at the farm level within the country. In Canada, however, an average food basket contains a fairly large proportion of imported items, while many of the Canadian farm products are consumed abroad.

Let us examine these four points in some detail. Some possible reasons for the week relationship between various food prices at the farm level are: (a) that unexpected weather conditions, pests and diseases in a particular year do not affect all crops equally; for example, 5 to 7 inches rain last spring in the Red River Valley wiped out nearly all the mustard, rapeseed, barley and peas without seriously affecting the wheat yields; and (b) most acreage decisions seem to be based upon prices received in the recent past. This can contribute to alternating periods of abundant and scarce supplies.

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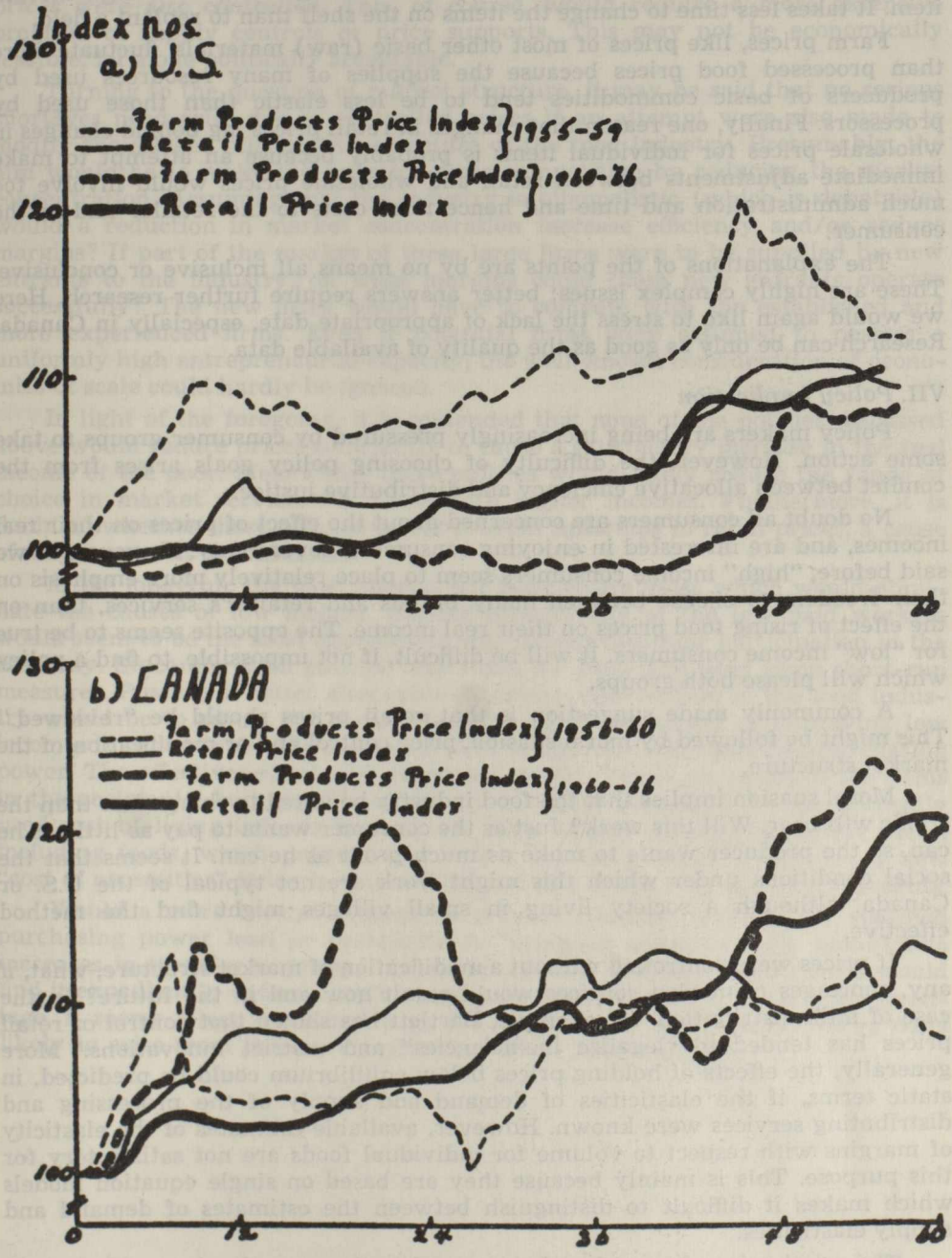
[4] See U.S. Dept. of Labor, Bureau of Labor Statistics, *Prices: A Chartbook 1953-62*, Bul No. 1351-1, Supplement, Sept. 1963, Washington, pp. 36-37.

[5] Buse, R. C. and G. E. Brandon, "The Relationship of Volume Prices and Costs to Marketing Margins for Farm Foods," *Journal of Farm Economics*, Vol. 42, No. 2, May 1960, pp. 365-66.

[6] See, for example, Deloach, D. B. and Edmund Farstad, "Behavior of Meat Marketing Margin," *Journal of Farm Economics*, Vol. 34, No. 5, December 1952, p. 916.

[7] See, for example, Hoos, Sidney, "The Behavior of Marketing Margins on Citrus Fruits," *Journal of Farm Economics*, Vol. 34, No. 5, December 1952, p. 914.



Months after Trough in Index of Farm Prices

Fig. 2. Retail and Farm Price Indices U.S. and CANADA

In contrast farm-to-retail margins on individual foods are highly correlated probably because packers, wholesalers and retailers have relatively much less difficulty than farmers in switching from a low-margin item to a high-margin item. It takes less time to change the items on the shelf than to replant a field.

Farm prices, like prices of most other basic (raw) materials, fluctuate more than processed food prices because the supplies of many resources used by producers of basic commodities tend to be less elastic than those used by processors. Finally, one reason that changes in retail prices lag behind changes in wholesale prices for individual items is probably because an attempt to make immediate adjustments between retail and wholesale prices would involve too much administration and time and hence raise costs to the retailer and to the consumer.

The explanations of the points are by no means all inclusive or conclusive. These are highly complex issues; better answers require further research. Here we would again like to stress the lack of appropriate date, especially in Canada. Research can be only as good as the quality of available data.

VII. *Policy Implication*

Policy makers are being increasingly pressured by consumer groups to take some action. However, the difficulty of choosing policy goals arises from the conflict between allocative efficiency and distributive justice.

No doubt all consumers are concerned about the effect of prices on their real incomes, and are interested in enjoying consumers' sovereignty. However, as we said before, "high" income consumers seem to place relatively more emphasis on their freedom to choose between many brands and retailer's services, than on the effect of rising food prices on their real income. The opposite seems to be true for "low" income consumers. It will be difficult, if not impossible, to find a policy which will please both groups.

A commonly made suggestion is that retail prices should be "reviewed." This might be followed by moral suasion, price control and or modification of the market structure.

Moral suasion implies that the food industry be asked to charge less than the traffic will bear. Will this work? Just as the consumer wants to pay as little as he can, so the producer wants to make as much profit as he can. It seems that the social conditions under which this might work are not typical of the U.S. or Canada, although a society living in small villages might find the method effective.

If prices were controlled without a modification of market structure, what, if any, shortages of market services would result now and in the future? In the case of milk distribution, for example, Bartlett has shown that control of retail prices has tended to "legalize inefficiencies" and restrict innovations.[8] More generally, the effects of holding prices below equilibrium could be predicted, in static terms, if the elasticities of demand and supply of the processing and distributing services were known. However, available estimates of the elasticity of margins with respect to volume for individual foods are not satisfactory for this purpose. This is mainly because they are based on single equation models which makes it difficult to distinguish between the estimates of demand and supply elasticities.[9]

The retail price of a product being equal to the sum of values added at all stages of production, the effectiveness of a *counter-cyclical* price control policy would depend upon its impact on the most volatile components. Farm prices, like those of most other raw materials, fluctuate more than prices of finished goods.

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[8] Bartlett, R. W., *The Milk Industry*, Ronald Press, 1946.
[9] See Buse and Brandon, *op. cit.*

An effort to control retail prices might meet with little success unless the farm prices were also controlled. This, of course, would require a more extensive program of supply controls or price supports. This may not be economically feasible, let alone politically acceptable.

Turning to the question of market structure, it may be said that no serious shortages need arise due to controlled prices if an attempt were also made to modify the alleged oligopolistic structure of the food industry. Presumably, the aim would be to make the industry more competitive by reducing the market concentration. Assuming that the industry is oligopolistic (which is debatable) would a reduction in market concentration increase efficiency and/or reduce margins? If part of the market of these large firms were to be supplied by new entrants to the industry, on what margins could these new entrants operate successfully? The new firms would have to compete with the established and more experienced firms. Even if potential firms were assumed to possess a uniformly high entrepreneurial capacity, the well-known consideration of economies of scale could hardly be ignored.

In light of the foregoing, it is contended that none of the policies discussed above would reduce prices sufficiently to cause a satisfactory increase in the real income of the poor. Meanwhile, these policies would likely reduce the range of choice in market services for those with higher incomes. Furthermore, it is doubtful whether these policies would prevent *upswings* in retail prices, a cause of major concern to consumers.

In the long-run, the most appropriate policies are those which would eliminate the causes of low income. Raising productivity of the low paid workers would seem to be the most appropriate way to improve their participation in the economy. Since any such policies take time, we shall also need some short-run measures. Possibly a better alternative to severe intervention in the food industry would be to adjust the various transfer payments aimed at improving low incomes in order to provide payments with an appropriately specified purchasing power. The effectiveness of such payments would depend on prices of the items in the recipients' budgets. These are not properly measured by the presently used cost-of-living indexes because too little weight is given to certain items, including foods, which predominate in low income budgets. Therefore, a new "cost of necessities" index is required for use as a deflator for transfer payments.

Would a more careful attempt to provide transfer payments of specified purchasing power lead or contribute to "creeping socialism," i.e. cumulative increases in transfer payments? It seems unlikely that any government would find it expedient to *reduce* transfer payments, if prices fell. If this is a disadvantage, it seems minor compared with the inefficiencies and administrative costs likely to arise from increased regulation of the food industry.

AGE AND OPPORTUNITY BUREAU BRIEF PRESENTED TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS

February 21, 1967

Mr. Chairman and Members of the Committee:

We are pleased to appear before you this day to express the views of the Age and Opportunity Bureau of Winnipeg. Perhaps we might begin by telling you something about the Bureau. It is a social agency concerned with the welfare of the aged. It receives financial support from the United Way of Greater Winnipeg, the Winnipeg Foundation and the Welfare Department of the Province of Manitoba. The Bureau's functions relate to study, planning, leadership, community stimulation and representation in matters concerned with the aged. This is why we are here today.

The movement of consumer prices is important to Canada's pensioners. This segment of our population is already receiving lower incomes than the rest. The Special Committee of the Senate on Aging had this to say about the income status of older people.

> Without exception, the most serious problem encountered by the Senate Committee in the course of its investigation was the degree and extent of poverty which exists amongst older people. Witness after witness at the hearings spoke of incomes insufficient to ensure proper food, housing and medical care, and every form of analysis made for the Committee on the basis of the 1961 census and the 1962 survey of income statistics supported the proposition that older people are a low income group and that many of them seek out an existence at or near the subsistence level.

Moreover, the incomes of pensioners unlike the incomes of the employed are relatively fixed. Consequently they are unable to protect themselves against inflation. In the spring of 1965 the Age and Opportunity Bureau undertook an investigation to ascertain the minimum amount of money required each month to provide adequate quantities and kinds of goods and services necessary for a single retired person to live with a measure of independence and self-respect, allowing for some active participation in the life of the Greater Winnipeg Community. Pricing was done in July, 1965. The report which was released in January 1966 indicated that a single person required $111.75 to live according to the standard established in the terms of reference of the study. According to the Dominion Bureau of Statistics between July 1965 and January 1967 the cost of living in Winnipeg has increased 5.3 points. Translating this rise into dollars gives us the figure of $115.10.

We have brought 20 copies of this report with us today to leave with your committee. We earnestly ask that you study the information it contains.

We believe that the current intolerable inflation has been due, in part, to government action. We deplore the increase in government spending on public works at a time when the construction industry was operating at full capacity. Private demands on this industry during 1964 and 1965 have pressed increasingly hard against its supply capacity. During this same period, however, government outlays in this area increased by no less than 30 per cent. However, in the three periods of major expansion in construction activity since 1950, government outlays reinforced and aggravated the pressure. Ironically, through each of the recession phases since 1950 government out-lays declined. Due to its size the construction industry is considered something of a pattern-setter for all industries. When wages, costs and prices rise in that industry, it tends to have an impact on cost, prices and the climate of collective bargaining in other industries. We cannot help but think a great deal more care should have been taken to help

stabilize such an important industry. It is recognized, of course, that swings in the cost of shelter have a particularly marked effect on older people with fixed incomes.

Even if it is true that a moderate amount of price increase is necessary for the growth of the economy we must recognize that this increase is hard on people with fixed incomes. Increases in indirect taxes and sales taxes, whether or not they are necessary, do increase the cost of articles which consumers have to buy and this is an added hardship for many older people.

We strongly support the recommendations for achieving reasonable price stability based on the Third Annual Review of the Economic Council of Canada which in effect are:

(1) The first and indispensible part of an effective program to meet the problem is a well co-ordinated and otherwise appropriate use of the broader instruments of economic policy, including fiscal and monetary policy, exchange rate policy and commercial policy. If these policies are not being properly operated there is little that other policies can do to bring about a better reconciliation of prices and employment. An underlying principle for the operation of fiscal and monetary policy is that they should try to keep their growth of final demand for goods and service in the Canadian economy as close as possible to the path of the economy's growing potential outlet.

(2) In order to achieve a more satisfactory reconciliation of economic goals the main policy levers should be complemented by policies, the primary focus of which is the supply rather than the demand side of the economy. Among these are effective manpower and other policies designed to encourage the flow of available resources into their highest and most remunerative uses and to help relieve the economic pressure points which are in part responsible for the appearance of excessive price and cost increases before the economy has reached its potential.

(3) The problem of periodic strains, excess demands and strong price and cost pressures in the construction sector calls for special treatment. A major requirement is for a smoothing of the hitherto needless destabilizing growth pattern of construction spending by governments and other public bodies. This will necessitate, among other things, the development of better procedures for long-term planning and coordination of governments capital outlays and the provision of a lead and an example by the Federal government, both in the handling of its own capital programs and in whatever grants and shared costs capital development programs are undertaken with the provinces and their municipalities.

(4) At the annual autumn meetings between Federal and Provincial finance ministers and treasurers there should be developed a major vehicle for the improvement of longer-term planning, better co-ordination of expenditure programs and other fiscal matters by all levels of government. A number of basic economic documents should be published prior to such meetings to serve not only as a background for them but also as the basis for stimulating broader public debate about economic developments, problems, and potentialities in advance of the formulation of the annual budget policy. A Standing Committee on Economic Affairs of the Senate and the House of Commons should be established, one of whose functions would be to hold annual hearings on economic issues arising out of the above mentioned documentation and discussion.

(5) A further examination is needed of the problems of consumer protection in the exercise of market power in the Canadian economy. The emphasis should be on consistent and continuous policies based on well founded and well understood principles.

(6) Programs for productivity improvement and adequate measures for dealing with the manpower problems arising from technical and other changes

should be pressed ahead with all possible speed. The program should operate both at the general and at the industry point level.

(7) Governments should take immediate steps to improve the discharge of their responsibilities as major employers and increasingly large-scale direct participants in the process of collective bargaining. The objective should be to develop sound criteria and principles and to avoid disturbing repercussions on the climate of collective bargaining in the private sector of the economy.

(8) In the light of underlying factors which have significantly altered the world and the Canadian food situation and some of which are likely to continue for sometime, it is more important than ever that effective measures be taken to increase productivity at all stages of food production and distribution. Relatively, greater return to resources than in the past are needed in agriculture and special effort must be made to meet seasonal labour requirements, to achieve larger and more efficient farm units, and generally, to realize the technological and scientific potential for rising productivity in the farming industry in a manner which is in the best interests of both producers and consumers. At the same time those engaged in the processing-packaging-distributive process must seek out ways to reduce costs, increase the efficiency of operations and reduce unnecessary expenses.

(9) Much more basic economic research needs to be done on problems relating to prices, costs, incomes and productivity in the Canadian economy. More adequate resources should be made available for these and other areas of economic research.

(10) There is a general and immediate need for improvements in price and other economic statistics. For this purpose the Dominion Bureau of Statistics should be substantially strengthened.

(11) In the interests of better public education and information regarding current economic developments including those in the field of prices, costs and incomes, steps should be taken to establish an independent institute of economic research along the lines of those already existing in many other countries. The major function of such an institute would be the publication of a regular bulletin containing an analysis of short term developments in the Canadian economy and other articles dealing with significant changes in problems.

We do not believe that price controls should be imposed. In this regard we support the view expressed by Dr. John J. Deutsch when he appeared before your Committee on November 24th, 1966 when he replied to the question:

"You do not think price controls would help?"

> ...I have no feeling that price controls are a very effective way of dealing with the problem. They deal with symptoms. If you have a problem or a pressure point, or something that causes things to jump up, you have either got to reduce the demand or increase the supply. There is no other way. You must reduce the demand or increase the supply. I prefer personally to increase the supply, but if you cannot do that and if you are worried about the increase, then somehow you have got to take the pressure off the demand. Price controls do not do either of these things. That is what I mean when I say they deal with symptoms, and not the problem. It is no use wasting our time on those things. It is fooling the troops.

On behalf of the Board of Directors of the Age and Opportunity Bureau may I thank you for the opportunity of appearing before you. We hope that your inquiry will assure Canada's pensioners that government policy will in the future be directed toward the achievement of greater price stability.

Respectfully submitted,

C. Earle Gordon, D.D.
President

Admiral Beatty Hotel,
Saint John, N.B.

TUESDAY, Feb. 21, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators Carter, Croll (Joint Chairman), Inman, and McGrand.—4.

For the House of Commons: Messrs. Allmand, Code, Boulanger, McCutcheon, Morison and Saltsman.—6.

The following were heard and questioned by members of the sub-committee:

Mrs. Lola Mitton,
Saint John Consumer Protest Committee,
51 Brown Street,
Glen Falls Area,
Saint John, N.B.
(Brief)

In attendance: Mrs. Margaret Roy, Mrs. Anna Hebert.

Mr. B. R. Doucet, Urban Renewal Commission,
P.O. Box 1406,
Saint John, N.B.
(Brief)

In attendance: Mr. Donald Buck, Re-development officer City Hall, Saint John, N.B.: Mr. E. F. Charlton, Chairman, Saint John Housing Authority; Mr. W. M. Hazen, Manager, Saint John Housing Authority; Mr. Bernard Elliot, Shamrock Realty Ltd.

The sub-committee adjourned at 12.20 p.m.

The sub-committee resumed at 2.00 p.m.

The following were heard and questioned by the members of the sub-committee:

Mrs. F. Balser, and Mrs. G. W. Yates,
Miramichi-Ease-the-Squeeze Committee,
P.O. Box 126,
Curtis Park, N.B.
(Brief)

Mrs. E. M. Doerksen,
The Oromocto and Fredericton Protest Group,
22, Comox Street,
Oromocto, N.B.
(Verbal presentation)

Mr. George Robinson,
Saint John Board of Trade,
Consumer Protection Committee,
441 Rothesay Avenue,
Saint John, N.B.
(Brief)

In attendance: Mr. Wallace Trynbull, Mr. J. Watts, Mr. G. H. Lummis,

At 5.30 p.m. the sub-committee adjourned until tomorrow, Wednesday, February 22, in Montreal, P.Q.

Attest.

Marcel Boudreault,
Clerk of the Committee.

SUBMISSION BY SAINT JOHN CONSUMERS PROTEST COMMITTEE

Mr. Chairman and Members of the Senate-Commons Committee:

As representatives of the Consumers Protest Committee of Saint John we strongly feel that the Government must take immediate action in establishing a Department of Consumers Affairs headed by its own Minister.

The consumers in Saint John, and in the Maritimes as a whole, are paying more for their food than in any part of Canada, while at the same time Saint John has the lowest average wage rate of any comparable city in all of Canada.

We cannot understand why food products, produced here in the Maritimes, should cost more in Saint John than in other Canadian cities.

The Consumers in Saint John have waited too long in appealing to our elected representatives in Government to protect us from underhanded methods of manufacturers, processors and advertisers, such as, Harbour Investments Ltd. and Food Markets Holding Ltd., which are satellites of the George Weston Empire. We demand that the Government take immediate action to protect consumers from unethical practices from all such groups and combines.

When the high cost of food is explained to us as being the result of high wages it is hard to believe as we note that the prices in ununionized supermarmarkets in Saint John are the highest.

We insist that marginal profits on staple and basic foods be the main recommendation by your Committee to the Government.

We, as consumers, request the following:

(1) Elimination of all games.

(2) Elimination of all unnecessary and fancy packaging.

(3) Elimination of all gimmicks that lure younger children.

(4) Elimination of all fractional measurements so as to allow the purchaser to make the wisest and most economical choice.

We are convinced that if the above requests are granted it will result in a considerable reduction in living costs.

We wish to express our appreciation for the opportunity of appearing before your Committee and trust that your recommendations will result in the Government taking definite action to protect the consumers in this country.

Respectfully submitted,

Saint John Consumers Protest Committee

Lola G. Milton,
Secretary.

Submission by

URBAN RENEWAL COMMISSION

CITY OF SAINT JOHN

New Brunswick

FEBRUARY 20, 1967.

To Joint Committee on Consumer Prices

BRIEF ON SHELTER COSTS

The rising cost of shelter, or the widening differential between the ability of a large part of the Canadian population to afford shelter and the cost of shelter, is not a recent phenomena. If there is a single reason for the disproportionate cost of shelter in the Canadian cost of living, it is because the supply of housing has never been sufficient to satisfy the demand for shelter. This is particularly true of lower cost shelter normally occupied by the lower paid section of society. It follows that if efforts are made to make supply equal demand then prices should reduce. Small areas of the construction industry have been researched in an effort to find ways of reducing costs. Better ways have been found to produce and use construction materials, and building methods have been improved. However, very little has been done to reduce the cost of land or to meet the quantity market by mass building.

We believe that if a massive house building programme were commenced, then the costs would certainly be stabilized and perhaps reduced. The Commission's suggestions are aimed at making housing easier to own or occupy which we feel will create a demand capable of being satisfied. Housing starts, to be initiated, must be capable of being afforded by the potential owner. The Commission's suggestions are then aimed at increasing the production of housing for all sections of the community.

The Federal Minister of Labor, responsible for CMHC recently said that housing starts have to be increased from 134,000 in 1966 to 170,000 for the year 1967, rising to 200,000 in 1972. If this objective is to be reached and exceeded, then housing will have to be built within the economic capacity of a larger section of the Canadian population than presently served. We suggest that most Canadians want to own their own accommodations and want a choice of accommodations for their occupancy. We believe that measures can be taken to extend to persons of lower income the opportunity for ownership, and that choice of accommodations can be extended to persons of low income.

To improve housing conditions the Commission feel that the most urgent need is to increase as quickly as possible the total housing stock. This can be done in two ways.

1. Build additional new units.
2. Make better use of the existing stock.

The need for housing as it applies locally, falls into four main classifications defined by the ability of each class to afford the accommodation it requires. The classifications are:—

Group I The poor—less than $3,600.00 per annum

Group II Low income—$3,600.00—$5,000.00 per annum

Group III Medium income—$5,000.00—$8,000.00 per annum

Group IV Upper income—$8,000.00 plus per annum

These classifications are not meant to be inflexible in application, but indicate generally the income groups.

Group I

These are families who cannot afford to house themselves in decent housing without subsidy. Within this group are found the residual poor, possibly less than 5 per cent of the total population. These are families whose poverty is symptomatic of some other physical or social condition, who generally occupy public housing for a period of time and are evicted because they do not fit the prevailing occupancy requirements. This results in both public housing and these families being given a bad name. The Commission has no solution to the problem of the residual poor, but suggests that the problem be identified and solutions sought. The majority of Group I families can take advantage of subsidized housing, but need assistance and incentives for them to accept it as an acceptable environment. These are:—

1. Most families entering public housing need social case work assistance to help them adjust.
2. They should be offered a choice of accommodations and environment. As most of them presently live in older existing real estate, then they should be given the opportunity to choose to live where they are in improved conditions. More will be said about this in Group II.

We recommend:

(a) That each housing agency be required to have on staff, sufficient social case workers, whose duty it is to assist families to cope with their environment. Untrained, but sympathetic people, under the overall supervision of trained staff can adequately provide this service.

(b) That the concept of subsidy be applied to the family rather than to the accommodation they occupy. See Group II.

(c) That the agencies responsible for fixing the rental scales in public housing (Carver-Hopwood) he asked to set up committees in each area with public housing experience with the single objective of reporting on the adequacy and effectiveness of the rental scales used in public housing and the effectiveness of sources of funds used for equity and subsidy.

(d) In order to encourage increased family earnings that rent be calculated on either:—

(a) Proof of *net income.*

(b) Proof of gross income less a fixed percentage to be calculated.

(c) The first $1,000.00 of the wife's income NOT be counted in calculating family income for rental calculation.

(d) That the first $600.00 of each child's income NOT be counted in calculating family income for rental calculation.

Group II

Most of the low income families in Saint John live in older houses either as tenants or as owners supplementing their income with rents, and in the main also cannot afford decent housing without subsidy. The main difference from Group I is that many of Group II can and will move into Group III. Costs of maintaining these older properties to a decent standard appears to be in excess of the rental incomes derived from them. The inability of these families to afford to house themselves properly, is, we feel, 'blight'. The symptoms of this are overcrowding and lack of repairs—the ultimate result at best, a redevelopment programme. It is not physically or economically feasible to rehouse all these families in new subsidized housing, but it is possible to improve the housing conditions of a large number of them quickly and effectively by rehabilitation.

The Commission feels very strongly that urban rehabilitation must be socio/economic in concept and treat the cause of this blight by disturbing as little as possible the urban environmental conditions. We believe that the existing social relationships and, in particular, the landlord/tenant relationship must be left undisturbed. The opportunity for home ownership at this level must be preserved.

We recommend:

1. That in areas defined as being capable of rehabilitation by urban renewal *studies* and where money has been spent to improve the housing to an acceptable standard and this results in a rental increase for the improved accommodation, this resultant rent be compared with the tenants ability to pay calculated as for a public housing rental, and the difference be subsidized in the same way as public housing deficits are subsidized. The programme in the beginning should be applied to properties containing *not more than* four (4) housing units.

The advantages of this scheme are:

(a) Property stays in private ownership and the existing landlord/tenant relationship continues.

(b) Minimum of social upheaval in improving housing conditions.

(c) Stabilizes neighbourhood and prevents ultimate expensive renewal programmes.

(d) Applicable to large amount of housing.

(e) Small amount of subsidies provide maximum amount of housing.

(f) Gives persons of lower income the opportunity of ownership and their tenants a choice of accommodation and environment.

We would point out that this technique applies particularly to Maritime conditions.

Medium Income III

The people in this income bracket do not generally occupy public housing and usually desire to own their own homes. They are prevented from doing so because a home cannot be purchased with a minimum down payment with repayments comparable to current rents, say ($100.00 per month P.I.T.)

We recommend:

1. (a) That the Federal Government (Central Mortgage and Housing Corporation) at the request of a municipality, acquire and assemble sufficient land for the project.

(b) That they design and service this land in competition with private companies.

(c) That they design for the lots so formed, houses, landscaping and such environment facilities as may be desirable which they will advertise for public or private development as a project. Any developer or group of developers should have the opportunity to develop the scheme or a comparable scheme in competition with the Federal Government.

(d) The best (in the view of the ultimate home purchaser) project should be built and the properties offered for sale on long term (up to 50 year) mortgages at the prevailing interest rate, either freehold, leasehold or by condominium. Leaseholds should be offered with options to purchase

the freehold at stated periods. It is important that the terms of sale and financing should be adjusted to the repayment capabilities of those persons seeking to become home owners in each particular location.

We feel that this programme will overcome the lack of project development in this area and will encourage the mass production of houses. We feel also that the introduction of different standards of design and finish both of unit, and more important, of project, will greatly assist local development.

We feel that the possibility of providing low cost housing that can initially be rented, and, as the occupants income 'grows' into an ownership position he be given the opportunity to purchase some degree of ownership, should be properly researched.

Rental Accommodation

The City of Saint John has had recent experience with Limited Dividend Housing and would recommend the extension of Sections 16 and 16A of the National Housing Act as being the ones most acceptable to Municipal government and most likely to create new construction to provide medium rent facilities. We recommend that the income limitations be raised to include Groups I, II and III (up to $8,000.00 per annum), and that the rental scale be adjusted accordingly.

We also recommend that in dealing with low income family rentals that rents be collected weekly, preferably in 50 weekly instalments, giving two 'free' weeks per year at Christmas and the summer vacation. It is possible that repayment terms on low cost housing loans be collected the same way.

Upper Income IV—We feel that this income bracket is presently adequately served by Central Mortgage and Housing Corporation and the National Housing Act.

In addition to these main groups, there are two other important groups.

1. *Senior Citizens*

The problem of housing our older citizens should not be left to service clubs and other chance happenings. Incentives should be offered to municipalities to provide these units. Low rents could be achieved if they could be freed from the necessity of paying at least that part of taxation required for education. The limited dividend section (Sect. 16) of the National Housing Act doesn't make adequate provision for the building of these units. A special section should be written into the Act.

2. *Special Groups*

There are a number of 'special' groups who need proper recognition for housing needs, non-ambulatory persons, orphans, single persons, etc. Very little has been done for these groups to date; like senior citizens, they need proper legislation.

The Commission's terms of reference in urban renewal matters refer to 'blight' as a socio/economic phenomena of which a poor residential environment is but one symptom which can be redeveloped or rehabilitated by renewal programme made possible by assistance from the senior levels of government through the National Housing Act. The Commission feels that the present provisions of the National Housing Act and other social/welfare legislation seeks to remove or correct the effects of 'blight' and strongly suggest that the Federal and Provincial governments and agencies seek, devise and implement measures to cure the *causes* of 'blight'. To do this the social and welfare implications of

housing must be given equal attention with the economic considerations. The provision of adequate shelter and the environment in which it is provided is probably the most important single item to most citizens. As the difference between the cost of decent shelter and the inability of more and more families to afford shelter widens, the matter we feel needs the full time attention of a Federal Minister responsible for a Ministry of Housing and Urban Development and capable of ensuring that housing, social and welfare legislation operate to complement one another.

M. M. Somerville,
Chairman,
Urban Renewal Commision.

DB:sd:gs:hl
Feburary 20, 1967.

BRIEF

Presented to

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(Prices)

by the Miramichi "Ease the Squeeze" Committee.

Gentlemen:

On behalf of the Miramichi "Ease the Squeeze" Committee, which is a voluntary group of homemakers from the communities of Chatham, Loggieville, Chatham Head, South Nelson, Curtis Park and Newcastle comprising of some 250 women, we wish to submit the following brief:

Our concern is the realm of food prices, which in the past several years have escalated to the point where the percentage of the average Canadian family's income required to keep body and soul together has reached outrageous proportions.

"In New Brunswick the average gross weekly wage of the 8,400 employees in the food and beverage industry is $54.17; in Nova Scotia for 8,800 workers, it is $56.67. How low the Atlantic area wages are may be gauged by comparing them with the average weekly wage of food and beverage industry employees in the rest of Canada. In Quebec it is $81.16; Ontario $84.08; Manitoba $84.07; Alberta $88.92 and British Columbia $88.00. Statistics for Nfld. and PEI were not given.

Employees in the Atlantic provinces are earning $27—$32 less a week than their counterparts in the rest of Canada." (Financial Times, Sep. 19, 1966).

We do not feel the necessity is laid upon our Committee to produce copious figures to substantiate the rate of climb in food prices. Such figures can be had from the Canadian Labour Council and the Dominion Bureau of Statistics. Sufficient for our purpose to say that when housewives feel they have no recourse but to stand in the rain and picket foood stores, even statistics become an outdated game of arithmetic.

It has been established that the villain in the plot has not yet been uncovered. The difference between what the primary producer receives and what the consumer has to pay has not yet been adequately explained. The Supermarkets talk in terms of infinitesimal margins of profit, saying in effect "we are not to blame". We feel the time has now come to unmask who or what accounts for the disparity in price spreads. Just who is growing fat on the unaccounted for millions between what the farmer receives and what the consumer pays. We feel the food chains are more than adept in professing innocence. Yet, it is only when one reads (as per Toronto Daily Star, Feb 8, 1967 that "Shop and Save" (1957) Ltd. reports a net increase of net share profits of 26 per cent for the 9 months ending Dec 31 over the corresponding period in the previous year. Financial Post Nov. 19 1966 "Shop and Save" (1957) Ltd. Montreal report net profit up 46 per cent for 28 weeks ending Oct 1, 1966, Harvey's Food Ltd. Toronto, Nov. 19, 1966 reported net profit for 6 months ended Sep 30 of 54 per cent,); can it be seen just adept they are.

We contend that the major responsibility for the unwarranted high cost of consumer items rests squarely with the manufacturers, packers, middlemen and grocery chains, both wholesale and retail.

It may be argued that we cannot produce facts and figures re this charge. We contend that it is not the responsibility of consumer groups to provide such information and this should be perfectly obvious when the extremely limited resources of such groups as ours are contrasted with those of the Government.

To put it bluntly, if the Government within its vast resources cannot find out who really is responsible for the high cost of consumer items, then it is nothing short of idiocy to expect consumer groups to supply facts and figures that the Government itself can not supply.

The selling practices of the modern supermarket are a shopper's nightmare. The tricks and ruses devised to psychologically compel the shopper to part quickly and painlessly with her food dollar, could not be counteracted successfully even if every consumer should be supplied free, with a portable computer at Government expense. To comment in great detail on these shabby practices is not necessary at this date; it has already been well covered by the Royal Commission on Price Spreads in 1959.

However here are two small examples pertaining to our own area and Province of New Brunswick:

(1) One of the most familiar excuses we are given here in the Maritimes is the high cost of freight rates. We maintain that when N.B. grown potatoes can be purchased and shipped from Ontario, and still cost less than at our local supermarkets, the freight rate refrain becomes merely another sickening excuse for profiteering.

On Feb 8, 1967 at all Loblaws supermarkets in Toronto a 25 lb bag of No. 1 Grade top quality potatoes sold for .79 cents. On the same day at two chain supermarkets controlled by the same empire and located in Chatham N.B. the price was $1.09 and $1.19, or 30 cents and 40 cents increase respectively. It is of interest to note that 40 miles away at an independently owned store, the price was .73 cents. It may also be of further interest that last winter N.B. potatoes sold in Ontario for 70 cents for 25 lb and locally for $1.44 and $1.49 or an increase of 74 cents and 79 cents respectively. We pointed this out to the wholesalers in question, but they could not supply us with a satisfactory explanation.

(2) In October of 1965 the local fishermen were being paid 55 cents a lb for Atlantic salmon at the wharf. The fish could then be purchased at a Co-Operative fishplant a distance of 40 miles from Chatham; cleaned and wrapped, frozen and labelled as genuine Atlantic salmon, for 70 cents a lb under 10 lb fish, and 80 cents a lb over 10 pounds.

At the same time one local supermarket was selling frozen Atlantic salmon for $1.49 a pound, or 79 cents increase on a pound. Checking with other local supermarkets and stores we found salmon unavailable in all but one, and this supermarket (undoubtedly in a zealous fit to provide "first rate service" to their customers) offered B.C. salmon for $1.39 a pound.

To bring order to the market place, to insure a free economy to protect the canadian consumer, who is also a taxpayer and a voter, we beg to submit the following suggestions for earnest consideration by this committee and it is hoped, effective action by the government of Canada:

First:

We propose that our Government establish a Department of Consumer Affairs to receive and inquire into complaints of unjustifiable price increases and initiate appropriate action with regard to such complaints. "Industries which have points of view to present through the machinery of government are not at a loss to know where their views are to be presented or in obtaining competent professional advice to present their case effectively. It would be surprising if persons or groups having views to express as consumers, on food marketing and related matters, are informed as to where their views can properly be lodged in particular cases. The Canadian Association of Consumers can act as a channel of communication, but we think that the individual consumer as well as the

Association would be assisted if there were some office, to which any particular presentations might, at the first step, be taken. One function of the office would be to see that all representations were dealt with as expeditiously as possible by the appropriate branch of the government service.

We recommend that, as an instrument of liaison with consumers, an office bearing an appropriate name be established in the Department of Justice. We recommend further that the proposed office prepare, publish and keep up to date a report on legislative measures to protect consumers, and on services—government, trade, and voluntary—available to aid consumers."

(Report of the Royal Commission on Prices Spreads, 1959, Vol. 1 Page 57)

This Protection is Essential

"It is heartening to see that the St. John Board of Trade is actively looking into possible ways of establishing a Business Protective Bureau here. The need of such a watchdog agency is clear beyond question.

Two years ago the Board attempted to set up and operate a service to deal with complaints about fly-by-night salesmen, questionable merchandise, doubtful business practices.

Ironically, the service had to be abandoned after a time because it was proving too useful, there were just too many calls for the board's small office staff to deal with effectively.

On the average there were 50 calls a week—a rate of 2,500 a year. So the public is again without any official shield against misrepresentation and fraud.

It has been established that a Business Protective Bureau sharing the Board's office facilities could be maintained for $7,500 a year. The amount of money it would save consumers and the business community could be many times that sum..." etc. (From Editorial—St. John Telegraph Journal, Nov. 19, 1966).

Our group feels strongly that establishment of a Department of Consumer Affairs is not only very essential for the protection of consumers, but also long overdue.

Second:

We suggest that all forms of promotion, the costs of which, invariably are charged to the consumer be considered a federal offence. This includes all forms of give-aways, bingo, stamps, premiums, coupons ad infinitum.

We should like to point out that instead of these gimmicks the manufacturers and retailers of food products anxious to spend the money on promotion, put it to a much better use by providing to their customers truthful information on how to get the most in quantity and quality for their money.

As one example we would like to point out a service provided by Mr. M. Smith, section Manager of IGA Supermarket in Greenwood, N.S., who on Feb. 10, 1967 inserted a half page "Advertisement" in the Greenwood Argus, listing prices of all soaps and detergents in CENTS per ounce. We feel that services of this kind would be most appreciated by a great majority of consumers.

The 1959 Royal Commission on Price Spreads concludes "that promotional services have been a factor in the higher prices being paid by consumers." (page 56, Vol. 1.) Most consumers realize they have no control over the advertising and promotional gimmicks that create demand and brainwash shoppers into buying the wrong things.

We claim that the argument used by the trading stamp companies and such, that these come-on's are welcomed by a great majority of consumers is absolutely false. The fact is, the consumer may not have any choice.

In our local supermarket at Save-Easy, we found 72 different sizes of cereals these constituted 48 varieties. Only two, namely the Ready to serve Oatmeal, 10 and 11 oz sizes were sold on their own merit. The housewife whose family has not yet developed a taste for "instant Porridge" is forced to buy cereals that offer cups, glasses, convertibles, trips around the world, comic books advertising cereals, colouring books, diets, recipes, crude noisemakers, raceway sweepstakes, cheap, useless toys and a lazy susan with 2 boxtops and $2.00, that sells for $1.98 at any respectable hardware store.

Many consumers are so firmly convinced that the cost of these promotions is added to the price of the product or other products in the store, that often they enter the contests or collect coupons not out of real desire to win, but to make sure the Supermarket doesn't add the unredeemed coupons or cards, or what have you to their profit at consumer's expense.

Our group would like to state most emphatically, that we would like to see these practices abolished by the Government, and if not, that consumers be given the choice of cash rebate at the time of purchase.

> We recommend that the whole question of sole distribution rights of any product by any one food company or wholesaler in a given province or area be carefully considered and this practice be legislated against since it is incompatible with the ideas of free economy.

After careful consideration, it appears to this committee of "Ease the Squeeze" group that a certain wholesaler in this area has sole distribution right of at least Heinz baby foods, and other products but also such a large share in distribution of produce and other commodities that the consumers have little or no choice. They are compelled to pay exorbitant prices often for very inferior quality of merchandise especially in produce no matter where they buy.

The frustration of the consumer in this respect is very acute, the feeling being enhanced by the fact that there is no one of authority to appeal or complain to, and by the feeling that even our Government is only mildly interested and much too slow to act.

Surely a thorough investigation into the merchandising practices of all large food companies is in order. Claims that their practices are "above board" and their profits "reasonable," that wages, freight rates, fancy packages, demanding and sloppy shoppers, are entirely to blame, sound false even to their own ears. By private admission of one executive of a large wholesale company "We are not entirely blameless".

In our opinion Annual publication of the detailed financial statements of companies in the food industry would go a long way to better understanding and education of consumers into the machinery of these complicated empires.

> We hopefully suggest, that our government enact laws requiring manufacturers to package food in standard sizes, and retailers to do likewise, in order that the consumer may readily know when an advertised bargain is a bargain and to be able to intelligently buy in a free economy.

We feel that the co-operation of the trade is essential in dealing with these problems and we recommend continued efforts on the part of the departments in co-operation with the trade towards more informative labelling, standardization of container sizes, and simplification of grading and, further with respect to misleading advertising specifically, we recommend that the association of Canadian advertisers, in co-operation with the food industry, be requested to draw up and administer a code of ethics designed to guide food advertisers generally and particularly to reduce misleading advertising. (Source) (Royal Commission on price spreads of food products. 1959)

For your consideration here is but one example of the dilemma confronting the housewife on her shopping day. Even if she was a mathematical genius (and most of us are not)—it may take her a while to figure out which one of these cereals is the best buy.

These brands and sizes were all found in Save—Easy Supermarket last week. There are 72 cereal boxes—48 varieties—37 different sizes to compare at varying prices.

Brand	Description	Weight or size
NABISCO	Spoon size shredded wheat	12½ oz
	Shreddies	24 oz
	Shreddies	18 oz
	Shredded Wheat	10½ oz
	Rice Flakes	10 oz
KELLOGGS	Krumbles	10 oz
	Rice Krispies	10 oz
	Rice Krispies	13 oz
	Rice Krispies	6 oz
	Corn Flakes	16 oz
	Corn Flakes	12 oz
	Corn Flakes	8 oz
	Frosted Flakes	14½ oz
	Frosted Flakes	10½ oz
	Sugar Pops	12 oz
	Sugar Pops	8 oz
	Apple Jacks	10 oz
	Apple Jacks	7 oz
	OKs	8 oz
	Sugar Snacks	8 oz
	Stars	9 oz
	Cocoa Krispies	9 oz
	Special K	6½ oz
	Special K	11 oz
	Bran Buds	14 oz
	Request Pack	5¾ oz
	Variety Pack	10½ oz
	Snack Pack	6 oz
GENERAL MILLS	Cheerios	10.5 oz
QUAKER	Muffets	9 oz
	Muffets	15.75 oz
	Puffed Wheat	6 oz
	Puffed Wheat	4 oz
	Puffed Rice	6.5 oz
	Puffed Rice	4.6 oz
	Captain Crunch	8 oz
	Captain Crunch	11.5 oz
	Instant Oats	72 oz
	Quick Oats	3 lbs
	Natural Health Bran	10 oz
	Ready to Serve Oatmeal	11 oz
	Ready to Serve Oatmeal	10 oz
POST	Honey Comb	6 oz
	Honey Comb	9 oz
	Sugar Crisp	13 oz
	Sugar Crisp	8½ oz
	Alpha Bits	10 oz
	Alpha Bits	7 oz
	Grape Nuts Flakes	12 oz
	Grape Nuts Flakes	7 oz
	Bran Flakes	14 oz
	Crispy Numbers	10 oz
	Crispy Critters	10 oz
	Grape Nuts	13 oz
NEWPORT	Fluffs	8 qts
	Fluffs	13 qts
	Brex Wheat Germ	2½ lbs
MONARCH	Whole Grain Cereal	3 lbs
	Whole Grain Cereal	1 lb 2 oz

Brand	Description	Weight or size
Ogilvie	Vita B	36 oz
	Vita B Quick Oats	5 lbs
	Vita Wheat hearts	1 lb
Robin Hood	Quick Oats	32 oz
	Quick Oats	5 lbs
	Quick Oats	3 lbs
	Quick Oats (with cup)	3 lbs
	Instant Oats	72 oz
	Instant Oats	32 oz
	Instant Oats	44 oz
Purity	Cornmeal	1 lb 13½ oz
	Quick Oats	5 lbs
	Quick Oats (with cup)	3 lbs
	Quick Cream of Wheat	14 oz
	Carnation Instant Breakfast	7.9 oz

For the purpose of comparison of sizes only without prices may also be frustrating.

1	each	4 oz—Quaker
1	"	5¾ oz—Kelloggs
4	"	6 oz—Kelloggs, Quaker, Post
1	"	6½ oz—Kelloggs
3	"	7 oz—Kelloggs, Post
5	"	8 oz—Kelloggs, Quaker
4	"	9 oz—Kelloggs, Quaker, Post
1	"	8½ oz—Post
9	"	10 oz—Nabisco, Kelloggs, Quaker, Post
3	"	10½ oz—Nabisco, Kelloggs
2	"	11 oz—Kelloggs, Quaker
3	"	12 oz—Kelloggs, Post
1	"	12½ oz—Nabisco
2	"	13 oz—Kelloggs, Post
3	"	14 oz—Kelloggs, Post, Purity
1	"	14½ oz—Kelloggs
1	"	16 oz—Kelloggs
1	"	18 oz—Nabisco
1	"	24 oz—Nabisco
2	"	32 oz—Robin Hood
1	"	36 oz—Ogilvie
1	"	44 oz—Robin Hood
2	"	72 oz—Quaker, Robin Hood
1	"	4.6 oz—Quaker
1	"	6.5 oz—Quaker
1	"	7.9 oz—Purity
1	"	10.5 oz—General Mills
1	"	11.5 oz—Quaker
1	"	15.75 oz—Quaker
1	"	1 lb—Ogilvie
1	"	1 lb 2 oz—Monarch
1	"	1 lb 13½ oz—Purity
1	"	2½ lb—Newport
5	"	3 lb—Quaker, Monarch, Robin Hood
3	"	5 lb—Ogilvie, Robin Hood, Purity
1	"	8 quarts—Newport
1	"	13 quarts—Newport

This situation is not unique to cereals. Dry packaged soups are almost as bad, soaps and detergents, cake mixes, canned goods and many others.

We should like labels to include:

1. Name and *address* of manufacturer
2. Actual information about product contents and ingredients.
3. The maximum net weight in ¼, ½, ¾, 1 lb., 1½ etc. of pounds *or ounces, corresponding to these.*
4. Quality grading expressed in numbers rather than words, with the highest quality starting at 1.
5. Instructions for use and, or warnings about poisons etc.
6. And most important of all, regular price per ounce.

We suggest that it becomes an offence to make false statements about quality by salesmen, or by labels and advertising in any form. That it also becomes an offence to make false claims about price reductions such as "20 cents off regular price" when regular price is not listed, and an offence to use various packaging and labelling methods to suggest that a larger quantity is being offered for the same price.

In concluding our brief we would like to make an observation re the Royal Commission of 1959 on consumer price spreads. We have already quoted from that report in this presentation.

Our observation is to the effect that the 59 Royal Commission not only did a competent job, but made some excellent and realistic recommendations. Our committee is firmly of the opinion that had the recommendations of the 1959 Royal Commission been implemented at the time, the angry protests of last Autumn would never have arisen, the taxpayers would have felt their elected government did really have their welfare at heart, the usefulness of Royal Commissions would have been demonstrated, and finally the Canadian public today would not have the general feeling that the current governmental investigation is just another exercise in futility.

Submission by

SAINT JOHN BOARD OF TRADE

FEBRUARY 21, 1967.

Joint Committee on Consumer Prices,
Admiral Beatty Hotel,
Saint John, N. B.

Honorable Gentlemen:

In November 1966, our Board appointed a small group to assess questionable promotions and business practices in the greater Saint John area. A study was also made on how a consumer protection bureau or service might be established. Several conclusions were reached which may prove of interest to your committee.

It was found most complaints originate at the consumer level. To a large extent these complaints involve overpricing and/or dissatisfaction with goods and services. A community of 100,000 population can reasonably expect 1,000 or 1,500 such complaints per year, so they are quite numerous.

It was noted most Canadian communities over 50,000 population have a clearing house in one form or another, for receiving these complaints. Local offices are frequently allied with chamber of commerce or Board of Trade and provide varying degrees of consumer protection. Their most important function is to record various complaints and sound a warning when serious patterns appear. This service is quite similar to the Better Business Bureau. However, the BBB is found mainly in very large cities. The mere existence of any consumer protection office, however, is a useful deterrent to questionable promotions.

These "watchdog" services are primarily financed by business firms and civic groups. However, their "protection" is mainly for the consumer, rather than member or supporting business firms. This presents a problem in financing as most Boards and chambers have limited funds. In Saint John our committee has established the need for consumer protective service. The Board of Trade, however, has a formidable task to establish and finance such a service.

It is the suggestion of our committee that business and consumer protection on a local level might be encouraged by the Federal Government. A modest grant of up to $5,000 per year would effectively assist in establishing and maintaining these services. Such grants might be conditional on matching civic or municipal grants.

A copy of our recent submission to the Saint John Board of Trade is attached. We sincerely thank your committee for the opportunity of presenting these observations.

Yours very truly,

GEORGE C. ROBINSON
Chairman
Committee on Consumer Protection

Report to

SAINT JOHN BOARD OF TRADE
CONSUMER PROTECTION COMMITTEE

Purpose

Committee was formed to explore aspects of a consumer protection and/or business protection bureau in the City of Saint John. if such a board is needed, should it operate as a function of the Board of Trade or as a Better Business Bureau? How could it best serve business and consumers in our area and on what basis could it be financed?

Investigations

1. The Committee called for written complaints from Greater Saint John residents pertaining to questionable or unethical business practice in the area.

2. Interview was arranged with Mr. A. J. Frost, Executive Director of Better Business Bureau (Canadian Association). Functions, methods of operation, costs and involvement in having a BBB established in Saint John were studied.

3. Informative Interview was held with Security Frauds Commission in Saint John.

4. Twenty-seven cities were contacted throughout Canada to ascertain how they handle problems of this nature.

Results

1. Upwards of 30 written complaints were received covering a wide range of unsatisfactory practices and business experiences in this area. Numerous phone calls were also received at the Board of Trade.

2. The Better Business Bureau was found to have 10 Bureau operations in Canada and the 11th in process of being established. For a very modest fee the National Association of the BBB allows a branch operation to establish in a City or Provincial area incorporating the BBB name at the local level.

Funds for the operation of a local Better Business Bureau are received from soliciting of Memberships from business in the community in a similar fashion to the Board of Trade. (3 per cent of fees obtained are turned over to the National and International Association... There is no other charge to a local bureau).

A local Better Business Bureau then is an autonomous operation managed by a local manager, hired at a local level and governned by a local board of directors. According to Mr. Frost there are no laid down ground rules that must be adhered to by the local level.

Membership fees also are established locally. The advantage of having a Better Business Bureau is that it is affiliated through both associations with all other BBB Offices, with access to their information. Also all releases from other offices are available and the purpose of a BBB is generally familiar to consumers and business alike. The approximate estimated cost of establishing a Better Business Bureau in Saint John would be in the vicinity of $10,000 to $15,000 per annum based on the estimated cost of the St. John's, Newfoundland Bureau. However it could also be run on a lower budget with limited services.

3. 26 Cities across Canada reported as to their activity in consumer protection. Most cities have some form of business and consumer protection. Of 10 cities with populations from 50,000 to 150,000, eight provided service in their areas under the jurisdiction of the local Board of Trade or Chamber of Com-

merce. Most term it a "Business Information Service". St. John's, Nfld. is currently establishing a Better Business Bureau under the National Association and the tenth city while having no coverage, stated there was a need for this service.

4. It is the conclusion of this committee that some form of Business Protection is required in Saint John. It is our information that from five to ten complaints develop each day in Saint John. Many of these appear legitimate and form a pattern which should be a publicized as a warning to other citizens.

Summary: Two Alternatives

(1) *Establish a Better Business Bureau.* This would be in association with other Business Bureau operations in Canada and United States, the operation would be autonomous in scheduling of fees, and method of operation. Financial support would be sought from 200 to 300 civic groups and business firms who would become "BBB" members. This Bureau would receive a separate charter as a BBB and would be entirely independent of the Board of Trade.

(2) Form A Consumer Protection Service or Business Information Service locally under guidance of the Board. This service is outlined in the attached bulletin published by the Ontario Chamber of Commerce Executives. It could be handled by one man with secretary and operate from within the confines of the Board of Trade offices. This service would be governed by a Board comprising Trade Board Members and representatives of other supporting groups. It would be financed by 4 or 5 major contributions.

Conclusion

Committee recommends a modest start with a Business Information Service. This Protection Bureau is visualized as an operation to function on a minimum of six to seven thousand dollars a year. Sizeable grants from the City of Saint John Retail Merchants Association or the United Fund would be essential. Eventually grants might be reduced and the broader based (financially) BBB could then be established. The problem of establishing a BBB initially is the substantial requirement of selling and maintaining several hundred memberships.

A BIS or Consumer Protection could be handled by a self sufficient part-time man with organizational and "P.R." experience. He would need a full time secretary, however, her services could be shared with an adjoining office. Five gentlemen have already applied for this position and it would appear no problem to secure the right man at $3,000 per year. This man should function independently from our Board of Trade manager except in policy matters. Grants for an initial period of two years (1967 and 1968) should be negotiated with the City of Saint John, Retail Merchants Association, United Fund and other groups.

There is also a good possibility of developing from the local area to a Provincial basis. At that time grants could be obtained from other Municipal or governmental sources if offices were set up in major centers such as Moncton, Fredericton, Bathurst or Campbellton. The operation might then emerge as the Better Business Bureau of New Brunswick.

James Mchugh
H. E. Stegmayer
John Watts
George C. Robinson, Chairman
Jack James
Wallace Turnbull
D. Hills

Submitted Feb. 16th, 1967.

Council Chambers,
City Hall,
Regina, Saskatchewan,

WEDNESDAY, Feb. 22nd, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators McDonald (*Moosomin*), O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—(3).

For the House of Commons: Messrs. Basford (Chairman), MacInnis (Mrs.), Mandziuk, McLelland, O'Keefe, Olson, Otto and Smith.—(8)

The following were heard and questioned by members of the sub-committee:

Mr. R. Gerla,
General Manager,
Cairns Homes Ltd.,
Regina, Saskatchewan.

Mrs. Gordon Moxley,
Consumers' Association of Canada,
Saskatchewan Branch,
Regina, Saskatchewan.
Brief.

Mrs. Bonny Petruic,
Treasurer,
and
Mrs. Betty Mrazek,
President,
Regina Food Suffragettes,
Regina, Saskatchewan.
Brief.

At 1.00 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Representing Federated Co-operatives Limited:
Mr. L. L. Lloyd,
President.

Mr. L. J. Doucet,
Manager Lloydminster and District Agricultural
Co-operative Association Limited and Chairman,
Managers' Advisory Committee.

Mr. J. E. Trevena,
Director of Information, FCL

Mr. W. Bergen,
Controller, FCL

Mr. A. V. Kroll,
Research Director, FCL

At 4.30 p.m. the sub-committee adjourned until tomorrow, Thursday, February 23rd, at Edmonton, Alta.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

BRIEF BY THE CONSUMERS' ASSOCIATION OF CANADA
(Saskatchewan Branch)

(Prepared for submission to the Prairie Provinces Cost Study Commission)

AIMS OF C.A.C.

Principles

1. The Consumers' Association of Canada is a national organization created to serve the interests of all Canadians as consumers.

2. C.A.C. endeavors to educate consumers to understand and fulfil their important role in the total economy.

Objectives

1. To unite the strength of consumers to improve the standards of living in Canadian homes.

2. To study consumer problems and make recommendations for their solution.

3. To bring the views of consumers to the attention of governments, trade and industry, and to provide a channel from these to the consumer.

4. To obtain and provide for consumers' information and counsel on consumer goods and services and to conduct research and tests for the better accomplishment of the objects of the Corporation.

Participating Organizations

Provincial Council of Women
I.O.D.E.
Sask. Co-op Women's Guilds
Ukrainian Women's Association of Canada
Assoc. Of Homemakers' Clubs
Sask. Registered Nurses Association
Sask. Farm Women's Union
Women's Christian Temperance Union
Sask. Home Economics Assoc.
United Church Women
Sask. Dietetic Association
Provincial Command, the Ladies Auxiliary, Royal Canadian Legion
Business and Professional Women

Madam Chairman, Members of the Commission.

The Consumers' Association of Canada (Saskatchewan) is pleased to have the opportunity to appear before the Prairie Provinces Cost Study Commission. We wish in our submission to express concern for the rising cost of living in Saskatchewan. We hope to raise questions that will lead to an understanding of the problem and to some relief from the burden of high prices.

Rather than supporting mass boycotts C.A.C. prefers to be a liaison between consumers and industry—between consumers and government. For nearly 20 years C.A.C. has attempted to serve not only members, but every consumer, to

the best of the ability of knowledgeable volunteer workers. In Saskatchewan we have done this in the following ways:

Answering question by letter and telephone.

Television programs from all our major cities.

Supplying educational material where available.

Publishing newsletters.

Sponsoring consumer educational programs.

Representing the consumer on marketing boards, at credit conferences, etc.

Being a liaison between government, trade and industry.

We have filed with this Commission the Brief presented by C.A.C. to the Federal Senate-Commons Committee on Credit in December, 1966. For this reason we will not go into the problems of packaging, gimmicks, fractional weights, merchandising practices, but refer you to the National Brief and record of the Hearing at that time. We feel this is an area that can best be dealt with at the Federal level and not duplicated at the expense of the people in the Prairie Provinces.

In the following remarks we are attempting to sum up the suggestions and complaints received by our Association over the years concerning prices in Saskatchewan. Possibly the most common complaint comes from people moving into our Province from other areas in Canada, the complaint that prices are higher here.

On the Prairies, increased prices do not seem to be reflected in increased income to the producer of prairie products. It seems to us that the number of processors, packagers, marketers, each taking a percentage mark-up, results in an accumulated high price to the consumer. The final consumer price reflects many hidden costs and taxes at each step along the way from producer to consumer. We wonder if the amount of the retail mark-up is justified in many cases. Is the retail mark-up on the Prairies—particularly in Saskatchewan —greater than in other areas of Canada for the same goods? If so, why?

The cost of houses in Saskatchewan is increasing all the time. This is no doubt due to increased demand because of our new (and important) industries. These industries are to the economic advantage of our citizens, but the cost of houses plus increasing municipal taxation is putting a very heavy burden on the finances of many families. Could this be alleviated by more low cost housing in the Province?

Complaints of high municipal taxes come to us from consumers and are also given to us by business as the reason for the high cost of doing business in this Province.

In the field of taxes we feel the Saskatchewan Government could contribute to the welfare of low income families by removing the 4 per cent tax on soaps and detergents. This same 4 per cent tax should be removed from children's clothing (as in Quebec, Ontario, B.C. and now Manitoba.) C.A.C. has repeatedly requested the Federal Government to remove the 11 per cent tax on drugs and margarine. This tax is now 12 per cent and almost immediately the increase was passed on to the consumer in the price of margarine.

Again in the provincial government field, we are concerned about the recently announced increase in telephone rates. We also object to the monthly fee paid for a colored telephone. We understand that in other provinces an initial charge is made for a colored phone and thereafter the rate is the same for a black telephone. We ask this Commission to determine whether long distance rates are higher in this Province than elsewhere, and if so, how are they justified.

There are comparatively few food chains and wholesale outlets serving Saskatchewan, thus restricting competition. In fact Saskatoon is serviced mainly by only two. The chains are building more and larger business premises (often very close together) in our major cities. We wonder if these stores are over-building. We wonder if they operate in any way to set the price pattern for the Province. A survey done by Saskatchewan C.A.C. in the fall of 1965 indicated that there was little difference in food prices between cities. It is impossible for volunteer workers to assess the influence of large business on prices. This is the type of information we hope this Commission can obtain.

Probably the most common suggestion we receive is that freight rates and transportation costs increase prices on the Prairies. Can this Commission determine to what extent this is so and if we can hope for any improvement here?

These questions about freight rates, transportation costs, and the effect of chain stores on prices leads us to the premise that there is need for a permanent consumer representative at the provincial government level. This should be a person with adequate knowledge and authority to act on behalf of consumers in Saskatchewan. The idea for consumer representation in government was first put to a federal government committee by the C.A.C. National President in 1960. C.A.C. does not wish to continually request legislation. We feel too much restrictive legislation would not be in the best interest of either consumers or business. We do believe, however, that there should be a consumer economist in government whose sole responsibility it would be to represent the consumer. Many government departments already have a great deal of legislation for the protection of consumers. Also we appreciate the five point consumer protection program before the Saskatchewan Legislature at the present time. At the same time we recognize the fact that in most cases consumer representation is a very small part of the overall job of each department. We also feel that, for example, the Department of Agriculture is mainly organized to promote marketing and production of agricultural products, expecially for export. As we see it, a consumer office with a knowledgeable person in charge could perform the following services.

Be an organization whose chief concern would be the effect of Government policy on consumers.

Co-ordinate consumer legislation.

Do research into consumer problems.

Sponsor an inter-departmental exchange of information.

Publish information and research that should be available to consumers.

Present the consumer point of view at hearings of legislative committees and on marketing boards.

Be a place where consumers could be heard.

One has only to read financial and marketing publications to realize that there is another whole industry of highly paid personnel whose main activity is to study consumer motivation. This indicates to us that the consumer needs someone equally well trained to see that he is not being exploited.

Finally, we in C.A.C. believe that every student leaving high school should have had an opportunity to learn to intelligently spend the money we are training him to earn. It is to the benefit of the economy of the whole country that this be so. Immediately a student leaves school he will be spending money on things he wants to possess, the transistor radio, camera, sporting equipment and possibly a car. Many will be setting up homes and will be faced with the temptation to over-extend their credit. Possibly many welfare problems could be avoided if money management was part of the education of every young adult. A newly formed Consumer Education Committee has been set up by Saskatchewan C.A.C. to work with the National C.A.C. Committee and to assess where and how

consumer education is being taught at the present time in Saskatchewan and to make suggestions for the future. It is hoped that more consumer education courses will be available to adults as well as high school students.

In conclusion, may we thank this Commission for the opportunity to be heard on behalf of the Consumers' Association of Canada in Saskatchewan.

Summary

C.A.C. in Saskatchewan
Retail Mark-up
Housing costs
Municipal taxes and other Government charges
Effect of Chain Stores on competition and prices
Consumer representation in Government
Consumer Education

SUBMISSION BY THE REGINA FOOD SUFFRAGETTES

Mr. Basford, Madam, Honourable Senators and Gentlemen:

This brief is humbly submitted for consideration in the ardent hope that the food prices that have increased at an alarming rate over the past eighteen months may, after your deliberations, be curtailed to a reasonable degree. Control measures at the top level of government would solve this national and provincial economic situation so that it does not recur in the future.

The Regina Food Suffragettes is just one of many organized bodies of interested consumers both male and female who have taken steps to alert the public and request their co-operation in boycotting discrepancies and unfair pricing which we can bear out statistically.

Public meetings have met with enthusiastic response and support in Regina to the point where citizens have contributed personally and financially to delegate us to represent their interests as we approach you in this regard.

Let it be known that the Manufacturers' Association have been anything but co-operative, to the point of ignoring our request to meet with them concerning the benefits derived from the time the producer's product leaves them and reaches the consumers. This has left a very bad taste in the mouths of all those who have led and supported inquiries into the alarming heights to which food prices have risen.

How is the consumer able to protect himself against the complex advertising machine of the big companies? We are just individual consumers trying to decide which is the better product, the better buy after listening to a barrage of advertising coming at us from all directions.

Following are facts as we have found them in the Southern half of the province of Saskatchewan.

Looking into freight rates we have found that these rates have not increased proportionately to food costs (which is an insinuation made by some people.)

Freight rates increased again on October 10, 1966. The figures for prior to and after October 10, 1966 are as follows:

	Before	After	Increase
Canned goods per 100 lbs	$ .38	$ .42	1/25c per 1 lb. can
Potatoes	$ .61	$ .67	3/5c per 10 lb. bag
Apples	$ .76½	$ .84	2/5c per 5 lb. bag

STATISTICALLY WE HAVE THAT THE first wildcat strike began on May 5, 1966 in Montreal. The rapid rise in the cost of food began in September of 1965 and has kept increasing in all the areas of living costs. According to the Saskatchewan Retail Merchants Association Bulletin No. VII5, Consumer Price Index for Saskatoon-Regina, September 13 the rise has been as follows:

	Sept. 1966	Sept. 1965	Increase
Food	143.9	133.9	10.0
Housing	129.9	128.5	1.4
Clothing	140.1	133.5	6.6
Health and Personal Care	159.3	150.9	9.6
Tobacco and Alcohol	126.8	124.4	2.4

Please note that food has risen the most, 10.0 to be exact, thus we feel justified in striking against the food industry, as some people think we should have attacked clothing or one of the others first.

Therefore, we submit that the reason for the rising cost in prices was not caused by the rise in freight rates or the strikes, but it would indicate that the strikes may have been caused by inflation.

According to the Economic Council of Canada, Canadians have lower incomes than those of the United States yet the prices of goods we buy in the two countries are fairly close together. In Saskatchewan the markup between wholesale and retail prices averages over:

20 per cent on Meats
25 per cent on fresh fruits and vegetables
12 per cent on canned goods, dairy products, certain cereals and frozen foods.

In the CANADA FOOD RULES all these foods are listed as necessary in order to maintain a well balanced diet, however, we are forever being told to substitute powered milk for fresh milk, margarine for butter, etc. There is no substitution for eggs or cheese yet these foods at their present price are a luxury in many homes. For example, one dozen eggs in June of 1966 averaged in supermarkets $.57 and in December 1966 they averaged $.71 a dozen.

We strongly disapprove of the games, give away tactics, elaborate packaging, mis-leading and unnecessary advertising, fractional weights, and gimmicks which are of no interest to the consumer as the cost of these tactics are passed on to the consumer.

First let us deal with games which all the supermarkets are running. Safeway has their Bonus Bingo, Loblaws and O-K Economy have Match the Register Tape, and Dominion has Instant Bingo.

For the sake of brevity we will use Safeway's Bonus Bingo as an example of the money used to promote games. During the first series of Bonus Bingo they claimed to give away over $28,000.00 in cash awards and in the second series over $30,000.00, which is a total of $58,000.00 in a year.

We have no way of finding out the cost of Bonus Bingo books and other printed matter pertaining to various games but it is known that the cost of printing is high.

A great deal of money is also spent on advertising these games. Double-paged advertising in our local newspaper "The Leader Post" costs $1,400.00, for a one page advertisement, $570.40, and for a half page $285.20. During the week of November 14 to 19, 1966 Safeway ran three ads in "The Leader Post".

November 14, 1966 (Page 17) ¼ page for Bonus Bingo..... $ 142.15
November 16, 1966 (Page 10) full page..... $ 570.40
November 18, 1966 (Page 23) ¼ page..... $ 142.15
This brings a total of $754.70 for the week.

Bonus Bingo is also advertised on the Radio. We will use CKCK Radio for our example. In just one morning Safeway ran five, forty-second commercials; of this forty seconds, twenty seconds was devoted to Bonus Bingo. Safeway advertises every day of the week and the purchase rate for forty, forty-second commercials with CKCK Radio is $314.50 which would mean that $157.20 is spent on Bonus Bingo advertising.

There are three other radio stations in Regina, CKRM, CJME and CFMQ with whom Safeway also advertises. Seeing as advertising costs are not the same at all the stations, we feel that their total would be approximately $472.25.

We were unable to get figures on rates with CKCK Television and CKTV where a considerable amount of advertising is done on the Bonus Bingo game.

Door to door colored flyers which in the main end up unread in the garbage, are generally four pages and there is always at least a half-page to a page used to advertise Bonus Bingo, which also costs money.

According to Mr. Sidney Margolius, food manufacturers spend $10.00 in advertising to every $1.00 spent in research. It seems that this is the reverse of what it should be.

All this advertising for games is 100 per cent tax deductible, yet we, the consumer, are paying this advertising cost as it is added onto the products we buy.

We are not against the supermarkets advertising their products, only the advertising of their games and gimmicks. We do not want the games, and strongly advise that they be abolished.

Misleading Advertising

O-K Economy Store in the River Heights Shopping Centre had an ad in the paper and a sign in their store which read "All Strained and Junior Baby Foods 10 tins for $1.00." A customer picked up 10 tins of various baby foods, when she took them to the check-out counter she was informed that the baby meat dinners were not on special. The customer questioned this and ended up talking to the store manager, who also claimed that the meat dinners were not on special. The customer showed him the sign and pointed out that there was nothing on it that said "except for meat dinners", to this the manager said "I'll change the sign." This did not satisfy the lady as when she picked up the meat dinners the sign read otherwise. In the end the customer received the meat dinners for the special price, however, how many other customers paid the regular price when they should have received them at the special price.

False Competition

Soap companies promote false competition among their own products. Millions of dollars are spent telling us that Bold washes clothes brighter than Tide but Tide washes them the cleanest. These products are made by the same company. This company had spent 19 million dollars for the year ending May, 1966*. We would like to have the gamble taken out of Proctor and Gamble because then we might get a clean deal.

Mislabelling

Mislabelling has also been going on take for example these two cans of Libby's spaghetti which are the same size have identical labels except that one is marked 15 fluid ounces while the other is marked 14 fluid ounces, yet both sell for the same price. This particular misrepresentation was brought to the attention of the Food and Drug Association by the C.A.C. and a decree was made that all canned products must be properly labeled by 1967. We would like to know why such a misdemeanor was not made known to the public and what was the penalty paid by the manufacturer for this fraud.

Gimmicks

Ogilvy Oats sell two three pound packages, one has a mug in it, the other hasn't. The one with the gimmick costs $.81, the package without is $.57, yet the consumer is forever being told that we are not paying for the gimmick. This is not so as the mug costs $.24.

Elaborate Packaging

We realize that chocolates could be classed as a luxury item but we will use Smiles 'n Chuckles Turtles as an example of what elaborate packaging can cost —a 14 ounce box containing 24 Turtles costs $2.00, while if you buy the 10c. bag of Turtles with 2 in a bag you could buy the 24 for $1.20, in other words the box or container costs us 80 cents which is 40 per cent of the price of the chocolates.

*Food Processing and Marketing magazine, May 1966.

According to the testimony at the Senate Commons Committee, the Campbell's Company claims that their tin costs more than the contents. We resent having to pay more for the container or package than the content.

In Mr. Vance Packard's book "The Hidden Persuaders", he points out that companies hire psychologists to do research regarding the colors, sizes, shapes, etc. that are most pleasing to the consumer. This cost is added on to packaging. All the consumer wants are clean, neat packages for their food—never mind all the frills.

Even non-elaborately packaged food is rapidly increasing in price. For example, one half pound of back bacon in June of 1966 was 63 cents and by October of 1966 was up to 85 cents. What is the reason for this?

"Cents Off Deals" are often an excuse to increase the price of a product without the consumer realizing it. Kellogg's Wheat Chex put a 10 cents off the regular price special on in November. The regular price of the 18 ounce box at that time was 35 cents. When the special went on they raised the price to 46 cents, minus the 10 cents off, making the new price 36 cents or an increase of one cent on the regular price. Then when the special went off the increase over the old price was 11 cents! This does not seem just when the price of a product can go up that much almost over night.

When the price of sugar went up so did the price of the products containing sugar, for example soft drinks, but when the price of sugar dropped the price of soft drinks *did not.* Now the price is to increase again because of a Federal Tax. Is it fair that the manufacturer can increase the price of his product when the price of raw materials go up but is not obliged to lower them when the price of the raw material goes down?

The Market is a newly opened grocery store in Regina. It is not a "superstructure" nor does it have piped-in music, elaborate fixtures, nor does it employ games or give away tactics. The appeal of this store and its rising popularity pertains to the fact that shoppers can buy in any quantity and at lower prices. The produce is not prepackaged and the customer is allowed to make his own choice of quantity and type he desires. We hope that more stores will follow this line of operation because women are not looking for "romance" in their grocery store, just *fair prices.*

OUR RECOMMENDATIONS TO THIS COMMISSION ARE

1. There are now existing consumer departments at a Provincial and Federal level. We wish to have their powers extended, with increasing attention to be devoted to consumer education both through the educational system and by distribution of information useful to consumers through government channels so that more thorough and frequent investigations can be made to counteract the discrepancies with which we are now confronted.

2. Immediate steps be taken to promote standardization and simplification of grades, nomenclature and packaging of commonly purchased consumer items.

3. The provinces should investigate action to restrict promotions in advertising.

4. Provincial legislation under which companies that are given the right to operate could be reviewed to determine if further disclosures of information would advance the interest of the public.

We sincerely hope the situation of consumer confusion which now prevails, will now be corrected so that the consumer can be assured of always making wise choices when shopping for such an important item as food.

We humbly submit that our elected representatives take this matter seriously under consideration to solve and correct it immediately. If war time price control is necessary, we would favour this before a national economic crisis or another depression descends upon us.

A PRESENTATION

to the

SPECIAL JOINT COMMITTEE

of the

SENATE AND HOUSE OF COMMONS

on

CONSUMER CREDIT (PRICES)

by

FEDERATED CO-OPERATIVES LIMITED
HEAD OFFICE SASKATOON

PART I—INTRODUCTION

1. Federated Co-operatives Limited is pleased to have an opportunity to present its views on those matters being studied by this Committee. We do so in hope that this contribution will be of assistance to the members of this body in the carrying out of their difficult tasks.

2. We should like to make note of the fact that this presentation has been prepared upon instruction from our Board of Directors, and with the assistance of representation from retail co-operative management.

3. Federated Co-operatives Limited has its head office at Saskatoon, and is both owned and controlled by 476 consumer-owned retail co-operatives operating in NW Ontario, Manitoba, Saskatchewan, Alberta and NE British Columbia. The organization also has as members sharing ownership and control, 72 other co-operative organizations such as Wheat Pools, seed grain, and grain cleaning associations, and 82 non-profit institutions such as school units, rural municipalities, colleges, hospitals, and like organizations which are supplied with goods for their own consumption.

4. Federated Co-operatives operates wholesale distributive warehouses at Saskatoon, Calgary, Edmonton, Regina and Winnipeg, and small depot-type warehouses at Swift Current and Yorkton.

5. The organization operates, as a wholly owned subsidiary, Consumers' Co-operative Refineries Limited, Regina. It also operates feed manufacturing plants as Saskatoon, Calgary, Edmonton and Winnipeg; a plywood manufacturing plant at Canoe, B.C.; lumber mills at Canoe, B.C. and Smith, Alberta, and also holds a one-third interest in the fertilizer manufacturing plant known as Western Co-operative Fertilizers Limited, Calgary.

6. Our organization also provides many types of specialized services to consumer-owned co-operatives, including accounting, audit, construction, trucking, and other operational or management advisory services.

7. During the fiscal year ended October 31, 1966, Federated Co-operatives served its members with goods and services to a total value of $150,628,000. The operating surplus, after providing for income tax, amounted to $4,428,000, and this sum was returned by December 31, 1966 to those organizations which had created the surplus by their patronage.

8. It may be of interest to note that during the calendar year, 1966, Federated Co-operatives returned to member organizations in cash, a total sum of $2,318,000. The total returned in cash from 1958 to 1966 inclusive, is $20,250,-000.

9. These sums returned in cash by Federated Co-operatives assist retail co-operatives to effect cash returns to their consumer-members. By this means,

the cost of goods purchased by farmers for farm production use is decreased as is the cost of other goods to consumer-members in general.

10. *Consumers' Interests.*—From the foregoing, it will be noted that:

(a) Federated Co-operatives Limited is a consumer-owned organization.

(b) Federated and the retail associations it serves return to consumers that difference between prices paid by the consumer and the real cost of providing goods or services.

11. We should like, at this point, to draw to the attention of this Committee, the 1966 Annual Report of Federated Co-operatives Limited which complements this brief. We would particularly direct attention to:

(a) The Statement of the Objectives of Federated Co-operatives Limited which appears on page 9 of the Report; and

(b) The Code of Ethical Standards for Co-operatives which appears on page 34, and which is established as a policy of Federated Co-operatives and a majority of the retail co-operatives served.

12. It will be made clear by these documents that the co-operative organization, by nature and intent, seeks to hold the genuine good interests of consumers as paramount to all other interests.

13. In striving to achieve these Objectives we have, however, encountered some difficulties. In the following parts of this submission we shall describe some of the problems which we believe responsible for these difficulties.

PART II—THE PROBLEM AS WE SEE IT

14. In the Report of the Royal Commission on Food Price Spreads in Canada, 1959, and in numerous other studies, there is ample evidence that consumers are now paying for many types of new expenses which have been injected within the distributive system during the past two or three decades, both with and without the knowledge of the consumer.

15. It is a relatively simple matter to find examples in which the container becomes either a sales promotion device serving the seller, or a source of convenience to the consumer, but which, at the same time, adds to costs and not infrequently is more expensive then the product it holds.

16. It is not difficult to find examples of packages which have the power to deceive the trusting or uninformed consumer. For example, we are aware of one manufacturers' promotion in which two 5 oz. bottles of baby oil were packaged together in a container which carried the wording: "Reg. $1.59—SPECIAL $1.40—You Save 18 cents". Simultaneously, a single 10 oz. bottle of the identical brand offered without extra promotional effort was selling at its evidently regular price, of $1.10, or 30 cents less than the so-called "special".

17. A good number of similar examples could be given. However, we do not believe that there is as much value to examining individual causes for complaint or higher costs as there is in taking a more panoramic view of trading in general.

18. We are of the opinion that the cause of those matters which have focused attention on high prices and complaints of the consumer is not something we can regard as new. More likely, we suggest, it is something which has been in the making for some considerable time and is the result of various forms of change and progress.

19. To establish a base for discussion of this view, we should like to reflect back to the time of the small trading store. It was generally owned and operated by a resident merchant who served a relatively small local area and was, therefore, able to develop a close relationship with his customers.

20. Under these conditions, the merchant was apt to be most sensitive to the attitude of his customers toward himself and his store, and inclined to adjust if customers showed signs of displeasure.

21. At that time, goods were relatively simple in nature as compared to the present. Because of this, the consumer had a reasonably good understanding of

the offered product and its value, and could discuss the transaction with the merchant on fairly equal terms of mutual understanding.

22. Under these conditions, consumers were able to directly exert a very considerable influence upon the merchant and his business practices, and through this means exerted some degree of regulation of trading policies and terms of trade.

23. Likewise, the merchant had a close relationship with the representatives of the suppliers who provided the goods he sold to his customers, and could, as he chose, relay to the supplier the type of influence placed on himself by his customers.

24. To a limited extent, usually in small communities, some vestige of this merchant-customer relationship still remain. For the most part, however, the influence and status of the consumer has all but vanished as a result of many kinds of change which have taken place in the distributive system. Some of these changes are:

25. (a) There has been rapid development of self-service chain stores geared to mass-volume selling to a mass market. In this type of store, the customer has no normal contact with either manager or owner, especially since the latter are often absentee owners. In this environment the individual customers lose their identity and influence upon the store and its policies. Only when it becomes apparent that numerous consumers avoid patronage of a given store will its practices and policies be placed under review.

26. (b) The sciences of psychiatry and psychology, and the tangent sciences of motivational research and behavioral manipulation, are relatively new methods to motivate and influence consumers through contests, games of seems to have become a substitute for the personal merchant-customer relationship of the past. In any event, progress has been rapid in respect to developing new methods to motivate and influence consumers through contests, games of chance, package shapes and colors, pricing stunts, trading stamps, and other forms of enticement. The consumer is hardly on easy ground when faced with the task of making a wise choice with only a limited knowledge of the product and value while being influenced by efforts of social scientists skilled in the art of subtle persuation.

27. (c) Because no one in the self-service store stands to explain merits of a product to consumers, manufacturers must rely on the packages to attract sales. The package then becomes more than a protective device for the product. To the extent that it is permitted to become excessive in size as related to actual contents, or a device for conveying false or inadequte impressions as to price, contents, or other features, the package can undoubtedly entice consumers into unwise spending.

28. (d) Goods in general have vastly increased in variety of kinds, and more important, in complexity and technology. The average consumer who may have understood the wind-up gramaphone is at a loss when trying to weigh the real merits and value of the stereo player, the television set, or many other modern goods. This is a problem which is present in almost every line of merchandise and is one that is not easily solved for the simple reason that no consumer can expect to learn all that needs to be known about all types of goods if a wise selection is to be made for every purchase. Lacking adequate product knowledge the consumer is easily led by suggestions of real or imaginary psychological benefits to himself and seems willing to pay extra money for goods which, though no better than less expensive substitutes, offer an imagined prestige. Here, we must agree with author-social scientist Vance Packard who, when addressing one of our annual conferences said: "Many goods are so similar in nature that manufacturers must rely on advertisers to create a difference and to persuade consumers to pay more for that difference."

29. (e) We are dismayed at the attitude of those who would blame the consumer for "falling" for claims of the advertiser. Much of our education requires learning and accepting what others say or write. Truth is upheld as a virtue. Most people want and tend to trust one another. Nowhere in acceptable society do we generally seek to impart the idea that people should not believe what others say nor place their trust in others. If this trust and faith in others is something that is not to be upheld, then the consumer should be so advised. Otherwise the consumer should not be blamed when he is a victim of a fictitious advertising claim, a deceptive price offering or package, or otherwise inferior offering.

30. (f) As a result of a recent experience, we fear that by legislation, specifically Section 7B of the Trade Mark Act, the federal government may have created a barrier to the flow of useful information that would be of assistance to the consumer. To explain: Our organization has, for some time, deplored the fact that there is no standardized grading system for tires by which the consumer can judge them for merits of quality, safety or load-carrying capacity. Delegates to our annual meetings have directed a number of resolutions on this matter to Ottawa, but thus far these efforts have been in vain.

As a measure to assist consumers, we undertook to distribute a small folder and other material provided by Interprovincial Co-operatives Limited (head office at Winnipeg), which carried a chart listing names of various tires according to their ranking in the range of tires offered by a number of companies. That is to say, if the first-line tire of a given company was named "X", the name would be shown in a column headed "first line". Similarly, premium, 2nd line, 3rd line, and 4th line tires were classified. The pamphlet also carried this notation: "There are no set standards for tire quality—one company's first-line tire could be the equivalent of another company's third-line tire."

It appeared to us that this kind of information was of value to consumers, for tire advertisements tend to stress price and other matters and often fail to disclose the grading or ranking information which might enable the consumer to make at least some form of shopping comparison.

However, we have been obliged to withdraw this information from circulation because it has been determined that it may violate federal legislation.

There is no suggestion that the information provided to consumers by the folder is, in any way, inaccurate or untruthful. The only point of objection brought to our attention is that clause of Section 7(b) of the Trade Mark Act which states in part: "A comparison of goods in association with the use of a registered trade mark will amount to an infringement under the new act."

In this instance, at least, the Government of Canada has, by legislation, evidently deprived consumers of an opportunity to acquire information that would be of assistance to them in making an intelligent choice.

For another example of this kind, we might refer to headache tablets, the type which usually contain 5 grains of acetylsalicylic acid per tablet. In the U.S.A. these preparations are commonly referred to as "aspirins", a word that is shown in dictionaries, the Encyclopedia Britannica, and is freely used in U.S.—originated syndicated newspaper columns appearing in Canadian papers and in U.S. magazines sold in Canada.

However, only one company in Canada has the right to sell these tablets by that name since this company, as it admits on its package, has registered the name "aspirin" in Canada as its trade mark. This means that any other concern which desires to market a 5-grain acetylsalicylic acid tablet must use another name to describe its tablets, this name generally being "A.S.A.".

The point of this is that aspirin is a commonly used word in U.S.-based publications and in conversation, but there are perhaps a majority of consumers who do not recognize that A.S.A. means essentially the same thing, so when thinking of a headache remedy which they associate with the word aspirin, they

are apt to pay 3 or 4 times as much as they would need to pay for A.S.A. tablets. Here again, is evidence of a government-sponsored deprivation of information to consumers.

31. (g) The absence of government-established grading systems which are enforced and understood by the consumer makes it extremely difficult for consumers to judge the merits of products which are either sealed in containers or otherwise beyond their understanding. As one example, there is no known means by which consumers can judge the grade, true quality, or load-carrying capacity of tires. The first grade of one brand may only be equal in quality to the second grade of another brand, and so on. Lacking a meaningful method of rating tires by quality, the consumer who should be buying safety is easily preoccupied with claims about price and guarantees when making a purchase, and it is our belief that many such claims are of a misleading nature. Even where they have set up grading systems, governments appear to have contributed to the confusion of the consumer. We note, for example, that fresh cherries of the highest grade are termed "No. 1", but that this same term, when applied to fresh pears means the second highest grade, "extra fancy" being the highest. Similarly, the term "choice" describes the highest grade of beef, but in canned fruits and vegetables it denotes the second grade, "fancy" being the term which describes the top grade. However, in fresh pears, "fancy" may also denote the second grade. A red label is used to stamp the grade on the highest grade of beef, but this color is used to stamp the grade on the second highest poultry. (See Appendix "A").

32. (h) In many lines of goods, and particularly in evidence in food stores, manufacturers are in keen competition with one another for shelf space in retail outlets. The result has been a great deal of duplication among brands, plus a proliferation of package sizes within brands. This, along with the introduction of countless new products, has required that larger stores be built in order to provide more shelf space. Simultaneously, however, building costs have been increasing, land has tended to become more expensive and taxes have risen.

33. (i) In times of economic buoyancy, affluent consumers, with the influence and encouragement of manufacturers, tend to purchase products of higher quality, luxury, and built-in conveniences of one type or another.

34. It would be easy to look to each and all of the matters we have touched upon, and likely several others, and to point accusing fingers of blame toward groups stationed in the line from grower to consumer.

35. As we have already noted, there is no difficulty in finding specific instances of excessive packaging, deception, high profits, nor other matters in opposition to the consumers' interests.

36. In terms of usefulness, however, we believe it to be wise to consider these individual matters as symptoms of a more general problem to which there are many contributing factors, and which have combined to create what may be termed a "condition".

37. It seems to us that this condition exists because business has been changing in its form and has progressed in advancing its techniques and methods at a much faster rate than has society in general either been able to recognize or adapt itself.

38. What we are saying here is that there has obviously been a drastic change in business methods over the past two or three decades, but neither governments nor the consumer have kept abreast by adjusting to the new roles they must assume under the changed situation.

39. It does not seem unreasonable to suggest that some new "rules of the game" may be needed in the traffic of goods just as it has been necessary to regulate highway traffic since the disappearance of the horse and growth in the number of autos.

40. We shall, therefore, make a number of recommendations on the pages which follow, and also offer some explanation of the reasoning which has provoked the offering of those recommendations.

PART III—RECOMMENDATIONS

RECOMMENDATION NO. 1

We recommend that manufacturers of national brands, and the marketers responsible for initiating distribution of private or house brands, be required to disclose on labels and/or packages, the complete mailing address of their Canadian head office.

41. As we have noted, the individual consumer appears to have lost the degree of direct influence on trading practices that he was able to exercise in the past. More and more, advertising programs and promotional schemes are centrally created by manufacturers or distributors and correspondingly less by individual retails or wholesales.

42. This means that neither wholesaler nor retailer is apt to be eagerly inclined to accept responsibility for advertising, promotion, or even product quality when these matters are tending to be beyond their control. Under these conditions, the consumer who is disappointed or otherwise has reason to complain may well find that it is difficult to direct the necessary communication to the proper seat of responsibility.

43. We suggest that the consumer would be aided in this respect, and given opportunity to exert some influence at the appropriate level, if manufacturers and/or distributors were required to disclose full mailing addresses.

44. We do not suggest that retailers or wholesalers should be relieved of responsibilities which are rightfully theirs in the matter of ensuring consumer satisfaction. But we do believe that the consumer should be aided in making direct contact with manufacturers and/or distributors when circumstances warrant. However, unless the complete address, including PO box number or street address is given, the consumer is likely to consider the address inadequate and avoid making communication even when justified in doing so.

RECOMMENDATION NO. 2

We recommend that the Government of Canada establish a Department of Consumer Affairs with the object of seeking to establish for the consumer a more favorable status in the market.

45. As we have already mentioned, the consumer is at a disadvantage when making a selection of goods when he lacks the technical knowledge required to weigh the merits of various offerings. To the extent that the consumer is distracted by packaging, pricing stunts and various forms of subtle persuasion, this disadvantage is made more extreme.

46. It is hardly fair trade when both seller and buyer well understand the worth of the money the buyer must exchange, but only the seller is in possession of the facts needed to identify the real worth of the product or offering.

47. Inasmuch as the purchase or consumption of goods is a basic essential to the operation of our free enterprise system, the consumer is an integral part of that system and is entitled to equal rights under that system. These rights, as described by the late John F. Kennedy as President of the U.S.A., and quickly subscribed to by consumer-oriented organizations including co-operatives, are:

(a) The right to safety.
(b) The right to choose.
(c) The right to be informed.
(d) The right to be heard.

48. We are concerned that these declared rights can hardly be transformed into realism without the creation of a new kind of agency which acts upon the consumers' behalf and which exerts influence aimed at equalizing the status of the consumer in the trading situation.

49. We believe that to be effective, an office of consumer affairs should be established on a federal, not provincial basis. This is for the obvious reason that variences in regulations concerning packaging, labelling, grading or other matters, from province to province, would seriously hinder mass distribution or manufacture and thus would result in added costs to the consumer.

50. We suggest that a federal office of consumer affairs might, as part of its functions, undertake to:

(a) Examine current legislation and regulations intended to protect consumers' interests with a view to:
  (i) Strengthening legislation where necessary to close loopholes through which the spirit of the legislation is or may be violated.
  (ii) Aim to create a simpler and consistent set of terms for use in the ranking of grading standards so that a minimum number of terms are used to permit easy understanding by consumers and avoid confusion which now seems to exist.
  (iii) Assess the effect upon the interests of consumers, and make appropriate recommendations, with respect to existing or proposed legislation designed to serve the interests of business enterprise. For example, the manner in which Trade Marks and copyrights impede the flow of truthful information to consumers might well be given study.

(b) Act as a central body through which consumers' complaints may be directed to all appropriate levels and departments of government. We fear that at present most consumers would be hopelessly lost in attempting to direct a complaint or enquiry to the appropriate office. For example; One consumer seeking information on onion soup sold in packets in the dry form, with logic, contacted the local office of the Food & Drug Directorate, Department of National Health and Welfare, Winnipeg. Here this person was told that this food product did not come under the jurisdiction of the Food & Drug Directorate. Onion soup in the "wet" form would, but in the "dry" form it was a responsibility of the Federal Department of Agriculture's Health of Animals Branch!

(c) Act as a provider of information to the consumer, as to what legislation and regulations affecting consumers do exist, and to provide advisory and informational services to consumers as needed to advance consumer education.

(d) To be an agency which would first seek voluntary co-operation of industry in correction of matters which create consumer problems, but which, if necessary, could also exert positive influence when the occasion demands. Here we are thinking of matters such as:
  (i) The need for an influence that would quickly stop the use of advertising which was deceptive or had the power to deceive the consumer.
  (ii) We believe it would be in the interests of consumers, retailers, and wholesalers to abolish "cents off" promotional schemes
  Some are genuine price reductions, but others are so permanent as to be the regular price in a fictitious guise, and others are used to cover up a price increase.
  Spasmodic "cents off" offers put into effect by the manufacturer for a limited time not infrequently require that wholesalers

and retails buy and stock "cents off" goods in addition to regular stocks on hand of the same product. This leads to requirements for more warehousing space and additional handling, hence adds to distributive costs.

(e) Assist and encourage the development of adequate and effective legislation that would tend to cause more emphasis to be placed on price and quality competition by the elimination of other forms of competition such as lotteries, trading stamps, in-store games and like forms of promotion.

51. We suggest that an office of consumer affairs is now a necessity. This necessity has arisen from the change in industry that has taken place, and which is described in the introductory part of this brief. The office, would in effect, restore to the consumer at least a part of the influence held when dealing years ago with small merchants who were sensitive to the pleasure of the individual consumer—an influence that has been lost with the growth of giant national and international enterprise and the impersonal nature of self-service.

52. It is difficult for us to recommand the kind of organization or structure we believe should be adopted in the setting up of an office of consumer affairs. We do suggest, however, that:

(a) It should have broad discretionary powers to act quickly and with adequate authority in the event that voluntary compliance of offenders is not had.

(b) The office should be so structured as to be immune to partisan political influence, and to undue pressure of business interests. In other words, it should be ensured of opportunity to perform its role of acting as the agent of consumers.

RECOMMENDATION NO. 3

We recommend that Provincial Governments be encouraged to place greater emphasis on the teaching of consumer guidance in high schools.

53. As we have already mentioned, we believe that the lot of the consumer would be enhanced by an improved understanding of the mechanisms of trade, methods of advertising, grading standards, interest costs, and so forth.

54. We are aware that study of this kind, based on a textbook, "Consumer Education" by N. E. Brown, has already been made compulsory in Alberta, and commend the Alberta Department of Education for its action in this regard.

55. We are not aware that the Alberta program has been matched in either of Manitoba or Saskatchewan. In any event, we believe it is a topic matter which needs to be kept under constant review in order to keep abreast of the merchandising developments.

56. We are of the opinion that the Canadian economy and society in general would benefit if consumers were generally better informed. We are concerned by the extent to which many consumers appear to accept a "something-for-nothing" philosophy prompted by the advertisers and evidenced by games of chance, draws, contests, and promotional activities of many kinds, some of which are only technically legal.

57. An informed consumer, however, would be more prone to recognize that there is no such thing as "something for nothing"—no promotional effort which is not designed to serve the interest of the enterprise to a greater extent than it will reward the consumer, genuine sales and price reductions excepted.

58. The ill-informed consumer, however, who does not recognize these facts of consumer life too often tends to give preference to products which appear to offer "something for nothing" or "so much off" and the like. As this happens,

products of the straightforward distributor are apt to sit idle on shelves until he likewise adopts tactics of his competitor.

59. If these practices which have the power to deceive and to exploit the unaware consumer are not restrained, surely the morality of society in general will be adversely affected.

60. On the other hand, if the use of such practices is discouraged, either through improved understanding of the consumer or by legislation, business will be encouraged to compete more in terms of price and quality which benefits consumers.

RECOMMENDATION NO. 4

> We recommend that the federal government give consideration to the possibility of reducing costs which accrue to the consumer from the introduction of an excessive number of new products.

61. One of the hidden costs in modern food marketing which has no doubt made a substantial contribution to higher consumer prices appears to be a proliferation of new products, many of which serve neither the consumers' advantage nor need. Some evidence of this can be gleaned from day-to-day advertising, but even more is provided by trade journals and other forms of communication many of which are not likely received by the average consumer.

62. For example, in the 1966 annual report of one major food manufacturer appears a statement to the effect that consumers are only too willing to try new and different products. To develop and introduce new products, this manufacturer has incurred capital costs which, in 1966, were twice as high as they were five years ago.

63. For another example of the emphasis placed on new products, we refer to the 32nd Annual Nielsen Review which makes this comment:

> The rapidly expanding (almost explosive) number of new products, new sizes, new flavors, and new package types, couples with increases in the number of large supermarkets and also the rapid growth of convenience-type outlets, have increased the complexity of the retail grocery industry in the last few years.

64. A question which occurs to us is this: How, and to what extent, do the new products affect prices the consumer must pay? It is difficult, if not impossible to establish the actual dollar effect, but an outline of problems which are caused to manufacturing, wholesaling and retailing in the food market suggests it to be significant.

65. In the manufacturing sector, the following kinds of costs are incurred in new product development:

(a) Before introducing a new product, a manufacturer must undertake a great deal of basic research for which he must employ the necessary staff and build and equip research facilities.

(b) After the product has been developed, he must undertake market research to test acceptance of the new product by the consumer.

(c) If the market research indicates that the product may prove acceptable, the manufacturer must make the necessary changes within his plant in order to produce the new product.

(d) The manufacturer must then institute an extensive advertising campaign in order to create consumer demand, and incurs even further costs in promotional efforts to convince wholesalers and retailers that they should handle this product.

66. One large North American food processor, in its annual report, indicates that in 1965 the firm spent in excess of $100-million (6.8 per cent of sales) to persuade consumers to accept new products it had developed and to stimulate demand for its established lines.

67. The wholesaler is also faced with a series of problems and costs related to new products, as the following suggests:

(a) Wholesale buyers must spend a great deal of time evaluating new products and in promoting to retailers those accepted by the wholesale.

(d) Demands for additional space are imposed upon wholesalers' warehouses by the variety of brands, types, and sizes brought about by the introduction of new products. The effect is to increase the required capital investment of the wholesaler making it necessary to take a higher margin than would be otherwise required.

68. But the problems accruing to the retailer are even more acute:

(a) The retailer must offer a sufficient variety of products to meet demands of his customers. When new products are introduced added shelf space must be provided, a matter which leads to an ultimate need to increase store size and capital investment.

(b) Since it is impossible to predict consumer acceptance with 100 per cent accuracy, the retailer is not infrequently left with "dead" stock which either occupies space that could be more efficiently utilized, or must be sold at reduced and even loss prices. Either way, additional expense is generated.

(c) The retailer must also engage in extensive advertising efforts to attract consumers to new products.

69. Again, it is admittedly difficult to measure the whole cost and the magnitude of the problem at wholesale and retail levels. However, as the following quotations will reveal, these costs are undoubtedly both real and significant and therefore, affect the consumer who must finally pay them all.

70. The Progressive Grocer (a trade magazine) of September, 1966, contained the following:

> According to one recent estimate, a typical retail organization is offered some 2,000 new items a year, including new sizes and flavors. *Of these, 1,500 . . . or 75 per cent are rejected.* Of the 500 which are accepted, an appreciable portion is later discontinued.(sic)

71. In a later section of this same publication appears the following noteworthy quotation:

> It is a mistake to think that retailers 'don't care' about new products. On the contrary, analysis of advertisements appearing in the Progressive Grocer prove that new products and new packages are among the themes that arouse highest reader interest. The reason is simple: By and large, today's new products deliver greater value to consumers. . . and therefore carry a higher price tag. As a result, retailers usually make more money on them, not only in percentages, but in unit profit. Why shouldn't they be interested? Furthermore, no chain, group or individual store, can afford to be consistently slow in offering hot new items. It is bad for their 'image' to disappoint customers who are ready to buy something new. . .especially if a nearby competitor is going to town with it. Thus, self protection is another reason for the retailers' interest. (sic)

72. It appears that the number of new product introductions is continuing to increase as may be noted from the following excerpt from the same publication:

> Even though by 1975 the average supermarket is expected to offer 9,000 items (2,000 more than today), store growth can't begin to keep pace with new item development.

73. The question which follows, then, is: What can be done to minimize the impact of new products and attendant costs to the consumer? In answer, we can only offer some suggestions, viz:

(a) *Government Grants*—presently the Federal Government is encouraging research into new products through a system of grants and tax rebates. The Minister of Finance in the Budget Address April 26, 1965, said, as follows:

The Income Tax Act includes a provision introduced in 1962 which permits those making expenditures on scientific research, to deduct not only the whole of these expenditures from income in the year in which they are incurred, but also an additional 50 per cent of the increased research expenditure over that in the 1961 base year. This results in a reduction in taxes, which is equivalent to making a grant in support of such research...We consider, however, that this inducement could be made fairer and more effective if it were in the form that was of more value to new and small companies, subject to the lower rate of tax, and for those faced with losses. The assistance now proposed would take the form of grants of defined amounts to be taken in cash or applied as credit against the tax liability of the business concerned...For this purpose we propose to bring forth a bill which will provide in 1967 and later years, a grant or credit against tax liabilities equal to 25 per cent of the defined amount of expenditures on scientific research or development carried out by a business, either directly by its own staff, or by contract with others in Canada.

74. From the above it is evident that the Government is not only encouraging new products, but also increasing the taxes to the consumer in order to make the grants to industry.

(b) Business organizations are allowed to deduct from taxable income, their entire cost of research, promotion and advertising as it relates to new products.

75. We suggest that present incentives by way of grants and tax deductions contribute to a too-rapid flow of new products. If these incentives were modified, business could be encouraged to become more discerning in its selection of new product lines, less inclined to introduce an excessive number of new products, and apt to concentrate more upon those lines which offer genuine usefulness to the consumer.

RECOMMENDATION NO. 5

We recommend that a study be undertaken to determine the effect upon consumer prices of the depreciation allowed on business assets under income tax regulations.

76. We should like to make special note of the fact that the wording of this recommendation calls for a study. The recommendation has not been worded in stronger terms as we consider that our opportunity to study all the ramifications of the topic area is much too limited.

77. However, to explain why we have included this recommendation, we should like to relate a recent incident in which our organization became somewhat involved.

78. We were offered an opportunity to purchase a complete installation of refrigerated store display equipment. This equipment *had been in use for five years. It was mechanically sound* and it would have been a *trivial matter to restore its appearance to like-new* condition.

79. *The original cost of this equipment was in the order of $45,000, but after five years' use we could have purchased it for $11,000 or one-quarter of the original cost.*

80. This equipment was obviously offered at the low price for the reason that style and color had changed since it was new and it was unlikely that a retailer would invest in "old-fashioned-looking" fixtures.

81. A further explanation of this reasoning is warranted, for offhandedly one might well consider that an opportunity to purchase $45,000 worth of equipment for $11,000 is one that should have been snapped up:

(a) Upon studying the original and asking prices, *we determined that the $11,000 price was likely the value remaining on the books after taking maximum depreciation allowed under income tax regulations.*

(b) The style of this type of equipment has changed, and *it is apparently common practise for large stores to record depreciation at the maximum rate in order to be able to replace equipment and thus frequently modernize facilities.* Stores which fail to do so run the risk of being outdated in comparison to their more aggressive or newer competitors. The implication here is that smart, new modern facilities are an important factor in the stimulating of patronage.

82. Now, let us make a further analysis of this incident, having in mind that it is a matter which can likely be applied to fixtures, store buildings, other types of equipment, and to all levels of activity between the farm and consumer.

(a) *Depreciation is an expense*, and like all forms of business expense, forms *part of the cost paid by the consumer.*

(b) The rate of depreciation allowed under income tax regulations does *not appear to be so much related to the durability or life-span of assets as it does to the pace at which assets can be made obsolete* by the changing of style, color, etc.

(c) The obsolescence process appears to be spurred by the fact that *reduced taxation levels derived by depreciating new equipment will, in effect, pay about 50 per cent of the cost of that equipment.*

83. Upon reflecting on this, and considering industry as a whole, we find that *it staggers the imagination to attempt to estimate what the total effect of the process is upon the prices which consumers pay, and we therefore, have recommended that this matter be given study by a more appropriate body.*

RECOMMENDATION NO. 6

We recommend that governments increase the public investment in education.

84. The first Annual Review of the Economic Council of Canada pointed out that one of the most basic factors which contribute toward increased productivity and which, in turn, has a vital bearing upon price levels, is the educational level of the people involved in production.

85. Changing industrial production patterns of the future will require new skills and greater knowledge in order that Canadians may adapt to new technologies as these appear.

86. The Annual Review also states:

> As a geographic neighbor and industrial competitor of the United States, the world's most advanced industrial country, and as an exporter of almost half of the goods we produce, *Canada has an especially urgent need to maintain adequate levels of business and technical skills. However, we are at present much less well equipped than the United States in this important area.*

87. We believe that increased investment in human resources to improve knowledge and skills would have very favorable influence upon productivity and price levels over the long run.

88. One particular production area which bears special mention is the *agricultural sector*. Although prices received by farmers for their products have increased in recent years, the costs of production have increased also, with the result that net farm income generally has not been favorably increased.

89. We commend the efforts of each provincial Department of Agriculture in their extension programs. However, we are inclined to concur with the Third Annual Review of the Economic Council of Canada which reports that much technological and scientific potential exists for rising productivity through necessary improvements and experiments which would be in the interest of both farmers and consumers.

90. In this regard, we recommend that the provincial governments be encouraged to promote and expand agricultural extension, especially through increased provision of electronic accounting and related farm management services.

91. We feel that the increase of knowledge and skills, whether through the efforts of universities, vocational schools, agricultural schools, agricultural extension, or other adult education schemes will have a favorable effect upon the long-term level of prices.

RECOMMENDATION NO. 7

We recommend that Federal and Provincial Government increase expenditures for research aimed at the development of higher yielding feed grains.

92. During the past two years, meat prices have significantly increased. The reasons for these increases are most complex.

93. As we have already mentioned, higher incomes among consumers have increased demand for higher priced foods, and this would include meat products.

94. In past years, much surplus grain has been used on the prairies to feed a relatively large number of livestock. This tended to keep down the cost of feeding for the livestock producer as well as the price to the consumer.

95. In more recent years, with the advent of large grain sales to export markets, some farm operators have chosen to market all of their grains directly rather than disposing of it through livestock. The cash value of the per-acre wheat yield is now generally higher than the cash value of the per-acre yield of feed grains such as oats or barley.

96. To alleviate this imbalance, feed grains which yield much more per acre are required in order to provide a more abundant feed base for the prairie livestock feeding industry.

97. A good potential exists for the successful development of higher yielding feed varieties, particularly through the use of hybrid cereals. We believe that if this potential is to be realized, however, the Federal and Provincial Governments will need to greatly expand research efforts in this direction.

RECOMMENDATION NO. 8

We recommend that the Government of Canada enact legislation which would require granters of credit or loans, to state in common, simple, and consistent terms, the true rate of interest charged.

98. It seems to be only a matter of simple logic that the consumer should have the right to be informed, and without danger of confusion, as to the amount of "rent" that is charged on loans or credit. This, we believe, should be expressed in a consistent manner by all forms of business so that the consumer may make adequate comparisons of cost.

99. In addition to being of value to the consumer in making decisions as to where he will obtain credit or loans, the disclosure of true interest rate would, we feel, contribute to the consumers' understanding of business costs and to a realization, if more is needed, that there is no such thing as "something for nothing".

100. Indeed, the rising cost of credit is a factor which has undoubtedly made a substantial increase to the cost of living and is also one which we believe imposes a difficult hardship upon persons of limited means, especially those attempting to purchase a house or equip a home.

101. Federated Co-operatives is aware of the strenuous and sincere efforts which have been made by the Hon. Senator Croll in the matter of seeking legislation that would require full and true disclosure of interest rates. We desire to take this opportunity to commend him for his good work in this regard, and to give assurance of the support of our organization in this matter.

RECOMMENDATION No. 9

We recommend that the Government of Canada immediately establish legislation providing for the incorporation of co-operative organizations on a national basis.

102. Federal legislation suited to the particular character and requirements of co-operatives has been sought since at least 1905. In 1907, Bill No. 5, An Act Respecting Co-operation, was unanimously approved by the House of Commons, but was defeated by a majority of one vote in the Senate with only a minority number (37) of senators casting their vote.

103. Two further efforts to gain such legislation met defeat in the hands of the Standing Committee on Banking and Commerce in 1910. In that year, and on numerous occasions since, federal government leaders have encouraged hope that the desired legislation would be provided, but after more than 60 years of waiting co-operative organizations do not yet have the privilege of federal incorporation under legislation designed to meet the specific needs of this type of enterprise.

104. Development of trading co-operatives of the Rochdale type was enabled on the prairies by the almost simultaneous passage of legislation by the Provinces of Manitoba, Saskatchewan and Alberta in 1913. At that time, business units were generally small and consumers limited in their range of travel by the horse-haul distances, hence incorporation of co-operatives under provincial legislation was reasonably satisfactory.

105. But as we have pointed out, drastic change has since taken place as a result of the domination of business activity by highly-integrated concerns which are both national and international in scope.

106. The 1959 Report of the Royal Commission on Price Spreads of Food Products in Canada offers several references to point out that large concerns "tend to compete more by incurring costs of additional services which may be withdrawn if introduced by competitors" (Vol. 1, p. 30).

107. Further reference to this matter is found on p. 29, Vol. 1, viz. :

> We are obliged to express our concern about the tendency...for the firms in the food industries to be more active in offering consumers added services than lower prices. We are satisfied that this condition is one of the causes of the increase in price spreads.

108. The point that is made by that Royal Commission, is that there is an apparent tendency for large concerns to protect their profit margins by avoiding price competition, and substituting for price competition other forms of inducements which result in increased operating costs to be borne by the consumer.

109. It has been our experience that time and time gain existing prices have been quickly reduced by competitors upon the entry of co-operatives into a given field.

110. The effect of co-operatives in generating price competition has been described by Dr. John Deutch, Chairman of Canada's Economic Council:

> ...of course this raises the question as to how do we maintain adequate competition. Here, co-operatives have a role to play. The co-operatives are one of the means by which we maintain an adequate level in our society, one which is in the interest of the consumers in general, and this is a function which the co-operatives perform to maintain adequate levels of competition in a society constantly tending toward bigness. This is one of the functions of a co-operative form of organization. It is one of the forms that a free society develops to take care of its problem and protect its freedom. (Address to annual managers' conference, Calgary, March, 1965).

111. We also believe it worthy of note that the 1959 Royal Commission on Food Price Spreads recommended enactment of federal legislation providing for incorporation of co-operatives, and said:

> The interest of the Commission in the role of co-operatives stems from the particular significance that the co-operative form of organization may have in performing alongside of other forms of business enterprise and operating as a check on the possibility of excessive price spreads. One of the factors in the participation of co-operatives in that the patronage dividends which are paid either to producers of food commodities or to consumers of food products alter the effective prices and thereby result in reduced price spreads. (Vol. II, p. 79).

112. Recently it was reported in the press that an executive of a large food chain is reported to have said his firm would slow its rate of investment in retailing facilities, and concentrate upon investment in the area of food processing where profit returns are now higher than in retailing.

113. It is our contention that if co-operatives are to enter into effective competition with large enterprise in the areas of processing and distribution, and hence provide the benefits that can thus be derived to Canadian producers and consumers, legislation providing for federal incorporation of co-operative enterprise is essential.

114. Otherwise there will be a tendency for co-operatives to continue to generally confine themselves to divided effort on a parochial or provincial scale rather than unite nationally as necessary to compete with national and international enterprise.

115. We believe that by providing Federal legislation for co-operatives the Government of Canada would give encouragement to co-operatives to unite and to develop and thus provide more effective competition to other forms of business with resulting benefits to the consumer, producer, and to the Canadian economy in general.

PART V—CONCLUSION

116. We hope that the members of this Special Joint Committee of the Senate and House of Commons will recognize that in preparing this brief, we have endeavoured to be both analytical and helpful.

117. It has not been our intent to point accusing fingers of blame to any group or toward any sector.

118. While the Committee has, as its object, an enquiry into a matter that is generally believed to be of an economic nature, it is our belief that it is as well a problem of a social nature, and one that has resulted in good part from various forms of change and progress.

119. We do not wish to convey any impression that the recommendations we have offered will either individually or collectively provide solutions to all the problems which we believe have, through cumulative effect, caused what we describe as a "condition".

120. What we do wish to emphasize is that we believe the position of the consumer as related to that of the sellers has declined as the result of the cumulative effects of many kinds of change and progress by industry. We believe that consumers have just cause to complain about their status in the markets. We believe that various forms of manipulative regulation may be needed to restore to the consumer a greater degree of influence upon the seller and to adapt the position of the consumer to the new style and forms of marketing which have emerged.

121. In this matter, governments must accept responsibility to act on behalf of the consumer as necessary to ensure that the consumer is served, not merely used, by industry. Though it may be unpopular in some quarters to suggest the regulation of free enterprise, *we should like to point out that as a co-operative organization we are a part of that free enterprise system, but make the suggestion because the nature of our organization requires that we uphold the interests of the consumer.*

122. We should like to conclude with a quotation, source and author unknown, which seems apropos to these views:

> Mr. and Mrs. Consumer are the most important people on earth. Without them nothing could be sold, hence nothing would be made or grown, designed or proposed, except by oneself for his own use. It would be a world of almost nothing, inhabited by no one of consequence. Factories would be unbuilt. No offices would be open. There would be no trade, no commerce, no work, no progress. From this truth it is only a small move to full realization that it is the consumer, not the company or its profits, that must first be served.

All of which is respectfully submitted by

FEDERATED CO-OPERATIVES LIMITED

L. L. LLOYD, PRESIDENT*

SASKATOON, SASK.
Prepared: February 6

* Past Président effective February 8.

APPENDIX "A"

SOME OF THE GRADING TERMS USED IN CANADA

NOTE: Terms are usually preceded by the word "Canada" i.e. "Canada Fancy".

	Highest	Second	Third	Fourth	Fifth
Butter and Cheddar Cheese[1]	First Grade	Second Grade	Third Grade	Below Third	
Eggs[2]	Grade A-1	Grade A	Grade B	Grade C	Grade Cracks
Fresh Apples	Extra Fancy	Fancy	Commercial or Cee or C		
Fresh Pears	Extra Fancy	Fancy or No. 1	Commercial or Canada Cee or C, or Canada Domestic		
Fresh Cherries	No. 1	Domestic	Orchard Run		
Fresh Apricots, Crabapples, Cranberries, Grapes, Peaches, Plums, Prunes, and Rhubarb	No. 1	Domestic			
Fresh Carrots, Parsnips, Onions, Celery, Potatoes, Lettuce, Cucumbers, etc.	No. 1	No. 2			
Canned Fruits and Vegetables	Fancy	Choice	Standard		
Canned Apple Juice, Tomato Juice, Frozen Fruits and Vegetables and Vegetables and dehydrated Fruits and Vegetables	Fancy	Choice			
Honey	No. 1	No. 2	No. 3	Sub-standard	
Maple Syrup	Fancy	Light	Medium	Dark	
Beef[3]	Choice (Red)	Good (Blue)	Standard (Brown)	Commercial (Black)	Utility (Black)
Poultry[4]	Special (Purple)	A (Red)	B (Blue)	Utility (Blue)	C (Yellow)

[1]Grades other than Canada First usually available in retail stores.

[2]Grades A1 and A are also classified by size within the grade, A1 and A extra large; large; medium; and small. Grade A also has a "peewee" size for eggs less than 1½ ounces in weight. A1 is a grade seldom used in the prairie area; Grade C and Cracks are not usually sold in retail stores.

[3] and [4]Grade is stamped on carcasses using colors indicated. Note colors used for meat are not necessarily the same as those used for poultry.

Co-operative Consumer—24/1/67

Queen Elizabeth Hotel,
Montreal, P.Q.

WEDNESDAY, Feb. 22, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 10.00 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (Joint Chairman), McGrand and Vaillancourt.—4.

For the House of Commons: Messrs. Allmand, Asselin, Boulanger, Choquette, Code, McCutcheon, Morison and Saltsman.—8.

The following were heard and questioned by members of the sub-committee:

Mr. D. W. Rolling,
General Manager,
Retail Merchants Association of Canada Inc.,
4th Floor, Federation House,
1260 Bay Street,
Toronto 5, Ontario.
(Brief)

Mrs. R. Brander,
Provincial President,
Consumers' Association of Canada (Quebec)
3447 Rosedale Avenue,
Montreal 28, P.Q.
(Brief)

In attendance: Mrs. N. W. Duck, Mrs. Pierre Lemerise, Mrs. Lucille Forget.

Mrs. Helene Meynaud,
Provincial Secretary,
Le Federation des Consommatrices du Quebec Inc.,
1123 Belanger East,
Montreal, P.Q.
(Brief)

In attendance: Mrs. Georgette Grenier, Mrs. Nicole Mougeau, Mrs. Madeleine Plamondon.

Mrs. Norma Meyer,
N.D.G. Angry Consumers,
4128 Hampden Avenue,
Montreal 28, P.Q.
(Brief)

Mrs. Veronica Morissette
Inflation Fighters of Montreal
and
Mrs. Pat Ball, Inflation Fighters of Laval.
94—10th Avenue East,
Vimont, Laval, P.Q.
44 President Kennedy,
Ste-Therese, P.Q. respectively.
(Verbal presentation)

At 12.55 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by the members of the sub-committee:

Mrs. Agnes Higgins,
Executive Director,
Montreal Diet Dispensary,
2182 Lincoln Avenue,
Montreal, P.Q. (Brief)
Mme. Blanche Gelinas,
La Ligue des Femmes du Quebec
72 Jean Talon Est,
Montreal, P.Q.
(Brief)

In attendance: Mrs. Bernadette LeBrien.

Mrs. L. A. Munday,
East End Price Protestors
7370 Roi Rene Blvd.,
Ville D'Anjou,
Montreal 5, P.Q.
(Brief)

In attendance: Mrs. Veronica Morissette.
Mrs. J.D. Zizaire,
Chateauguay Valley Consumers League
175 Cartier Street,
Chateauguay Centre, P.Q.
(Brief)

In attendance: Mrs. Ellen Harnest.

Mr. Adrien Letourneau,
Letourneau et Freres
365 Laurier,
Beloeil, P.Q.
(Brief)

At 4.50 p.m. the sub-committee adjourned until tomorrow, Thursday, February 23, 1967, in Quebec City, P.Q.

Attest.

Marcel Boudreault,
Clerk of the Committee.

THE SPECIAL JOINT COMMITTEE
OF THE SENATE AND HOUSE OF COMMONS

on

CONSUMER CREDIT
(PRICES)

Submission of

RETAIL MERCHANTS ASSOCIATION OF CANADA INC.

4th Floor, Federation House, 1260 Bay Street
Toronto 5, Ontario

Montreal, Canada, February 22, 1967

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INTRODUCTION

We appreciate this opportunity to express the views of a large segment of the retail industry on certain factors affecting the cost of living in Canada and the price system.

May we also compliment you as members of this important Committee for the thorough consideration you are giving to the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living, and for the prompt publication of your interim report. We are most consicious of the importance of your enquiries and deliberations, and we are confident that your findings and recommendations will lead to a greater understanding of the several factors affecting prices.

THE RETAIL MERCHANTS' ASSOCIATION OF CANADA INC.

This submission is presented on behalf of the Retail Merchants' Association of Canada Inc., a voluntary, non-profit organization founded in 1896 and incorporated by a Special Act of the Parliament of Canada in 1910 with authority to organize provincial and regional groups of retailers throughout Canada having aims and objects similar to those of the National Association. The Association has been serving the interests of the retail industry, without interruption, for more than seventy years. The primary object of the Association is the promotion of the industrial and commercial interests of the retail merchants of Canada.

Organization

The Retail Merchants' Association of Canada Inc. is organized from the municipal to the national level and does not duplicate any local, provincial or national organization. The affairs of the Association are carried on in all provinces but Newfoundland. The Provincial Associations are members of the National Association.

All Directors of the Association are retailers who volunteer their services. The National Board of Directors govern and direct the policy and programs of the National Association. This Board is elected at each annual meeting by equal representation from all member provinces. The Provincial Associations, which are incorporated provincially, are governed by the Provincial Boards, also elected annually and representative of regional areas and all retail categories throughout the province.

The National Association has jurisdiction in all matters which are national in scope as they relate to the industry and/or Federal legislation.

Membership

Membership across Canada is voluntary and representative of all retail trade classifications and includes the operators of small, medium and large retail establishements, both incorporated and unincorporated. Aggressive independent retailers in the category of small business predominate. Membership fees are paid direct to the Provincial Associations who remit a per capita payment to the National Association. Our by-laws also provide for Associate memberships, provincially and nationally, with no voting privileges. These memberships are granted to suppliers of the retail trade (wholesalers, distributors and manufacturers).

The Retail Merchants' Association of Canada Inc. is considered the official spokesman for independent retailing in this country. The views we express are the carefully considered opinions of a responsible cross-section of retailing in Canada.

Government Representations

In the service of the retailing industry, the National Association has a record of conscientious representation on most matters affecting the distributive industries. In recent years, we have appeared before numerous government bodies and committees of inquiry. The R.M.A. is well known for its advocacy of a Small Business Department within the framework of Trade and Commerce; a Government Program of Assistance for Small Business and the 1960 Amendments to the Combines Act respecting Trade Practices. In its submission to the Royal Commission on Taxation in 1964, R.M.A. maintained that application of existing income tax regulations confers a substantial competitive advantage to those organizations *organized on a co-operative basis, and that the resulting inequity* creates a very real threat to the existence of many "private" retailers in Canada.

SUMMARY STATEMENT OF R.M.A. POSITION

The appointment of your committee has resulted from the genuine concern of many Canadians over sharp increases in consumer prices. In the light of your committee's interim report there is a growing awareness of the complexity of the problem and the numerous factors contributing to price increases. Amid the general concern over rising prices, claims have been made by officials of corporations organized on a co-operative basis, that consumer should protect themselves against rising costs by joining co-operatives.[1] In its submission before your full committee on February 2nd, 1967, at Ottawa, the Co-operative Union of Canada, presented the case for the co-operative method of business relative to the price issue. We submit that if your committee were to consider these claims in isolation from the tax issue you would be left with an incomplete part of the total picture. We believe that there is an inescapable relationship between the tax burden and price performance. If, as is maintained by R.M.A., the co-operative form of organization is in a very real sense, in a privileged tax position as against its competitors, then surely it is not possible to properly evaluate the claims of co-operatives with respect to price performance, until the effect of the tax advantage has been carefully appraised.

Though a full consideration of the tax issue is within the field of the Royal Commission on Taxation, a summary treatment of the matter is necessary here in order to indicate the relationship between the tax issue and the price question.

COMPETITION IN RETAILING

From the standpoint of sales volume, chain stores are the major competitors of the independent retailer. It should be said that while 'independents' and 'chains' are engaged in a competitive struggle, competition is fair and equitable in respect to the application of our Income Tax. This is not the situation in the case of competition from co-operative companies. We want to make it clear that the independent retailer does not fear or shrink from fair competition. In a competitive free enterprise system the real beneficiary of competition as to service, price and quality is the consumer. We submit that any provisions of the Income Tax Act which have the effect in fact of placing one form of business enterprise at a competitive disadvantage as against another, can in the long run only result in undermining the interests of the consumer.

FACTORS AFFECTING PRICES

As your committee has already pointed out there are many factors contributing to changes in prices. To the extent that these factors are common to

[1] Mr. J. E. Walsh, President of Maritime Co-operative Services Ltd., a wholesale co-operative, is reported by the Moncton Transcript, Nov. 16/66, as having said "To those who are concerned with increases in the price of consumer goods and services, we are proud to point out that the protection they need is available through co-operative action".

both co-operative and other forms of business organization, the co-operative claim to be able to protect the consumer may be challenged. To the extent that the validity of this co-operative claim with respect to prices is based on tax advantages as against competitors, then the desirability of continuing such tax advantages may be questioned.

The Third Annual Review of the Economic Council of Canada has shown that one of the dominant factors influencing higher prices has been indirect taxes. *It was there stated that "Indirect Taxes per unit of output have risen by close to one third since 1960, and have been the most steeply rising component of costs per unit of output in the national accounts."*[1] *This factor may have accounted for about twenty-five percent of the over-all increases in prices over the past few years.*[2]

The Economic Council of Canada has also stressed the effect of wage increases[3] and several other factors,[4] none of which are any more within the control of the co-operative than they are within the control of any other form of business organization.

Nor does excessive profit taking appear to have been a factor in the recent inflation. The Economic Council has expressed concern over *"the relative decline in Canadian Corporate profits per unit of output" in relation to the United States.*[5]

CORPORATION TAXATION

"The Corporation income tax today is one of the largest sources of federal tax revenue. It is anticipated that, in 1966-67, it will yield $1,731 million and will account for approximately 21 per cent of total budgetary revenue."[6] The combined federal and provincial rates vary from 21 per cent-23 per cent on the first $35,000 of taxable income and from 50 per cent-52 per cent on the remainder. At these high rates the tax has important consequences for the company that bears it and for the economy. If affects almost every major managerial decision. It is considered to have a distorting effect on investment in that it encourages debt financing (the interest on which is deductible in calculating taxable income) and discourages equity financing (since dividends must be paid from after tax income). The tax clearly tends to reduce by half the funds available for financing expansion. As the tax has substantial affects in retarding the growth and earning power of a company any unfairness in application of the tax as between competitors has the effect of placing the fully taxed company in a position similar to a runner in a track competition who must carry a fifty pound weight while his opponent carries a ten pound weight.

SHIFTING OF THE CORPORATION INCOME TAX

It has been a matter of some debate among economists whether ultimately the corporation tax is borne entirely by the company and its shareholders or whether in certain circumstances it can be shifted to the customer in higher prices. It now appears to be the prevailing opinion that a portion of the tax is at least in the long run shifted to the customer by way of prices. In one study published by the Canadian Tax Foundation, it was the opinion of the author that the incidence of the corporate tax was divided so that ultimately *55 per cent was borne by shareholders, 30 per cent was passed on to consumers through higher prices and 15 per cent was shifted to workers in the form of lower wages.*[7] *In*

[1] "Prices, Productivity and Employment", Third Annual Review, Economic Council of Canada, page 224.
[2] Ibid, page 224.
[3] Ibid, pages 233 and 234.
[4] Ibid, page 234.
[5] Ibid, page 235.
[6] "The National Finances, 1966-67", Canadian Tax Foundation, page 44.
[7] "The Burden of Canadian Taxation," Irving Jay Coffman, Canadian Tax Foundation 1962, page 48.

this sense therefore the ability of one form of corporate enterprise to avoid its share of the burden would clearly place it in an advantageous position with respect to price performance.

THE NATURE OF THE TAX PRIVILEGE

Co-operatives, though corporations, are heavily shielded from the full effects of the corporation income tax. Under Section 73 of the Income Tax Act *no corporation income tax* is payable by a co-operative corporation for *each of the first three taxation years* after commencement of its business. Under Section 75 of the Act, corporations are entitled to deduct (subject to certain restrictions) in computing their income for a taxation year, *patronage dividends paid to their customers.* A co-operative corporation cannot completely eliminate taxable income in this manner as it is provided that such payment may not reduce taxable income below an amount equivalent to three per cent of the capital employed in the business.

Because the right to pay patronage dividends is formally and technically available to ordinary corporations the co-operatives contend that there is no discrimination. This point was considered by Professor R. Craig McIvor as follows:

> The fact that corporate enterprise generally has failed to adopt the practice of patronage dividends is explained by the circumstances that while the present tax provision is formally and legally non-discriminatory, the structures of co-operative and joint-stock enterprise are such that patronage dividends may be employed much more effectively by the former, in whose favor the legislation, in economic reality, discriminates. It is scarcely an effective denial of discrimination to point out that joint stock companies are free to operate as co-operatives.[1]

In order to reduce their tax liability co-operatives need not pay out patronage dividends in cash. They need only allocate dividends to their patrons by crediting them in some manner without actually making a firm commitment to pay cash at a definite time. In this way the co-operatives have over the years had access to a substantial *source of tax-free capital* to facilitate growth and modernization.

APPLICATION OF SECTION 75

As an illustration of how Section 75 will operate, let us consider the tax position of a consumer co-operative company carrying on business in Ontario. This company buys goods on its own account from the usual sources of supply, pays for them, stocks them and puts them up for sale. They are then sold to members and others at a price about the same as the selling price of other merchants in the area. The goods are mainly sold to co-op members but about 5 percent of the business is done with non members. The company owns land, buildings, equipment and hold investments; it employs managers and employees and carries on business in a manner similar to any merchandising firm.

The only difference between this and other corporations is not in the fact of carrying on business or the manner in which it carries on business, but that being a co-operative it can, consistent with its own purposes allocate, either in fact or on paper, *its net income to its owner-patrons in proportion to patronage.*

Let us assume that this co-operative company has proceeds from the sale of merchandise in one year amounting to $475,000 and that the cost to purchase this merchandise plus operating costs amounts to $440,000. This leaves a net income of $35,000.00. Let us assume that the capital employed in this business is $200,000.

[1] Post-War Taxation of Canadian Co-operatives, Canadian Tax Foundation 1962, page 69.

An investor-owned retailing company, buying at the same prices, selling the same volume of goods at the same prices and having similar operating costs, would have, in 1966, paid tax at the rate of 23 per cent, that is an amount $8,050.00.

The Co-operative corporation will pay tax on no more than an amount equal to 3 per cent of the capital employed. In this case, its income subject to tax will be $6,000 and in 1966 it would have paid income tax of $1,380.00.

At the end of the year, the co-operative will have $6,670.00 not available to the investor-owned company which may be used for a new plant, expansion, higher wages to employees, lower prices, or for paying out as patronage dividends. If we assume these two corporations to be in competition against each other, it is obvious that the investor corporation has been placed at a competitive disadvantage. When we then consider that the rate applied to taxable income exceeding $35,000 approximates 50 percent, it is obvious that in that range the competitive disadvantage is even more pronounced. Since a corporation is only a vehicle for carrying on business, it is clear that ultimately it is the shareholders, customers and employees of the investor-owned corporation who suffer the result of the competitive disadvantage created by the tax situation.

EFFECTS OF THE TAX PRIVILEGE

It was demonstrated in the R.M.A. submission to the Royal Commission on Taxation, that co-operative retailing in Canada has exceeded the rate of growth of non-co-operative retailing. There is ample evidence of this and the trend is not confined to the field of retailing.[1] This rate of growth pattern does not appear to be denied by co-operative officials, although they do consistently deny that their superior rate of growth is related to tax advantages. The causal relationship between such growth and the tax privilege was however established in analyses carried out in our own and other submissions to the Royal Commission. The following observations by R. Craig McIvor refer to (a) the relative rate of growth (b) the effect of the tax privilege on the growth, and (c) effects on the economy.

> It was pointed out in the author's earlier study that the present Canadian tax legislation does, in economic reality, discriminate in favour of co-operative enterprise and that the consequence of such discrimination is to provide co-operatives with access to relatively large sums of tax-free capital to finance the establishment and expansion of their trading organizations. This access is of course enormously facilitated by their ability *to allocate patronage payments in forms other than cash*, thereby actually retaining the funds within the organizations. These funds, as co-operative officials freely concede, represent a crucial factor in their having achieved such a remarkable rate of growth since World War II, and this may well be much more important as an explanation of their generally increasing share of total sales in markets where they operate, than the steady improvement in managerial efficiency which has been achieved within the movement. If this is correct, then present tax arrangements are undesirable not only because of lack of equity but because of their effects on the efficiency with which the economy's productive resources are allocated. More specifically, the allocation of resources as between co-operative and ordinary enterprise is under such circumstances then determined not primarily on ground of productive efficiency but of the financial advantage accruing to the co-operatives under present tax arrangements.[2]

[1] Submission to the Royal Commission on Taxation, of Retail Merchants' Association of Canada Inc., January 9, 1964, pages 21-63.

[2] "Recent Growth in Canadian Co-operatives", R. Craig McIvor, Canadian Tax Foundation, 1962, page 33.

The effects of this growth, of course, are not felt uniformly,[1] and in particular areas and industries, competitors are exposed to considerable pressure from co-operatives and for some it is a question of survival.[2]

THE TAX PRIVILEGE AND THE PRICE QUESTION

The tax free earnings retained within the co-operative corporation have a cumulative effect over a period of time. The capitalization of these earnings over a period of time was analyzed by Lloyd I. Barber using Federated Co-operatives Limited as an example and comparing it with a hypothetical company identical to Federated in all respects except taxation, over the period 1934-1961. It was his tentative conclusion that the growth achievements of Federated Co-operatives result more from a compounding *of the tax concession than from operating superiority.* He also concluded that the inability of the comparison company to achieve a competitive rate of growth was a result of not being able to invest the portion of its earned income which had been paid in income tax.[3]

The ability to compete on a basis of price is of course only one of many results of a company's overall financial and operative strength and efficiency. Capital is required for modernization and expansion and in turn the resultant modernization and growth will affect the potential "price performance" of an enterprise.

The relationship of the tax privilege to price performance is described by the American economist, Dr. Robert F. Patterson, as follows:

> The excess gains of cooperatives over what they would normally make for their members, because of tax advantage, may be described as gains through special subsidy, although they are similar to monopoly profits.
>
> Under monopolistic conditions, or where there is a subsidy, there may or may not be pure profit. Some such situations yield only losses in spite of the advantage, and in due course they disappear from the scene. Where there is a continuing subsidy, it tends to become capitalized in the same way that monopoly profit is capitalized. The valuation of the business takes into account the contribution of the subsidy to earnings, and that part of the earnings becomes an interest-rate sort of return on the "property value" of the advantage. In the case of a cooperative, the capitalization of its earnings—including that part which is due to the subsidy of tax exemption—is concealed by the peculiar nature of the ownership of the association. Because the patron-members share its earnings in proportion to patronage, their ownership claims are indistinct and varying, and there is no way in which the capitalized value of a cooperative's earnings can be reflected in any market for equities. The excess earnings due to tax exemption are merely translated into a continuous extra benefit for the patron-members in prices or patronage dividends, or both. The patron-members cannot realize on the capital value of the advantage—and most of them are unaware of it.[4]

The same author has also pointed out that "For the more efficient co-operatives, substantial tax savings also have enabled them to offer prices more favorable to all who might deal with them than could be offered by competing ordinary corporations".[5]

---

[1] Ibid, pages 24-25.

[2] A report in the Financial Post, Jan. 21, 1967, under the headline "Woodlawn sold to co-op", states that "Woodlawn Dairy LLtd., the last of the family-owned dairies in the HalifaxDartmouth area, will soon be swallowed up by a larger competitor".

[3] Submission to the Royal Commission on Taxation, by R.M.A. January 9, 1964, pages 82-86A.

[4] "The Tax Exemption of Cooperatives" by Robert T. Patterson, University Publishers, pages 113-114. (Underscoring by R.M.A.)

[5] "The Tax Treatment of Co-operatives and The Economic Effects of Their Present Tax-Favoured status", submission of The Equitable Income Tax Foundation to the Royal Commission on Taxation, Oct. 18, 1963, page 54.

EVALUATION OF EFFICIENCY

It is the submission of R.M.A., that your committee will find it difficult to draw any conclusions as to the validity of the claims of co-operatives respecting price performance and benefits to consumers. The tax benefits enjoyed by these institutions over a long period of time, relative to their competitors, has made any evaluation of their present ability with respect to price performance, meaningless. As has been stated "The relative efficiency of the cooperative as a form of business organization cannot clearly be determined, partly because of the tax advantage that it has had for a long period of time."[1]

RECOMMENDATIONS

We recommend:

1. That any conclusions of your committee as to the claims of co-operatives with respect to price performance be made only after discounting the effects of the tax advantages as against competitors.
2. That the consumer interest can best be advanced by competition unaffected by tax privileges and that accordingly net profits should be taxed prior to deduction of patronage dividends and the three year tax exemption for new co-operatives should be removed.

All of which is Respectfully Submitted

RETAIL MERCHANTS' ASSOCIATION OF CANADA INC.

[1] "The Tax Exemption of Cooperatives" by Robert T. Patterson, page 115.

BRIEF

to the

SPECIAL JOINT COMMITTEE OF

THE SENATE AND HOUSE OF COMMONS

ON CONSUMER CREDIT (PRICES)

submitted by

Consumers' Association of Canada (Quebec)
L'Association des Consommateurs (Quebec)

Mrs. R. Brander
President

Mrs. N. W. Duck
Chairman

Consumer Economics Committee.

February 22nd, 1967

Summary

1. In view of the lack of enforcement of existing legislation regarding trading stamps, Consumers' Association of Canada (Quebec) recommends new federal legislation forbidding the use of trading stamps anywhere in Canada.

2. The deceptions as outlined in this brief should be forbidden by federal legislation.

3. Consumers' Association of Canada (Quebec) strongly endorses the recommendation in the Interim Report of your Committee, that a Department of Consumer Affairs be set up as soon as possible; to allow it to operate efficiently the Dominion Bureau of Statistics should be strengthened as you recommend.

Consumers' Association of Canada (Quebec)—L'Association des Consommateurs (Quebec)—is the Quebec Provincial branch of the Consumers' Association of Canada. Our work is done by volunteers, and our provincial funds come from a proportion of the individual membership fees paid by members living in this province. As a comprehensive brief was submitted on behalf of the Consumers' Association of Canada by Dr. H. E. English, in Ottawa on December 7th, 1966 this brief will be confined to matters of particular concern to consumers in the Province of Quebec, and of which we have firsthand evidence.

A continuing study of food prices and incomes in the Montreal area is made by the Montreal Diet Dispensary, whose Executive Director, Mrs. Agnes Higgins, is a member of the Board of Directors of CAC (Quebec). Studies made by the Dispensary show that the average family in the Montreal area spends 25 per cent of its take-home income on food. Prices of basic foods on the list of the Montreal Diet Dispensary rose by nearly 9 per cent in 1966, and the impact was greatest on those whose incomes provided no margin at the best of times—old age pensioners, the unemployed, the low-income earners, and the average-income earners with large families. The latter group have been particularly affected by increases in the price of *fluid milk*. The retail price of fluid milk in Montreal and throughout Quebec is regulated by the Quebec Agricultural Marketing Board, which sets both a minimum and a maximum price, whether delivered to the home or sold in stores. CAC (Quebec) has consistently, over a number of years, asked for the abolition of the minimum price. It has apparently been demonstrated by one retailer that milk can be sold in a cash-and-carry store at a

price several cents below the minimum imposed by the Board and still bring a satisfactory return to the retailer. The retailer in question has been prosecuted by the Board, and forced to raise his price to the minimum. CAC (Quebec) feels that this action was against the interests of the consumer—surely the consumer should be allowed to benefit from free competition between retailers

Trading Stamps

The problem of trading stamps is particularly acute in this province. Only one major chain (A & P) does not give stamps; the great majority of independent groceries are organized into trade associations, e.g. IGA, Metro, Richelieu, which use various stamp schemes. In some areas of the province, e.g. Asbestos, Danville, there is no grocery store which does not give stamps. Some of the chains have now set up stamp redemption centres, which are often over five miles from outlying stores of the chain. These centres have been widely advertised in the press, and customers are actively encouraged to travel to these centres to redeem books of stamps for merchandise. Some of the chains will give a food voucher in exchange for a book of stamps, the maximum value is now $2.00. The majority of the groceries in the trade associations do not give food vouchers. CAC has recommended that consumers ask for food vouchers, rather than accept merchandise, for their stamps, as one means of showing disapproval of stamp schemes.

We have recently made a comparison between the retail prices (taken from Simpson-Sears 1966 Fall & Winter Catalogue) and the number of books required under the various stamp schemes, for a small selection of merchandise offered in the stamp catalogues. The selection was necessarily small, as there were few articles common to all catalogues.

Table 1 shows that the apparent value of a book of 1,500 stamps varies from $2.14 to $3.31, depending on the scheme used, and the article chosen.

When a customer exchanges a book of stamps for a premium, he is forced to pay sales tax at the rate of 14 cents per book, plus a mysterious charge of 1 cent per premium. When the sales tax on premiums was imposed by the Quebec government, by Order-in-Council, January 5th, 1965, a government spokesman said that it was the merchant, and not the consumer, who had to pay the sales tax. This has been ignored by all the major retailers who use stamp schemes; moreover, in one case reported to us, a retailer belonging to the IGA deducts 16 cents sales tax when a book of stamps is exchanged for a food voucher, reducing its value to $1.84. We see no justification whatever for this practice, and can only offer our sympathy to the unfortunate shoppers at the store.

CAC (Quebec) has been protesting the use of stamp schemes since their widespread appearance in 1958. Our chief objection is on economic grounds—Stamp schemes add, on average, 2 per cent to the cost of products, and the customer pays for this, whether he wants to acquire the premiums offered or not. In addition, we consider that all the trading stamp schemes in use in Quebec are contravening the Criminal Code (Sections 322 and 369) in the following ways:

1. Most stamps do not bear the name of the store where they were issued.
2. The stamps do not bear the address of the store where they were issued.
3. Stamps given by one merchant can be redeemed at stores or centres other than where they were issued.
4. The stamps cannot be redeemed on demand, but only when pasted into a stamp book, and then only in designated quantities—the usual minimum is 1/5th book.

TABLE 1

	Catalogue Price	Gold Bond Stamps				Gold Star Stamps				Pinky Stamps				Horizon Stamps			
		Books	Book Value	No. of Stamps	Mill Value	Books	Book Value	No. of Stamps	Mill Value	Books	Book Value	No. of Stamps	Mill Value	Books	Book Value	No. of Stamps	Mill Value
	$		$				$				$				$		
Corningware Teapot	7.95	2⅜	3.03	3,900	2.04	2⅜	3.31	3,600	2.20	2⅜	3.06	3,900	2.02	2⅜	3.06	3,900	2.02
Corningware Handle	2.75	1	2.75	1,500	1.84	1	2.75	1,500	1.84	1	2.75	1,500	1.84	1	2.75	1,500	1.84
Corningware Skillet	6.95	2⅞	2.90	3,600	1.93	2⅛	3.16	3,300	2.10	2⅛	3.16	3,300	2.10	2⅛	3.16	3,300	2.10
Corningware Percolator	13.95	4⅜	3.16	6,600	2.12	4½	3.32	6,300	2.20	4⅜	3.16	6,600	2.10	4	3.49	6,000	2.33
Pyrex Teapot	4.95	1⅜	3.10	2,400	2.03	—	—	—	—	1⅜	3.10	2,400	2.03	1⅜	3.10	2,400	2.03
G.E. Percolator	29.95	12⅜	2.38	18,900	2.20	12⅜	2.37	18,900	2.20	13⅛	2.28	19,800	1.49	—	—	—	—
G.E. Toaster	19.95	8	2.50	12,000	1.66	8½	2.26	13,200	1.51	9⅜	2.14	14,400	1.39	8	2.50	12,000	1.66
Sunbeam Electric Frypan	21.00	8⅜	2.50	12,600	1.66	8⅜	2.50	12,600	1.66	9⅛	2.14	15,700	1.43	8⅛	2.44	12,900	1.63
Sunbeam Electric Mixer	52.95	19	2.78	28,500	1.85	20⅜	2.57	30,900	1.71	24⅛	2.2	36,300	1.56	20	2.69	30,000	1.77

We have asked successive Quebec governments to enforce Sections 322 and 369 of the Criminal Code. Not only have they taken no action, but by the Order-in-Council exacting sales tax on premiums have condoned the stamp schemes in use in Quebec. Residents of Quebec, who comprise ¼ the population of Canada, are forced to pay at least 2 per cent more for their groceries because of the widespread use of these stamp schemes; in addition, vigorous promotion by stamp companies has extended the use of these schemes to gas stations, drug stores, and other commercial establishments. CAC (Quebec) therefore recommends that the Federal government enacts legislation forbidding the use of stamp schemes anywhere in Canada.

Deceptive Practices

CAC (Quebec) feels that the consumer is being misled, if not actually cheated by sales practices employed in many food stores. We continue to receive complaints, from members of CAC and non-members alike, about the following:

1. The practice of over-stamping prices. This occurs on all kinds of grocery and household products, and complaints reached a peak at the time of rapidly increasing sugar prices—some bags of sugar had as many as five price tags stuck one on top of the other, each representing several cents increase in price. CAC (Quebec) and individual members have complained to store managers about this, and although we have been given several explanations, none have been satisfactory.

2. The habit of covering the weight stamped on the package, by a price tag. (Examples: packages of Maple Leaf back bacon.) In the case of the examples shown, the habit has persisted for more than two years, in spite of repeated complaints to the store manager. These packages contained 6 oz, bacon each, and are displayed next to 8 oz. packages of regular bacon, whose weights are never obscured by price tags.

3. The practice of expressing the weight of meat in decimal fractions of a pound. It was noticed about two years ago that the weights of meats packaged in the store were no longer in pounds and ounces. An enquiry to the manager of one chain store produced the reply that all the latest automatic scales, which printed weight, price per pound, and package price simultaneously, expressed the weight in this fashion, and that in that particular case, the scale was imported from the U.S. We consider that this is a misleading and irregular way of expressing weights—misleading bcause e.g. a package may be labelled 2.8 lb. and the consumer may think he is buying 2½ lb., whereas in fact he is buying 2 lb. 12⅘ oz., and irregular, because until the metric system is introduced in Canada, fractions of a pound should be expressed in ounces.

4. The "cents off" legend, stamped on packages by the manufacturer, is misleading, meaningless and illegal. As a manufacturer or packager has no legal right, and in fact, is forbidden, to set the retail price of food or other products, he has no right to suggest any reduction in price; neither can he ensure that a reduction in price is in fact given. Two of our Local Associations undertook surveys over several months of over 200 items which sometimes appeared with a "cents off" offer during that time. They found it impossible to determine whether the customer received a reduction in price or not. A typical example concerned a brand of coffee marked "6 cents off" and priced at 96 cents; the same brand, two weeks later cost 97 cents, with no "cents off" offer. Was the customer saving 6 cents by buying that brand at 96 cents? Was there a reduction or increase in price two weeks later? Even more confusion was found in the case of soaps and detergents, when comparison had to be made between packages of odd sizes—14½ oz., 15 oz., 1 lb. 9 oz., etc. some with "cents off", some contain-

ing a coupon towards a future purchase, some containing towels, cutlery, plastic-ware, and some with no premium, coupon or "cents off". It was noted that the 5 lb. size of one brand has been labelled "40 cents off" for several years. CAC (Quebec) recommends that it be forbidden to print packages with a "cents off" panel. If the individual retailer wishes to give a reduction in price, let him do so, but the consumer would like to feel he was in fact enjoying a reduction in price.

5. We receive dozens of complaints by phone and letter of high percentage increases in price of certain foods over short periods of time. Some are listed below:

(a) A complaint from an old age pensioner that the price of mild cheddar cheese had increased from 53 cents/lb. on Dec. 1st/66, to 63 cents/lb. on December 8th/66—an increase of nearly 19 per cent.

(b) A complaint that 1 lb. packages of Rupert Brand skinless halibut fillets had increased in price from 89 cents in early 1966 to 99 cents in June, 1966 to $1.29 in October, 1966—an increase of 44.9 per cent in 10 months.

(c) A complaint that the price of Steinberg's Instant Coffee 2 oz. size, had increased from 35 cents to 39 cents,—an 11.3 per cent increase.

(d) The price of an 8 oz. package of Saxonia Glace Cherries was 45 cents in December 1965, and 59 cents in December 1966—an increase of 31 per cent; in addition, the cherries bought in 1966 had the 59 cent price stuck on top of a sticker showing "47 cents".

In view of these complaints, which are typical of the many we receive, CAC (Quebec) wonders if there is any rational pricing policy observed by food retailers. We suspect that there is not, and that prices are increased in an arbitrary fashion which bears little relation to the wholesale cost to the retailer. In the case of locally grown fresh vegetables, it is significant that while retail prices have risen continually over the last few years, the return to the farmers has decreased. It reached a point recently that the local farmers threatened a "strike" against the local supermarkets because the latter were refusing local products at the height of their season, while importing the same products from the U.S. We deplore this trend, and would like to see the Quebec farmer given priority in our grocery stores, where the qualities of the of the products are comparable.

Conclusions

The average consumer is unable to determine easily which article is a 'best buy' when confronted with the multiplicity of sizes, weights, brands and packages on the grocery shelves. The most flagrant deceptive practices, as outlined earlier, should be made illegal in Canada.

A great deal of information is available to the consumer from government sources, e.g. the Departments of Agriculture, Fisheries, Health and Welfare, but it is not well publicized, nor co-ordinated. CAC has been offering information on a wide variety of topics through its Bulletins and magazine, but it does not reach as many consumers as we would like it to. That more information is needed by the average consumer is obvious from questions asked on open-line radio shows.

We are aware of the limitations of the statistics on food prices at present put out by the Dominion Bureau of Statistics, as we tried to compare meat prices in various cities across Canada last spring, and were unable to do so from data available from the Bureau. We therefore wish to endorse the recommendations made in your interim report that the Bureau should be provided with additional staff; at the least, prices of selected basic foods should be compared between cities, in its monthly report. We strongly endorse your recommendation that a Federal Department of Consumer Affairs be set up as soon as possible. It should

be given the authority to investigate consumer problems and complaints, and publish the findings. It should co-ordinate the consumer education programmes of existing government departments, and initiate new programmes as required. It should also interpret to the consumer, in language the average consumer can understand, data gathered by an enlarged Dominion Bureau of Statistics.

MÉMOIRE

présenté au

COMITÉ SPÉCIAL MIXTE DU SÉNAT ET DE
LA CHAMBRE DES COMMUNES DU CANADA
CHARGÉ D'ENQUÊTER SUR LE CRÉDIT AU CONSOMMATEUR

par

LA FÉDÉRATION DES CONSOMMATRICES DU QUÉBEC INC.

Montréal, le 22 février 1967.

La Fédération des consommatrices du Québec Inc.

Par. 1

La Fédération des Consommatrices du Québec Inc. (charte enregistrée le 26 septembre 1966) entend rassembler et représenter les familles du Québec toutes les fois où elles agissent, isolées ou en groupe, en tant qu'usagers ou acheteurs de biens et de services, à titre onéreux ou gratuit. Fondée par le Comité féminin du Conseil d'Expansion économique et notamment par les associations suivantes:

— La Fédération nationale Saint-Jean Baptiste.
— Le Cercle des Fermières.
— L'Union catholique des Femmes rurales.
— Les Cercles d'économie domestique.
— La Coopérative de Consommation «La Familiale».
— Le Cercle social Marguerite d'Youville.
— L'Association coopérative féminine.
— L'Association coopérative d'éducation familiale.
— L'Amicale Sainte-Croix.
— La Guilde de Rimouski.
— Carrefour.
— Les Comités féminins de la Société Saint-Jean-Baptiste de Montréal et de Québec.

en présence des déléguées des associations suivantes:

— Les Femmes diplômées de l'Université.
— Le Cercle des Femmes journalistes.
— Les Femmes Chefs d'entreprise.
— La Société d'études et de conférences.

elle regroupe les adhérentes de ces associations pour la défense de leurs intérêts de consommatrices.

Par. 2

La dimension de la tâche est écrasante, le volume des interventions nécessaires imposant; en balance, nos possibilités et nos moyens sont réduits. Néanmoins, nous n'hésitons pas à agir toutes les fois que les intérêts des consommateurs sont en cause.

Par. 3

Les raisons qui ont déterminé la Fédération des consommatrices du Québec à demander audience au Comité spécial mixte du Sénat et de la Chambre des Communes du Canada chargé d'enquêter sur le crédit au consommateur sont les suivantes:

1. L'évolution de l'indice du coût de la vie.
2. L'augmentation des prix des denrées alimentaires.
3. La baisse générale du pouvoir d'achat des familles.

4. L'augmentation constante de l'endettement total des familles du Québec.
5. L'ignorance du coût du taux réel de l'intérêt payé par les consommateurs pour la plupart de leurs emprunts.
6. Les prix prohibitifs des spécialités pharmaceutiques.
7. Les ententes cartellaires qui se répercutent sur les prix à la consommation.
8. La marge avouée des bénéfices des intermédiaires.
9. La publicité fallacieuse, principalement celle axée sur les moins de 21 ans.
10. L'importance prise dans le coût de l'exploitation au détail par les timbres-prime et autres objets-prime ainsi que les jeux et concours.
11. L'information non objective du consommateur par renseignements insuffisants sur l'étiquette.
12. Au plan de la région de Montréal, la sensibilisation de la population à une éventuelle augmentation des prix des produits essentiels due à l'EXPO.

Par. 4

Pour ces raisons, la Fédération des Consommatrices du Québec désire présenter le rapport suivant.

Par. 5

L'un des traits majeurs des politiques sociales contemporaines est l'attention portée aux problèmes de la consommation. De plus en plus, s'affirme l'idée que la réalisation du bien-être de la société est subordonnée à une meilleure satisfaction des besoins du plus grand nombre des consommateurs. Il appartient au Comité devant lequel nous avons l'avantage de parler d'indiquer les grandes lignes des dispositifs d'intervention possibles et d'apprécier leur portée au titre de l'expansion du bien-être. Sans verser dans un pessimisme systématique, on peut avancer que les résultats obtenus à ce titre sont encore modestes et très éloignés des objectifs visés. En réalité, il ne saurait y avoir d'amélioration décisive de la situation en dehors d'une politique cohérente et complète de défense des consommateurs. Nous ne sommes plus à l'époque des vœux mais à celle des résolutions; les gouvernements n'ont que trop tardé à prendre les dispositions nécessaires à la défense des consommateurs. Malgré le fait que le Président L. B. Johnson, faisant suite aux propositions Kennedy de 1962, a envoyé au Congrès, en date du 21 mars 1966, un message réclamant l'élargissement et le renforcement de la protection des consommateurs, il a dû recommencer le 16 février 1967 en adressant au Congrès une nouvelle série de projets de loi visant à accroître la protection du consommateur. Ces démarches reposent sur l'idée qu'entre les producteurs-distributeurs et les consommateurs laissés à leurs propres forces, il n'existe pas de juste équilibre ou, ce qui revient au même, que les travailleurs perdent en tant que consommateurs une importante fraction des avantages acquis comme participants à la production. Il s'agit donc, en principe, de mettre fin à l'exploitation dont les consommateurs, du fait de leur faiblesse, sont inévitablement les victimes.

Par. 6

Sans entrer ici dans une étude détaillée de ces politiques, nous voudrions souligner deux points: la nécessité, voire l'urgence, de semblables mesures; l'insuffisance des dispositifs adoptés et la médiocrité de l'action des autorités face à l'incessante pression des entreprises—médiocrité qui explique en une large mesure la faiblesse des résultats obtenus.

Par. 7

A. Nécessité de la protection

Selon des vues optimistes, la concurrence, souvent de type monopolistique, que se livrent les entreprises pour s'attacher la clientèle comme aussi l'acceptation par les industriels et commerçants d'une certaine responsabilité sociale diminueraient aujourd'hui la nécessité de cette protection. Cependant l'analyse de la réalité socio-économique ne permet nullement de ratifier un tel jugement. La défense des consommateurs reste plus que jamais nécessaire et il n'est pas difficile de mettre en évidence plusieurs facteurs qui en augmentent l'urgence:

Par. 8

(1) multiplication vertigineuse du nombre des produits offerts et transformation constante de ceux-ci. Ces modifications, liées aux perfectionnements technologiques, font partie intégrante des stratégies du *marketing*: il arrive qu'elles portent sur des points entièrement secondaires, le but de l'opération étant de provoquer un renouvellement de l'achat en frappant d'une sorte de vieillissement psychologique les objets précédemment acquis, même s'ils sont encore matériellement capables de rendre des services. En d'assez nombreux cas d'ailleurs, les producteurs utilisent les ressources de la technique pour limiter, à l'avance, la durée physique d'usage (exemples: bas nylon, ampoules électriques).

Par. 9

Lors de la récente controverse sur la sécurité des automobiles, les grandes firmes américaines ont été accusées d'organiser un «vieillissement planifié» des voitures—situation qui explique un grand nombre des défaillances des véhicules. Ces critiques ont mis en évidence qu'une fraction substantielle de la capacité productrice de cette industrie (peut-être 20 per cent) est constituée à remplacer ou à réparer des véhicules endommagés. Ainsi existerait-il une liaison assez étroite entre le taux des accidents et le montant des profits des fabricants américains d'automobiles. Il s'agit là d'un cas spectaculaire mais on connaît bien d'autres exemples de telles pratiques qui aboutissent à l'exploitation des consommateurs et à un gaspillage de ressources.

Par. 10

(2) diversification des dépenses du budget familial. Les consommateurs sont ainsi amenés à acheter de nombreux produits dont ils n'ont pas l'expérience. Point très important: la place croissante tenue par les services dans l'emploi du revenu. Or la protection dans le domaine des services, dont les prix ne cessent de s'élever, reste tout à fait insuffisante (exemple: le coiffeur, les transports). Il suffira de mentionner le cas des instituts qui vendent de la volonté, du dynamisme, de la personnalité et du charme pour illustrer le genre de sollicitation et d'exploitation qui se pratiquent couramment aujourd'hui. Le besoin d'éducation lui-même fait l'objet d'un large commerce dont les victimes, généralement silencieuses, se comptent en grande quantité. Reconnaissons d'ailleurs qu'il est plus facile d'instituer une réglementation de la qualité des viandes que de la capacité des officines proposant l'acquisition des aptitudes de chef en quinze leçons.

Par. 11

(3) intensification des campagnes publicitaires qui utilisent les acquisitions les plus modernes de la psychologie pour déclencher des achats impulsifs et irraisonnés. S'il existe des formes de réclame décentes et relativement objectives, il y en a tellement d'autres qui tendent à abêtir les consommateurs et ne redoutent pas l'abjection. On signalera à ce propos l'usage du tigre qui après avoir connu une large extension aux États-Unis s'est également répandu en Europe. Cette tigromanie a atteint de nombreux produits: l'essence, les pneus, les

automobiles mais aussi des marques d'encaustique et des lotions capillaires (employer une lotion Tigre pour les cheveux c'est, en quelque mesure, se parer des qualités viriles de la bête). Encore que la première réaction devant de telles exhibitions soit de sourire, il faut savoir que dans plusieurs cas les firmes ayant ainsi «tigrifié» leur publicité ont obtenu des résultats commerciaux remarquables.

Par. 12

Il faut mentionner ici l'utilisation publicitaire du sexe qui prend aux États-Unis des dimensions ahurissantes: des images ou slogans évoquant l'amour physique sont employés pour la promotion des articles les plus divers (non seulement les parfuns, mais aussi le chewing-gum—cette gomme dont l'usage rend les femmes merveilleusement embrassables).

Par. 13

Notons aussi l'assaut sans cesse plus intense que la publicité livre à la clientèle des jeunes, l'indépendance revendiquée par ceux-ci se bornant souvent à suivre servilement des modes télécommandées par d'habiles publicitaires. Cet effort s'explique par l'importance des moyens dont dispose cette clientèle. Aux États-Unis la tranche d'âge 13 à 22 ans comprend 28 millions de consommateurs disposant de 25 milliards de dollars (les jeunes comptant pour plus de 50 pour cent dans les recettes des cinémas et des fabricants de boissons non alcoolisées, effectuant plus de 40 pour cent des achats de disques, de caméras et de radios). En Europe, selon une estimation récente, la jeunesse dépenserait par an, l'équivalent de 15 milliards de dollars. Toute une série de techniques sont désormais utilisées pour permettre aux fabricants de se procurer la plus large part possible de ce pactole: en particulier la commercialisation des héros dont les clubs d'idoles sont un élément. Ces campagnes publicitaires utilisent de manière très systématique les faiblesses des jeunes, à commencer par l'inexpérience et l'inconstance.

Par. 14

Ainsi la publicité tend-elle à faire vivre les consommateurs dans un monde démentiel. Ce qualificatif, quoique sévère, n'est pas excessif. La télévision nord-américaine est un bon exemple de ce que deviennent les *mass-media* quand on laisse la marchand en prendre le contrôle (la vision d'un film pouvant être interrompu de six à huit fois pour le passage de séries de «commerciaux» dont le but n'est certes pas de développer l'esprit critique des consommateurs. Il est regrettable d'avoir à écrire que des spécialistes des sciences humaines participent, en nombre croissant, à cette agression permanente contre la raison).

Par. 15

L'un des aspects de cette concurrence par la réclame (qui prend de plus en plus la place de la concurrence par les prix) est l'ampleur croissante des frais d'emballage. Signalons le succès des emballages en plastique qui comptent déjà pour un pourcentage élevé du total. De 1961 à 1964 le tonnage des matières plastiques utilisées à cet effet a doublé. On s'en sert notamment pour les repas tout préparés qui peuvent être réchauffés dans leurs enveloppes, celles-ci étant jetées après usage. Il en résulte des problèmes pour les municipalités car, à l'exception de la polyofiline, les matières plastiques encrassent les foyers des chaudières de brûlage. C'est un cas entre tant d'autres où les fabricants ne se préoccupent pas des conséquences de leurs procédés envers la collectivité.

Par. 16

(4) permanence des tromperies commerciales. Chacun connaît le cas des emballages fantaisistes dans lesquels il y a tant de papier et de vide (le savon qui apparaît si petit quand on a ôté les cinq enveloppes successives de carton et de

papier qui l'entourent). Des expériences faites en Suisse ont montré que pour les produits de lessive, la plupart des emballages ne sont remplis qu'à concurrence de 50 à 75 pour cent.

Par. 17

Il serait facile de multiplier les exemples mais il est un secteur qui doit au moins être mentionné car il donne lieu partout à d'innombrables abus: celui du crédit à la consommation. Selon une récente étude de la Société de Banque Suisse, l'endettement moyen par habilité au titre des achats à tempérament et des prêts personnels serait environ 10 fois moins élevé en Europe qu'aux États-Unis. Cependant, en dépit de cette modestie relative de l'endettement des acheteurs en Europe, les abus et dangers de ce genre de transaction commencent à y être ressentis de manière notable. D'où les efforts mis en œuvre ou projetés pour frapper l'usure, réprimer les abus du démarchage et surveiller l'activité des officines qui prêtent à tempérament. Au Canada, cette surveillance devrait être primordiale.

Par. 18

(5) hausse continue du coût de la vie. C'est là désormais un élément si bien acquis que les autorités gouvernementales manifestent seulement la volonté de limiter et non de stopper la hausse ascensionnelle des prix (ce qu'Alfred Sauvy appelle la fixation du degré d'hypocrisie sociale admissible). A ce sujet nous nous permettons de signaler le travail de notre Comité de Surveillance des prix. Alertés par la population du Montréal métropolitain, alarmés par l'éventuelle hausse due à l'EXPO, nous avons réalisé une étude portant sur les denrées essentielles dans un nombre important de points de vente différents. Cette étude paraît dans le Guide des consommatrices publié dans la revue «*La Canadienne*» (livraison de mars 1967) dans les pages qui nous ont été octroyées.

Par. 19

Les avis divergent sur les causes de ce mouvement. Les uns y voient une conséquence inévitable de la massivité des dépenses de guerre. D'autres incriminent l'action des syndicats qui, profitant de la conjoncture de plein emploi, s'efforceraient d'obtenir et obtiendraient en fait des augmentations supérieures à l'accroissement de la productivité. D'autres enfin mettent en cause la frénésie d'achat des consommateurs qui auraient contracté l'habitude de se porter acquéreurs à tout prix. Ce point de vue selon lequel, en somme, l'absence de rationalité de la clientèle serait le moteur de l'inflation a été affirmé à diverses reprises par des autorités gouvernementales beaucoup plus discrètes par contre sur l'action des cartels qui exercent un contrôle particulièrement rigide de l'économie du pays et garantissent à une pléthore d'intermédiaires de très substantielles marges. Sans entrer ici dans la controverse, disons que le mouvement de hausse dépend de facteurs sur lesquels les consommateurs n'ont aucune prise et que dans la grande majorité des cas les travailleurs suivent l'argumentation bien plus qu'ils ne contribuent à la déclencher.

Par. 20.

La hausse des prix est particulièrement grave pour les titulaires de revenus fixes et aussi pour tous les travailleurs dont les rémunérations ne s'ajustent qu'avec lenteur et donc avec retard à la hausse des prix. Aux États-Unis, on évalue à une quarantaine de millions les membres de cette catégorie. De ce fait l'œuvre de protection économique des consommateurs a pour eux, comme pour nous, une grande urgence.

Par. 21

Ce tableau, qui n'est aucunement exhaustif, suffit pour établir que la protection des consommateurs est toujours d'une brûlante actualité. Certes il existe

dans les pays économiquement avancés une abondante réglementation publique qui vise à assurer la défense des acheteurs contre les fraudes et manœuvres dont ils sont susceptibles de pâtir. Le simple fait que ces dispositions doivent être constamment revues, complétées et perfectionnées montre bien que la sauvegarde des intérêts du consommateur est une tâche sans fin. C'est ainsi que l'on a proposé, afin de faciliter la comparaison des prix, que les fabricants indiquent le prix par livre ou par pinte. Pour les denrées alimentaires liquides, on établira des dimensions obligatoires. Ces mesures et quelques autres (renforcement de l'obligation d'étalonnage pour les appareils de mesure) seraient certes dignes d'approbation mais on peut s'étonner du temps qu'il faut aux autorités pour élaborer et mettre sur pied leur adoption.

Par. 22

On en dira autant de la loi qui vient d'être promulgée en Angleterre pour étendre la protection des consommateurs contre les descriptions fallacieuses des marchandises ou services et les affirmations trompeuses en ce qui concerne les prix. La loi qui concerne aussi bien les indications verbales données par les commerçants que les étalages et publicités attribue de plus aux autorités diverses compétences (ainsi celle d'imposer un étiquetage d'information des produits) tendant à l'établissement d'une information adéquate. On attend notamment de ce texte qu'il rende plus difficiles les annonces traditionnelles et si souvent trompeuses des rabais publicitaires.

Par. 23

En réalité, malgré sa densité et sa rigueur apparente, le dispositif de défense des consommateurs présente de nombreuses lacunes dont il convient maintenant d'exposer les principaux aspects.

Par. 24

B. Insuffisance de la protection

Nous nous bornerons à en signaler trois aspects (dont la raison essentielle, disons-le d'emblée, est que dans les économies libérales le rapport des forces joue d'une manière défavorable envers les intérêts des consommateurs):

Par. 25

(1) retard mis par les autorités à prendre les mesures de correction indispensables ou utiles, soit par lenteur bureaucratique soit comme conséquence de la pression des affaires et des groupes patronaux.

Par. 26

Cette temporisation est d'autant plus fâcheuse que les entreprises ont tendance à utiliser le plus vite possible les perfectionnements technologiques sans se préoccuper, en bien des cas, des conséquences indirectes ou à long terme de cet emploi. C'est ainsi qu'initialement nul ne s'est préoccupé du supplément de pollution qu'introduisent les détergents dans les rivières et lacs où se déversent les eaux usées. La pollution des eaux constitue d'ailleurs un excellent exemple du peu de considération de nos sociétés pour le domaine de l'avantage collectif. Pour prendre un exemple significatif, les prélèvements effectués dans nos lacs révèlent un degré croissant de pollution. L'un des aspects en est la prolifération des algues à la suite du déversement de matières nutritives. En vue d'éliminer les matières fertilisantes (et notamment les phosphates) il faudrait compléter les stations d'épuration par des installations de déphosphatation—installations dont la technique semble déjà au point mais dont la charge financière sera très lourde.

Par. 27

Voici un exemple de la rapidité de mise en œuvre des progrès technologiques: la conservation des aliments par irradiation (problème sur lequel

l'Agence internationale de l'énergie atomique vient d'organiser un symposium à Karlsruhe). Le point de départ de cette technique est la propriété des rayons gamma émis par certaines substances radio-actives, des rayons d'élections à haute énergie provenant d'un accélérateur des particulaires ou simplement des rayons X classiques, de détruire, lorsque employés à doses convenables, les micro-organismes responsables de la putréfaction des substances organiques. Ainsi peut-on de la sorte conserver la viande en état de fraîcheur durant des semaines et empêcher la germination des pommes de terre.

Par. 28

Vu l'état alimentaire du monde, on ne peut que se féliciter de tous les efforts entrepris pour assurer la préservation des aliments. Mais ce mode de conservation dans lequel les États-Unis et le Canada sont particulièrement avancés n'est pas exempt de problèmes. Il s'agit particulièrement des propriétés organaleptiques qui peuvent subir des modifications du fait de ce traitement (altérations du goût, d'odeur, de couleur et même de texture). On s'efforce donc d'obtenir la stérilisation sans mettre en cause les propriétés physiques ou chimiques. Les experts nous assurent que les aliments exposés à ces radiations ne sont pas susceptibles de devenir eux-mêmes radio-actifs (les doses étant beaucoup trop faibles pour qu'une radio-activité artificielle soit émise). Les législateurs nationaux sont-ils dès maintenant préparés à traiter d'une telle question? Peut-on assurer aux consommateurs que ces méthodes n'altèrent pas les qualités nutritives de ces aliments ainsi traités?

Par. 29

On sait que la commercialisation accélérée des découvertes techniques a même atteint le domaine des produits pharmaceutiques où, pourtant, la plus grande prudence devrait être de rigueur. Selon les techniciens, le mobile de cette hâte serait la réduction par la concurrence commerciale du temps d'exploitation profitable des nouvelles spécialités (de trois à cinq ans au maximum), d'où l'effort des fabricants pour abréger la période d'attente. La pratique habituelle en matière d'essai de remèdes est de procéder d'abord par essais sur des animaux (initialement épreuve de toxicité aiguë par doses léthales et ensuite épreuves de toxicité chronique par doses plus faibles) puis par test sur un certain nombre de volontaires et enfin par administration à un groupe plus étendu de patients. Mais l'enseignement que nous a donné l'affaire de la thalidomide est que les dangers peuvent ne se manifester qu'après la mise du produit sur le marché. Au cours d'une réunion tenue à Washington au début de juin 1966 sous les auspices de l'Organisation mondiale de la santé, il a été décidé d'instituer un mécanisme international de transmission rapide des informations relatives aux effets non prévus des remèdes (mécanisme reposant au départ sur les ordinateurs de la *Food and Drug Administration* des États-Unis). Mais ne serait-il pas sage d'imposer aux fabricants un plus long délai d'épreuve?

Par. 30

On connaît au surplus les dangers considérables que comporte l'usage intensif de certaines drogues ayant des propriétés stimulantes ou exerçant des effets proches de ceux des stupéfiants. Citons le cas du LSD (acide lysergique) aux pouvoirs hallucinogènes. Ce produit, découvert en 1943 dans les laboratoires Sandoz, était utilisé notamment aux États-Unis, à une large échelle (en particulier dans les universités et même dans les écoles) comme introduction aux paradis artificiels. Notons que la filiale nord-américaine de Sandoz a décidé de suspendre toute livraison de ce produit, l'appréciation de cette mesure s'étendant non seulement aux États-Unis mais à tous les autres pays.

Par. 31

(2) faiblesse intrinsèque des dispositifs de protection qui, sous prétexte d'établir une certaine balance entre les intérêts des producteurs et ceux des consommateurs, aboutissent en fait à la négligence des seconds au bénéfice des premiers. En ce secteur des relations sociales, comme dans tous les autres d'ailleurs, les décisions dites de compromis n'avantagent que l'élément le plus fort. Considérons par exemple les mesures adoptées dans quelques pays contre la publicité abusive ou mensongère: la plupart du temps, ces réglementations ne sont que des sabres de bois car elles évitent soigneusement d'imposer des normes susceptibles de gêner la réclame commerciale (ainsi obligation pour les firmes diffusant un produit ou réalisant une publicité de faire la preuve des affirmations avancées). C'est exactement le cas de la loi française du 2 juillet 1963. Un effort tendant à une application plus rigoureuse de la loi vient d'être entrepris par les organismes de consommateurs siégeant au Comité national français de la Consommation. Ces organismes ont décidé de tenir un dossier de publicités trompeuses ou abusives qui viendraient à la connaissance de leurs adhérents. Ils tenteront ensuite d'obtenir une répression des abus notamment par la transmission de renseignements aux autorités officielles compétentes et par un renforcement du dispositif de la loi de 1963. Cependant si le cas de la publicité est particulièrement révélateur de la tolérance des autorités vis-à-vis de l'exploitation des consommateurs, il n'est nullement le seul de son espèce: mentionnons seulement l'insuffisance notoire des réglementations visant à protéger la clientèle des abus de tous ordres comme dans les ventes à domicile, de porte en porte ou par téléphone, et la vente à tempérament.

Par. 32

(3) Souplesse et plasticité des stratégies commerciales par contraste avec la rigidité relative des démarches gouvernementales. Même quand elles sont décidées à agir de manière ferme, les autorités sont souvent entravées et parfois paralysées par le respect des procédures et d'une certaine jurisprudence commandant l'activité gouvernementale. Ces procédures, en dehors du fait qu'elles ouvrent aux intérêts organisés de fructueuses possibilités de manœuvre, leur procurent aussi, par le temps qu'elles exigent, la faculté de réaliser les adaptations nécessaires. Or, si ces ajustements peuvent avoir pour objectif de satisfaire à l'avance aux dispositions de règlement projeté, il n'est pas rare qu'ils correspondent simplement au souci d'éviter les implications de celui-ci, au besoin par des modifications habiles qui ne changent rien au fond des choses. Si bien que, lors de sa mise en vigueur, le règlement est déjà dépassé ou contourné. On peut citer à cet égard l'habileté avec laquelle l'industrie privée du tabac a modifié son dispositif publicitaire pour neutraliser la peur suscitée par les révélations des enquêtes publiques—manœuvres d'ailleurs couronnées d'un plein succès.

Par. 33

Le cas des États-Unis est à cet égard est très instructif. Il y a eu une chute assez sensible de la consommation des cigarettes durant les premiers mois de 1964 à la suite de publication, en janvier de cette année-là, d'un rapport démontrant les effets nocifs du tabac. Depuis lors, la demande s'est redressée et la consommation ne cesse de progresser à nouveau de façon régulière. En 1964, les ventes des cinq plus gros fabricants ont dépassé de 7.6 p. 100 celles de 1961 et le bénéfice net a été supérieur de 4.5 p. 100. Cette augmentation est d'autant plus significative qu'elle a pris place malgré l'élévation dans de nombreux états des taxes fiscales sur les cigarettes. On comprend ainsi qu'en dépit des menaces planant sur cela, l'industrie américaine du tabac n'ait pas jugé nécessaire de réduire les dividendes versés à ses actionnaires.

Par. 34

Un secteur dans lequel l'action des pouvoirs publics a été, en de nombreux cas, lente et timide, est celui du prix des médicaments. Grâce à l'augmentation considérable des sommes consacrées à la santé, l'industrie du médicament a connu depuis la fin de la guerre une brillante expansion. Or, en plusieurs pays, cette branche a pratiqué une politique de prix très élevés, prix jugés excessifs à la fois par les autorités officielles et les consommateurs. Le point est manifeste en Suisse mais l'industrie chimique de Bâle dispose d'une telle force de pression que la puissance publique ne saurait envisager de lui faire les plus légères remontrances. Aux États-Unis, en revanche, une Commission sénatoriale a été créée en 1961, sous la présidence du Sénateur Kefauver, et elle a mis en lumière d'incontestables phénomènes d'exploitation de la clientèle. Les fabricants ont toujours recours au même argument pour justifier leur politique de prix: les besoins de la recherche. Or cet argument est bien loin d'être incontestable. La commission Kefauver a établi que les 22 plus grandes firmes américaines, si elles affectaient 10 pour cent de leurs chiffres d'affaires à la recherche en affectaient 20 p. 100 aux campagnes de promotion publicitaire. Par ailleurs, les découvertes les plus précieuses pour l'humanité (ainsi le vaccin Salk ou la pénicilline) ont été souvent faites, non par des laboratoires commerciaux, mais par des chercheurs académiques aux moyens financiers restreints à tous égards. Enfin, une large partie des recherches des laboratoires pharmaceutiques est consacrée non à l'établissement de nouveaux remèdes (et aux conséquences de ceux-ci sur l'organisme humain) mais à la découverte de variantes à des remèdes déjà connus (variantes liées à des soucis d'exploitation commerciale).

Par. 35

Or, la réaction des autorités devant de tels abus a été lente et insuffisante. Il en résulte une situation défavorable au consommateur qui, en bien des cas, paie un prix élevé pour un remède à la mode alors qu'il pourrait obtenir des avantages analogues d'un remède à bien moindre prix. Récemment le Citizens Committee for Metropolitan Affairs (New York) a établi que des marques lancées à grand renfort de publicité coûtaient 4 ou 5 fois plus que des produits identiques moins connus: le Comité a qualifié l'industrie pharmaceutique de «highest profit industry in the United States».

Par. 36

La situation que nous venons d'analyser n'est pas l'effet du hasard ou l'expression de tendances provisoires: elle est la manifestation durable de l'inégalité des forces entre la production et la consommation. Il n'est pas utile d'insister ici sur ce point qui a été établi de façon décisive voici déjà bien des années. Parmi les facteurs essentiels de cette inégalité, mentionnons au détriment du consommateur, l'inexistence de sa formation technique comme acheteur et la faiblesse de l'information objective dont il dispose. Le consommateur n'est pas apte et l'est probablement de moins en moins, à se défendre seul de manière efficace contre l'offensive quotidienne d'un appareil économique dont la maximation du profit constitue, en définitive, le seul critère d'action. Pour résister et contre-attaquer avec quelque chance de succès, le consommateur doit disposer des ressources de l'intervention collective. C'est pourquoi la Fédération des Consommatrices du Québec recommande l'adoption immédiate des dispositions suivantes:

Par. 37

(1) La création d'une autorité gouvernementale de représentation des consommateurs au plan fédéral et provincial sous la forme d'un Ministère fédéral de la Consommation et d'une Régie provinciale de la Consommation.

Par. 38

(2) La création d'Instituts provinciaux de recherches, d'enquêtes et d'information sur les problèmes de la consommation sous contrôle des représentants des consommateurs, excluant les experts en relations économiques avec les intérêts privés.

Par. 39

(3) Une réglementation sévère de la publicité (surtout celle qui s'adresse aux moins de 21 ans); la limitation d'incorporation des frais de publicité dans le prix de revient des produits.

Par. 40

(4) Une représentation des militants de la consommation au bureau des Gouverneurs de Radio-Canada; une demi-heure hebdomadaire subventionnée à la radio et à la télévision d'État pour informer le consommateur, exposer les tests effectués de bonne foi par des organismes de consommateurs, à une heure d'écoute convenable.

Par. 41

(5) La suppression immédiate des timbres-prime et autres supposés cadeaux.

Signatures:
La présidente,
Georgette Grenier
La secrétaire générale,
Hélène Meynaud
La présidente du
comité de la région de Montréal,
Nicole Mongeau.

LA FÉDÉRATION DES
CONSOMMATRICES DU QUÉBEC INC.
1123 EST BÉLANGER
MONTREAL 10
TEL. 273-4641

To: The Special Joint Committee
of the Senate and House
of Commons on
Consumer Credit (Prices)

From: The Committee for Angry Consumers, NDG.

The consumers of NDG stand behind every protest that has been made against misleading packaging, advertising, stamps, give-aways, gimmicks, and all the other traps that beset the shoppers' paths down the marketing aisles across Canada.

Since this is a local hearing, we would like to present the unique position of Montreal in 1966, and try to anticipate the situation here in 1967 and 1968.

We are not economists—we are consumers. The only DBS figure we can produce that may still be relative to the situation in Montreal represents proportions. The 1961 census states that 20 per cent of Montreal incomes were above $6,000. One-fifth of incomes.

Rise in the cost of minimum adequate nutrition in Montreal between September 1965 and September 1966 was 9 per cent, the equivalent of the seven years previous to 1965, according to the indisputable authority of the Montreal Diet Dispensary.

Cost of middle income food budget has increased much more. One economist considers her food budget increase to be up 30 per cent.

These food figures are the background of 1966.

1967 presents a more hazardous prospect for Montrealers, and we will ask specific action from the Government of Canada.

The Government of Canada and Expo Corporation have had at least two years in which to make plans to minimize the dislocations Expo will create.

Have Expo Corporation or the Government of Canada studied the effects of world fairs on Brussels or Seattle? If so, the result is indeed a well kept secret.

The average Montreal family does not stand to profit from Expo. These people with higher than average cost increases will pay for the doubtful privilege of having Expo on the doorstep, and many of them will not be able to afford to see much of the show.

In Montreal in 1967 we face increases in sales taxes, increase in municipal taxes, increase in hydro costs. The price of whole milk has increased, and we have one of the highest public transit costs of the world's large cities. Catering costs are being quoted now at 100 per cent over 1966.

The Quebec rent control act may have been one full year late to be really useful to residents of Montreal. The rental situation deteriorated last year in anticipation of 1967 demands. The real protection is for tourists.

So far taxi drivers have been refused a wage adjustment until after Expo, for the benefit of tourists. Our taxi fares are low compared to all of North America.

The flossy restaurants on Expo Island have price restrictions. There is no restriction in the rest of Montreal where the wage earner or the student must eat.

Retail stores of every type will charge tourist prices to Montrealers. Because of the vast influx of tourists that are expected, we can expect food costs to rise accordingly.

Above the cost of living increases in 1967, Montrealers will pay for participation of three levels of government in Expo. Expo presently estimates its deficit costs at over $80,000,000. (Authority—Expo Information Office, Feb. 20, 1967). On behalf of the Canadian Government we will pay two dollars per head, Quebec Government, ten dollars per head, and City of Montreal, five dollars per head, or a total of seventeen dollars per head. Added to that is the impact of the cost of all facilities that have been rushed to completion for Expo, which cause greater current price dislocation.

Expo is the undertaking of the Government of Canada.

It will profit business corporations in Montreal, in Canada, and the world at large, as well as local retailers. But the real cost will be borne by the average Montreal residents in taxes and higher costs.

That is the prospect for 1967.

When the show is over, public works are expected to take up the slack in employment.

The great building preparatory to Expo is almost complete.

Our Provincial Minister of Finance has stated that Quebec cannot afford to pay teachers the salaries they request. How then can Quebec pay for public works to take up employment slack after Expo? Quebec is already having difficulties on the money markets.

Montreal is financing the present subway by charging extreme fares. Extension of the subway will present further cost hazards.

The Economic Council of Canada is having difficulty figuring out what is happening in Canada. In some segments we have rising prices, rising wages in some segments, rising unemployment in some segments, and certainly uneven economic growth.

For the layman in Montreal the dislocations presented by so many cost increases this year, and the uncertainty of prospects in 1968, are alarming.

We urge the Special Joint Committee on Consumer Credit (Prices) to make an immediate request of the Government of Canada to provide the cost of a weekly survey across the city, for the duration of Expo, of increases in items that constitute the cost of living, with particular reference to food, and to state the amount of increase and name the outlets where increases occur; and that such a survey be directed by the Montreal Diet Dispensary, which is competent and independent.

Whereas rent is usually contracted yearly, food purchases are made weekly. Publishing of these facts would both assist the consumer in shopping and act as a deterrent to unnecessary profiteering.

We ask the Government of Canada to keep close watch on such indicators as the Montreal unemployment figures and proposed construction, and be prepared to relieve the employment situation, it if worsens, without delay, with public works, road construction, reduction of interest rates, and longer term CMHC mortgages for both existing and old mortgages, for both purchases of old homes and new construction of homes, and whatever measures are required to provide greater stability in Montreal in 1968.

And we also ask that through Expo Corporation, the Government of Canada provide all recipients of welfare in Montreal with specially identified Expo

passports and bonus books, and that the final week of the Fair, when business is virtually over, Expo be open to these people without cost so that they will have an opportunity to really see its wonders.

Thank you.

Respectfully submitted,

Norma L. Meyer,
Chairman, Committee of Angry Consumers, N.D.G.

Feb. 22, 1967.

SUBMISSION TO THE SENATE-HOUSE OF COMMONS COMMITTEE ON CONSUMER CREDIT

By Mrs. Agnes Higgins, Executive Director,

Montreal Diet Dispensary

The Montreal Diet Dispensary, a member of the United Red Feather Services, is a community nutrition agency providing nutrition and budget counselling to individuals and families managing on low incomes. The purpose of our agency is to improve the health of our clients by improving their nutrition. We find that this is impossible unless we supply the majority of our clients with food supplement to meet their nutrition requirements. From our long experience we have found there are many individuals and families in Montreal who are financially unable to buy the necessary foods to maintain health, and who are forced by lack of sufficient income to live under distressing circumstances as second class citizens.

The purpose of my appearance before your Committee today is to recommend that action be taken to insure that all citizens of Canada may have sufficient income to maintain health and development necessary for full participation in the Canadian way of life, and to emphasize that this cannot be done without the preparation of budget standards. It would seem appropriate to bring this matter to the attention of this Committee concerned with the cost of living of Canadian families. The government has various programmes to support and subsidize individuals and families who are completely or partially financially dependent, but these programmes are not as effective as they should be because they are not sufficiently related to the actual financial needs of the recipients. In order to provide sufficient income we have first to find what is the cost of the minimum kinds and amounts of goods and services necessary and to amend our various programmes as public assistance, family allowances, public housing to meet these goals.

For many years the Montreal Diet Dispensary has been interested in establishing minimum budget standards to meet the minimum needs of health and welfare. Our first was the *Individual Minimum Adequate Food Costs* which we started in 1953 and have continued to reprice and distribute to health and welfare agencies three times a year. The schedules for the kinds and amounts of foods which are required for each individual according to age and sex meet the nutrition requirements as recommended in the Dietary Standard for Canada approved by the Canadian Council on Nutrition.

It will be of interest to this Committee to compare the percentage increase in our food costs as compared to the report of the Dominion Bureau of Statistics for food costs in Montreal.

Years	Diet Dispensary	DBS—Montreal
1956-1966	31½%	29½%
1965-1966	7%	6%

From 1956 to 1966 the increase was 31 per cent for the foods priced by the Montreal Diet Dispensary as compared to an increase of 29½ per cent for the foods priced by the Dominion Bureau of Statistics. From 1965 to 1966 our food costs increased 7 per cent compared to 6 per cent for DBS.

It will be noted that there has been a greater increase in the cost of the food selected by the Montreal Diet Dispensary. The kinds of food selected in our food lists represent the most economical sources of nutrients. It would seem from this comparison that there has been a greater increase in the cost of the kinds of food recommended for and purchased by low income families.

At the present time according, to our *Individual Minimum Adequate Food Costs*, the minimum adequate per capita daily food cost is 76 cents for a family of five including two adults and three children of 6, 10 and 12 years of age.

In 1956 the Montreal Diet Dispensary prepared minimum monthly budgets for elderly persons living alone. For some time the agency had been concerned with the many referrals we were receiving from the hospital social service departments for elderly patients attending public clinics who had no income but their old age pensions of $40 monthly. In our method of nutrition counselling we start by taking a diet history, and we found that the nutrient intakes of these pensioners were very inadequate because of lack of income. Our concern led us to inquire if any health or welfare agency had prepared budget standards for the elderly which insured adequate nutrition. As there were none available, we prepared our own. In our budget standards we listed the kinds and amounts of goods and services needed to meet the bare necessities for the maintenance of health, dignity and independance. No allowances were made for medical, nursing, dental care or drugs, new furniture or furnishing, savings, insurance or repayment of debts, telephone or holidays. The monthly cost of our standards in 1956 was $75 for the woman living alone and $71 for the man. In our most recent repricing in 1964 the cost had increased to $94 for the woman living alone and $101 for the man. These budgets were presented in the Brief to the Special Committee on Aging of the Senate by the Montreal Council of Social Agencies.

In 1956 we also prepared for the first time our minimum budget standards for families according to size. These budgets are useful to the agency as guides in determining need for food supplement in public maternity clinics where we are giving nutrition counselling as well as for those referred directly to our agency. Using these budgets as guides, we found 64 per cent of all mothers attending two maternity clinics at the Royal Victoria Hospital over a three year period (1963-1965) had incomes less than our minimum standards. In these budgets as in the ones for the elderly there are no allowances for medical, nursing, dental care or drug, new furniture or furnishings, savings, insurance or repayment of debts, telephone, or holidays.

In 1961 a Committee on Family Budgeting established by the Montreal Council of Social Agencies published a budget standard for families on public assistance called *Budgeting For Basic Needs*. The Montreal Diet Dispensary was represented on this Committee and our agency's standards for food, clothing, fuel and utilities were adopted and all pricing and repricing became our responsibility. It was interesting to note in reviewing the standards for public assistance, wherever available, of all the 53 states and territories of the United States and the provinces of Canada, that allowances were made for only 8 categories of consumer expenditures; rent, water or property tax, food, clothing, personal care, household supplies, utilities and fuel.

As the human resources of Canada are our greatest resources and we desire to develop the capacity of each citizen to full realization, we must face the fact that there is a minimum cost for such a goal. Many of us question the traditional limitations of previous public assistance programmes with no allowance for newspaper or reading material, radios and television to keep in touch with every day developments, with no provision for church or community membership to meet spiritual and recreational needs, with no allowance for carfare for shopping or visiting friends, or keeping necessary appointments. In other words traditional standards should be broadened to quarantee the kind of living necessary for optimal development of the recipients. We have heard that consideration is

being given to establishing a National Department of Consumer Affairs and it may be that the preparation of minimum budget standards could be one of the responsibilities of this new Department. Health and welfare services would then have a yardstick for comparing the adequacies of various programmes of public assistance as well as guides for eligibility for free or subsidized services

Before concluding this submission we wish to single out one commodity, milk for special consideration. Because of the high nutrient value of milk, there is a minimum amount recommended for all age groups. When the price of milk increases, the consumption decreases. During World war II when the price of milk was fixed at ten cents a quart, the annual per capita consumption increased from 413 lbs. in 1942 to 468 lbs. in 1945. In 1965 consumption has decreased to 320 lbs. per capita. For reasons of health, some countries have made a special effort to encourage the consumption of milk either through price control or through the provision of subsidized milk to pre-school and school children, and to pregnant mothers.

We are very fortunate in Canada to have an abundance of this most precious natural resource and measures should be taken to insure adequate consumption by everyone. As many canadians today cannot afford to have the necessary amount of milk, we do hope the federal government will cooperate with the provinces to find a solution to this problem. We hope Canada will consider the distribution of milk to school children which could be also the beginning of a much needed school-lunch programme. We also hope Canada will consider a milk subsidy for pregnant mothers. Our agency has approached both the Department of Health and the Department of the Family and Social Welfare of Quebec concerning a milk subsidy for pregnant women.

The Montreal Diet Dispensary has been conducting a study of the nutrition of pregnant mothers at the Royal Victoria Hospital for the past four years. The purpose of this study was to determine the income and nutrition inadequacy among public patients, and to measure the effectiveness of improved nutrition in decreasing maternal toxemia, and morbidity and mortality among the newborn. In this study mothers who could not afford to buy the necessary foods were given food supplementation as milk, eggs, and oranges. We have some of the preliminary findings of the first three years on slides which we think will be of interest to this Committee. It is because of some of these findings that we are requesting milk for pregnant women.

SUBMISSION BY «LA LIGUE DES FEMMES DU QUÉBEC»

M. Le Président et Sénateur Croll;

Messieurs les Membres du Comité Conjoint de la Chambre des Communes et du Sénat;

Permettez-nous d'abord de nous présenter.

La Ligue des Femmes du Québec, membre affiliée à l'Association de Protestation des Consommateurs du Canada, est une organisation qui s'est donné comme but, la défense des droits de la femme, de l'enfance et de la famille du Québec. Elle est composée de ménagères, d'ouvriers et de commis de bureau.

Notre lutte actuelle consisté à défendre les consommateurs contre la hausse du coût de la vie en général et principalement contre la hausse exorbitante des prix des denrées alimentaires.

Les groupements de protestation des consommateurs qui représentent l'opinion des acheteurs à travers le Québec ont un point de vue important quant aux prix des aliments et se sentent obligés de les présenter et les faire connaître à tous ceux qui veulent que le Québec continue à progresser. Nous sommes intéressés à faire quelque chose en ce dens. C'est pourquoi nous sommes ici aujourd'hui.

Donc notre organisation soumet à votre Comité un mémoire sur le coût de la vie actuel, particulièrement celui des aliments.

D'abord nous tenons à vous souligner fortement que depuis 1961, au Québec et surtout à Montreal, la misère et la pauvreté sont le lot de trop de familles, et depuis un an la situation s'est aggravée.

Ainsi, comment un père de famille de quatre personnes peut-il boucleer son budget avec un salaire de $3,000.00? Ce salire est nettement inférieur à la réalité, car nous savons qu'un salaire annuel de $4,000.00 à $4,500.00 place quelqu'un au seuil de la privation. En d'autres termes, ce revenu annuel permet à peine à une famille de faire face aux besoins essentiels minimum, ne lui permet surtout pas d'élaborer des projets d'avenir tel que l'éducation des enfants, etc.

Il y avait en 1961 dans la région de Montréal 51 p. 100 de familles pauvres dû à la faiblesse de leur salaire ou gagne-pain. Le budget dont dispose la Ville de Montréal pour le Service de Bien-Être Social (ou la charité) n'a pas été augmenté depuis 1961. Ce budget étant encore de 26 millions de dollars par année. Peut-on déclarer que les ouvriers vivent bien dans de telles conditions surtout lorsqu'ils ont à faire face aux augmentations du logement, du transport, des médicaments et en particulier de l'alimentation.

Le 25 janvier nous avons présenté un mémoire au Gouvernement du Québec sur la question du prix du lait qui en 6 mois a subi 2 augmentations et en subira une nouvelle au mois d'avril. Le fermier doit payer cher les matières telles que la moulée, les semences, les machines. En outre, son dollar achète beaucoup moins, car il a décliné de 58 p. 100 à 41 p. 100. Celui qui produit le lait a donc besoin d'aide. Malheureusement, l'intermédiaire entre lui et le consommateur bénéficiera encore de la prochaine augmentation. Nous demandons au Gouvernement Fédéral par votre entremise, de donner à l'industrie laitière des subsides comme ceux accordés pour le beurre.

VOICI QUELQUES CHIFFRES QUI PARLENT D'EUX-MÊMES

Coût de la vie en général		Coût des aliments	
1961	129.8	1961	124.5
1962	131.9	1962	127.8
1963	134.2	1963	131.2
1964	136.5	1964	133.2
1965	140.8	1965	139.6

De mars à septembre 1966, les prix du bœuf à bouillir et du bœuf à ragoût sont passés de .45 à .69 la livre. Les fruits, tels que les oranges qui sont passés de .49 la douzaine à .69 et .79 la douzaine et les citrons que l'on paie maintenant 6 pour .59 dans les supermarchés quand dans les magasins de fruits on peut se les procurer à .59 la douzaine. En janvier 1967, dans l'espace de 2 semaines, les choux sont passés de .07 à .15 la livre, c'est-à-dire que le prix en a plus que doublé! Quant aux céréales par exemple la «Spécial K» format familial de 15oz. qui se vend .61, .65 ou .69, pourquoi une même céréale se vend à 3 prix différents dans 3 magasins différents?

En ce qui concerne les aliments ou les produits domestiques que l'on nous offre accompagnés de «Bébels» ou de «serviettes» (ces attrape-nigauds); voyons qui paie vraiment la note de ces «cadeaux». Par exemple comparons le détergent «Breeze Bleu» (avec serviette.) 51 oz. à $1.99 et le détergent «Bold» (sans cadeau) 80 oz. à $1.47; nous obtenons pour .52 moins cher 26 oz. de plus de savon! Donc le détergent «Breeze Bleu» nous coûte 2 fois plus cher à cause de la prime! A vous Messieurs les experts de calculer le prix de la serviette du «Breeze Bleu».

Passons maintenant à la publicité exagérée, dans le but premier de réduire l'impôt versé aux Gouvernements. Des millions sont dépensés sur la publicité seulement. Prenons une compagnie comme Kellogg, qui a une grande variété de céréales pour le déjeuner. Ils les annoncent toutes en essayant de convaincre les enfants, et à travers eux les parents—que les «Crunchies» sont meilleurs que les «Cracklies»...quoique cette compagnie manufacture les deux.

Pourtant les annonceurs déclarent avoir un code éthique (qui signifie moral!). Une clause dit: «Aucune publicité sera préparée ou sera ouvertement acceptée, si elle contient de la réclame fausse, trompeuse, sans garantie ou exagérée. Les membres de notre Comité s'inquiètent donc avec raison au sujet de cette clause en relation avec un tel slogan publicitaire comme: «Quelque chose d'heureux vous arrive quand vous buvez du thé Salada!»

Nous avons l'appui total du CTC et du CTM et plusieurs locaux de syndicats ouvriers tels que le local 301 (SCFP) et les employés du transport de Montréal (CSN) etc...ainsi que divers groupements féminins. En outre, plusieurs députés fédéraux et provinciaux nous ont manifesté leur appui.

Nos recommandations à votre Comité sont:—

1. Un bureau de contrôle des prix composé de syndicats ouvriers, de fermiers de groupements féminins et de consommateurs.
2. Un ministère des consommateurs où la ménagère pourra porter plainte ou recevoir des explications à ses demandes.

La hausse continuelle du coût de la vie est un problème urgent et crucial qui doit à notre avis être résolu au plus tôt. Quant aux membres de la LFQ, ils ont beaucoup appris depuis le commencement de notre campagne et sont persuadés que le Gouvernement peut trouver une solution au problème soulevé.

Présenté par:

La Ligue des Femmes du Québec

Ce 22 février 1967

SUBMISSION BY THE EAST END PRICE PROTESTORS OF MONTREAL.

TO WHOM IT MAY CONCERN.

We, The East End Price Protestors of Montreal, wish to submit the following suggestions that we, as consumers, feel would and should benefit us.,

1. The outlawing, and enforcing the law, of all trading stamps.
2. The outlawing of all gimmicks, i.e. T.V. Games, give aways, etc.
3. Meat packaging made *clearly* visible on all *four* sides.
4. To cut costs of expensive packaging from boxes and cans to cello bags—where possible.
5. Toilet articles—Tubes of toothpaste and grooming aids should be in straight ounces to aid consumers. Shampoo in eight and sixteen ounce containers only.
6. All cans clearly marked as to solid and liquid content and standardized to ½ pound, 1 pound and 1½ pound.
   Biscuits and candies also to be standardized.
7. Advertising.
   A much more limited tax deduction allowed to manufacturers for advertising.
   A time limit to be applied on advertising and the amount of advertising *per hour* controlled by all T.V. and Radio Stations.
   Advertising hammered at children to influence parents' purchasing, specifically on programmes for children, must be controlled.

To summarize, we feel that if advertising, packaging and gimmicks are the reason for soaring prices, then the Government must put an end to this type of exploitation immediately. We also demand the Federal Goevrnment insist that the Provincial Governments of each Province set up a bureau to oversee prices on *all* consumer products at the retail level, make themselves available to hear consumers' complaints and continue this public service indefinitely.

EAST END PRICE PROTESTORS

9th February, 1967.

Copies sent to: Prosper Boulanger, M.P.P.
Jean-Paul Beaudry, M.P.P.
Premier Johnson, Quebec City.

V. Munday Secretary
7370 Roi Rene Blvd.,
Ville d'Anjou P.Q.

SUBMISSION BY

CHATEAUGUAY VALLEY CONSUMERS' LEAGUE

We, the Chateauguay Valley Consumers' League, a Branch of the Canadian Consumers' Protest Association, represent 60,000. We would like to point out the following gimmicks and methods used in selling to which we strongly object. Also, our main object is to point out to you that with the ever increasing cost of food, it is difficult and often impossible for a family to manage on an average income.

1. First we demand the various weights and sizes, at which our products are now sold, be standardized. In the case of tooth paste alone the sizes are varied to the point of being ridiculous—(e.g. 161.5 grams, 162 grams, 152 grams, 5/8 ounces, etc., which all appear to be the same size). The companies must *all* use the same measure throughout Canada, the choice of using grams or ounces to be decided upon amongst themselves. At this time the housewife can readily see which is the better bargain.

In the case of bacon, all packages should be sold by the pound or ½ pound. At present bacon is sold in 6 ounce packages which appear to be the same as ½ pounds packages and 10 ounce packages which appear to be the same as one pound. Adding to this confusion, there are often price stickers which strangely appear on top of the weight to conspire against the housewife. Too often the housewife buys the 6 ounce package under the impression it contains ½ pound, assuming she is getting a bargain.

2. Second we object to the gimmicks used by the manufacturer. We now have towels inside of our boxes of detergent. This is fine, but why doesn't the manufacturer produce also a box of the same detergent without the towel in order to give the public a choice? Parents object to advertising appeals through their children to buy for example Kellogg's Rice Krispies which contains a "Free"(?) batman ring. Another objection is to the television or radio announcers who says "Kids, get Mom to buy...".

3. The price of meat causes much concern. Most families in this country must manage on an income of less than $5,000 a year. This amounts to $10-$12 per day after deductions. One half of this would have to be spent in order to obtain a *decent* cut of meat.

The families with a $4,000 to $5,000 income have a take home pay of $60-$70 a week. This income must cover all expenses—e.g. food, lodging, clothing, education, transportation and medication. There is no money left for such necessities as insurance, dental care, higher education and certainly nothing for vacation or recreation. Don't you think it is time this was corrected?

4. Now let us look at packaging. The producers are continually devising new packages for products with no choice for the old or cheaper package. The new container is always "better"(?) and more expensive. An example is a fancy glass container for spices such as paprika. It is now sold at 59 cents. The same was formerly in a tin containing the same quantity and was sold at 39 cents—a difference of 20 cents. The tin seems to have been discontinued and the public is not given a choice. We *must* pay the extra 20 cents for a container we do not want. This is just one example!

5. We strongly urge you to investigate the drug and medication situation. There are too many people in this country who require prescribed medication, but who are unable to pay for it. As a result they do without this medication and jeopardize their health. There must be a strict control on drugs to abolish the outrageous profits made on medication.

6. Suggestive Advertising: This is too often misleading. An example is Kellogg's Frosted Flakes advertised as a "½ Price Sale". Two packages are

attached and sold under this advertisement. The customer naturally assumes he'll buy one and the other one will be free. There are no single boxes of the same cereal on the shelves to compare prices. It takes closer investigation to see the smaller print which says "buy one package and pay ½ price for the other". True, it may be slightly cheaper but it is not what was implied and is willfully misleading. This type of advertising not only takes the housewife's money, but also a great deal of her time.

7. The basic food and other necessities (such as soap, tooth paste, toilet paper, etc.) should be reduced to a price where a family with a below average income can readily afford it, even if a profit limit must be enforced. The producer and retailer can shift their profit and collect it from luxury items.

There should be a limit that the producer can use for advertising purposes on necessities. This alone should reduce the cost tremendously.

8. Only 30 per cent of labour is unionized in Canada. What does the other 70 per cent do? Where can these people turn when their salaries are not enough for their requirements—as they are at present? What do you expect them to do?

We hope the outcome of this investigation will not terminate as did the Royal Commission on Consumer Prices in 1959, which cost the public over 1/4 million dollars ($290,224).

We expect our elected officials to take all necessary measures to remedy this deplorable situation.

This Brief will be presented by:

President—Mrs. Janet Sizaire
Vice-President—Mrs. Ellen Harnest
Secretary—Mrs. Marge Prange
Treasurer—Mrs. Dorothy Lisacek
Social Convener—Mrs. Johanna Fuchs

Commentaire d'Adrien Létourneau, président de l'Association des constructeurs d'habitations du district de Montréal, devant la Commission gouvernementale sur les prix à la consommation.

Il existe peu d'industries où il soit plus difficile de contrôler les prix que l'industrie résidentielle. En effet, ces prix dépendent d'une foule de facteurs sur lesquels les constructeurs n'ont pratiquement aucun pouvoir.

Parmi les facteurs qui affectent les prix des maisons unifamiliales et—dans une certaine mesure les loyers—figurent les suivants:

Impossibilité de planifier le travail

Depuis des années, l'industrie de la construction résidentielle sert de tampon à l'économie. Quand la conjoncture est favorable et que les affaires marchent, les fonds trouvent à s'investir un peu partout et le constructeur manque de prêts. De même, en période de surchauffe économique, le Gouvernement restreint le crédit et augmente les taux d'intérêt ce qui frappe l'habitation plus durement que n'importe quelle autre activité puisqu'elle ne vit que des fonds disponibles permettant au public d'acheter.

Il s'ensuit que le constructeur d'habitation ne sait jamais à l'avance s'il pourra travailler et dans quelles conditions. Il ne peut donc planifier son affaire, programmer ses travaux, ses ventes, engager du personnel, acheter des matériaux au moment où ces derniers sont meilleur marché. Cette impossibilité de travailler rationnellement contribue à augmenter sensiblement les coûts tout en créant un sentiment permanent de malaise dans l'industrie.

Spéculation sur les terrains

Le terrain, comme le prêt, constitue la base de notre industrie et nous ne pouvons bâtir que si nous disposons suffisamment de terrains, à des prix abordables. Or, la spéculation, laquelle n'a rien à voir avec l'industrie de l'habitation, fait augmenter rapidement le prix des terres. Cet élément est l'un de ceux qui ont le plus contribué à faire hausser les prix des maisons au cours des dernières années. Nous estimons qu'une intervention de la part des autorités, des contrôles et des taxes sur les terrains conservés pour fins spéculatives et bloquant les développements domiciliaires, aideraient à stabiliser les prix.

Diversité des codes de construction

Il n'existe aucune uniformité entre les codes de construction adoptés par les différentes municipalités, ce qui oblige les constructeurs à adopter des normes entièrement variables suivant les endroits où ils travaillent. Ceci contribue également à faire hausser les coûts en empêchant toute planification et toute programmation de travaux en série.

Taxe de 11 pour cent sur les matériaux de construction

La taxe de 11 pour cent sur les matériaux a grandement contribué à faire monter les prix si l'on considère que les matériaux représentent environ 50 pour cent du coût de la maison. Cette taxe ne s'impose plus actuellement et elle correspond à une situation passée. Nous pensons qu'elle devrait être purement et simplement abandonnée comme désuète et nuisible à l'une des principales activités du pays.

Augmentations des salaires

C'est l'industrie de la construction qui a connu les plus fortes augmentations de salaires et ces derniers se sont traduits immédiatement sur les prix (50 pour cent du coût d'une maison est en salaires). L'habitation a été—là encore—plus durement touchée que les autres secteurs de la construction car ces augmentations (que les constructeurs d'habitations ne purent négocier) eurent un effet

désastreux sur la vente des maisons, ces dernières pouvant difficilement supporter des augmentations que l'industrie lourde absorbait plus facilement.

C'est pourquoi nous suggérons une série de mesures urgentes destinées à stabiliser cette industrie qui touche directement le public, notamment la régularisation du financement hypothécaire (ce qui permettrait de planifier à long terme et de construire à meilleur marché)—suppression de la taxe de 11 pour cent sur les matériaux (qui ne se justifie plus et qui contribue grandement à la hausse des prix)—mesures pour limiter la spéculation—mesures fiscales destinées à encourager le citoyen à devenir propriétaire au meilleur prix.

Committee Room,
City Hall,
Edmonton, Alberta,

THURSDAY, Feb. 23rd, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators McDonald (*Moosomin*), O'Leary (*Antigonish-Guysborough*) and Thorvaldson—3.

For the House of Commons: Messrs. Basford (*Chairman*), Horner (*Acadia*), MacInnis (Mrs.), Mandziuk, McLelland, O'Keefe, Olson and Smith—8.

The following were heard and questioned by members of the sub-committee:

Mr. J. L. Harris,
Chartered Investments Ltd.,
Edmonton, Alberta.
Brief.

Mr. Fred Newcombe,
Canadian Cattleman's Association.
Calgary, Alberta.
Brief.

Mrs. K. Elgaard,
Consumers' Association of Canada,
Edmonton, Alberta.
Brief.

Mr. L. D. Hyndman
and
Mr. E. S. Bishop
Executive Director,
Edmonton Welfare Council,
Edmonton, Alberta.
Brief.

At 12.30 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Mr. S. C. Rodgers,
Chief Planner,
City of Edmonton,
Edmonton, Alberta.

Mr. Atkinson, President,
and
Mr. Paul Baby, Vice-President,
National Farmers Union,
Saskatoon, Saskatchewan.
Brief.

Mr. Ruth Truant, President,
Lethbridge Consumers Protest Association,
Lethbridge, Alberta.
Brief.

Mrs. K. Swinton, President,
and
Mrs. Proserlo,
and
Mrs. N. Lampton,
Consumers Protest Association,
Calgary, Alberta.
Brief.

Dr. T. L. Powrie, and Dr. M. D. Stewart,
Department of Economics,
University of Alberta,
Edmonton, Alberta.
Brief.

At 6.00 p.m. the sub-committee adjourned until tomorrow, Friday, February 24th, at Vancouver, B.C.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

Submission by

CHARTERED INVESTMENTS LIMITED

The Joint Committee on Consumer Prices
House of Commons, CANADA

Gentlemen:

I would like to take this opportunity of thanking you for asking me to appear before your committee. I regret that I was out of town until just this last week and did not have as much time as I would have liked to prepare a more elaborate brief. I would like to make comments regarding your letter forwarded to me, dated February 15th, 1967, regarding the effect of housing costs contributing to the recent increase in the cost of living in Canada. I will make comments and follow the contents of your letter in regard to these points.

You have noted that between January 1966 and January 1967 that the index rose from 142.9 to 147.6 and that it would continue to rise. There are certain things in this regard that I feel are having a definite bearing. I do feel that the Federal Sales Tax increase of 11 per cent had a larger increase than one realized. Some of this was not felt till this last year, especially in the cases of large projects where it takes two or three years to complete. The sales tax of 1 per cent was exempt on building products and this applys only to the very basic materials and such things that are manufactured as your glass, stoves, fridges, etc., still carry the same 12 per cent. The overall effect of the sales tax has a much larger overall effect on the cost of housing than one realizes due to the fact that when a builder completes a project, he is looking for an overall profit markup between 5 and 10 per cent for his overhead and profit. As a result, if he has a much larger dollar volume due to the effect of the sales tax, this puts overall increase in the 14 to 15 per cent range.

The National Housing Act, as stated in your letter, provides two basic methods of subsidizing housing. I do feel that, the housing should be subsidized after the building has been built, more in the form of socialized subsidizing other than trying to bring large government bodies into the building of low cost housing. It seems to me that since the end of the war, we have gradually increased the sizes of our accommodation, even for low cost housing plus the further demands that have been asked for by government regulations and government bodies. This has definitely caused an increase in construction. We, here in Edmonton, are fortunate in having some excellent people to work with at Central Mortgage and Housing and certain exceptions can be made in the course of construction by local authorities. I do feel that, in attempting to legislate and set down a set of rules in Ottawa, it cannot possibly apply to each individual location and as a result more flexibility should be allowed in local management levels. We have had some unfortunate experience with some offices of the corporation who interpreting the regulations, follow every single word in the manual. It is almost completely impossible to build under these conditions. It is a fact that, certain major lenders in this field, because of this problem and because of some delays in having inspections or completion of documents, have completely removed themselves from the field. Only recently, I have had two major lending institutions confirm this to me that under no condition would they re-enter the field because of the untimely delays and losses they had incurred due to the fact that some builders had gone into liquidation over delays, draws and other complications that had arisen from time to time.

It is my opinion that competitions could be provided and that certain large, well established and well financed house builders and developers should be allowed to develop and make presentations on types of low cost housing, that,

then could be built by them and turned over on completion date to the Federal Government to be run for people in the low income groups. A government agency, of course, would request that plans and specs be submitted and they would be allowed to inspect while the project was under construction but there must be more flexibility in the use of materials and building methods that exist at the present time. I think of one point in particular that has happened to ourselves recently with our own experience in Fort McMurray and Northeastern Alberta.

In this particular case, it is required that we have Grade A, government inspected lumber and this I agree. We found it necessary, however, because of no inspectors in this part of the country, to have the lumber shipped to Edmonton, then when it was graded it was shipped back and, of course, this has contributed greatly to the cost. In areas, such as Fort McMurray, of course, we run into entirely different problems and servicing and the type of materials that are available and we may be forced to use some type of construction or some type of material that isn't necessarily approved by Central Mortgage and Housing Corporation or other Government Agencies. I think that more flexibility must be left in the hands of local managers.

The Federal Urban Renewal legislation should definitely be set up to provide loans to private corporations such as large developers or large home builders who are in a financial position to consolidate a large parcel of land and to rebuild in a period of years. This could be done by providing low cost loans over a long period of time for the purchase of the land to these particular developers or house builders. To consolidate a large parcel of land, is one of the major problems that exist today due to the fact that you will deal with a large number of land owners. Sometimes, this may take as long as five or six years to consolidate the land and be in a position to re-develop the property on an overall project. If these funds were available in some form or guaranteed in some manner to a large lending institution for the purchase for this type of land, private developers would take a much greater interest and again provide necessary initiative for developing in urban renewal areas. At the present time there is no such lending institutions that will lend on older, run down properties for any period of time, other than possibly through one's own banking connections. The result is an extremely difficult proposition to undertake where you have large sums of capital tied up, bringing in very minimum returns and in some cases paying only the taxes till such time as consolidation is completed.

It is our feeling in regard to service land, that money should be made available for long term financing of service lots at a low interest rate over a period of years such as up to 50 years. In numerous cities that we deal in at the present time, they ask that all lots be prepaid. In some instances when they insist on underground services, which I agree with, this may make the cost of a lot somewhere in the neighbourhood of $3,000.00 extra. The feeling of several cities is that they do not like a large number of serviced lots, because they are in the same position as private developers, being short of capital, they cannot afford to have large capital amounts tied up underground without some form of return.

This, however, definitely and seriously effects the amount of land serviced and available and as a result in some cases, there could be a captive market. The demand for huge school sites and park areas, I do believe, has gone beyond all reasonable and intelligent approach. I have noticed in comparing school sites and the number of parks across Canada, that they vary considerably from city to city. In certain areas, there are large groups who agitate for larger school sites and larger parks and while I think that these are a definite necessity that in some of these areas where they are taking up to 50 per cent of the land for parks, roadways, and school sites, this is causing one of the main reasons for the increase cost in shelter. We note that right here between the cities of Edmonton

and Calgary, that we here in the city are asking almost double the size of the school sites than is being requested by the school board of the city of Calgary. This in my mind has to be standardized and if people desire this type and size of schools and parks, that they will definitely have to pay for it out of their own source of income. In regards to the size of the houses and the finishing and equipment, I do believe that we should not go backward, but I think that some of the requests that have been made for the type of finishing, the type and sizes of stoves and fridges and other mechanical requirements have definitely caused an increase in housing. This could be eliminated by leaving it more in the hands of private developers who would possibly build a smaller but still an excellent type of home at a lower rate than is being built at the present time.

I do feel that the government has used the house building industry, in some cases, to control the economy and this has a terrifically large bearing on the inventory that will be available from time to time. I feel that any time the government interferes with private enterprise, while we may solve a temporary problem, will only create one further down the line. I speak of such things of having allowed $500.00 for a winterworks program which I feel did not serve the purpose other than to create further problems in the house building industry at a later date. The idea of allowing the extra $500.00 for building in the wintertime, while in one small way may have attempted to solve the unemployment situation, definitely caused an increase in house building, as in climates such as we have here in the prairie provinces, this would come nowhere near to covering the increase cost in construction. I do not feel that the CMHC rates should be fluctuated as it is at the present time. It should be more stabilized in attempting to have the market and inventory on a more gradual rate throughout the year. I am thinking at the present time for the rumors that possibly Central Mortgage and Housing rates may drop sometime in the next month or two. I also hear that several people do not want to start building or commit if this is possibly going to happen. They would have a house that maybe a ¼ or ½ per cent higher rate which will, of course, be uncompetitive on the market.

It would be my pleasure to answer any further questions as you might have and I would like to take this opportunity of thanking you again for asking me to appear before this committee.

Yours very truly.
J. L. HARRIS

A SUBMISSION

to the

SENATE-COMMONS JOINT COMMITTEE

on

PRICES AND THE COST OF LIVING

by

CANADIAN CATTLEMEN'S ASSOCIATION

at

Edmonton, Alberta

February 23rd, 1967.

To the SENATE-COMMONS JOINT COMMITTEE
on Prices and the Cost of Living.

Gentlemen:

This submission is motivated by your request, transmitted to our President, that we might appear before you and add something to our previous observations. The President's request that we proceed having reached us less than a week ago, there has been little time for the research and documentation that might have made it more valuable. Accordingly, the contents of this submission, apart from statements of fact, must be regarded as our opinions and must be evaluated as such. For purposes of continuity and emphasis, we may repeat some of the points we tried to make in our original letter.

We should like to make it clear at the outset that our comments are made on behalf of the primary producer, whom, we suggest is close to becoming "the forgotten man". We are concerned primarily with suggestions—as reported by the press—that food in general and beef in particular are measurably responsible for the accelerating cost of living. We consider this statement to be untenable and not supported by the facts, as we shall endeavor to demonstrate.

Two yardsticks present themselves in arriving at an assessment of increases in prices:

1. The absolute—the number of dollar units required to purchase a constant amount of any specific product. By this yardstick it is indisputable that absolute prices have increased. It is admitted also that live cattle prices have risen but examination will show that these prices have not kept pace with the cost of producing cattle nor with the general cost of living. Since dollars do not maintain a constant value, the absolute price means little.

2. The relative—in terms of percentages. Here the picture changes—in reverse:

(a) as to the percentage of disposable income required for the purchase of food for the family. In this category, Dominion Bureau of Statistics figures clearly reveal that in 1949, the family spent 24 per cent of its disposable income for food. In 1965 it spent 20.3 per cent. Of the food bill in 1949, meat accounted for 22.4 per cent—by 1965 this had decreased to 21.7 per cent.

(b) in terms of the purchase of units of food with the fruits of one hour's labor, in 1946 the average hourly wage would buy 7 units of 10 staple foods. Today the same labor will purchase 10 units of the same foods. In the case of beef specifically, the Bureau of Statistics figures show

that in 1950, one hour's labor would purchase 1.3 pounds of sirloin or prime rib—in 1965 it would buy twice that amount.

Again, using DBS figures and based on 1949 equals 100, the index of wages and salaries stood at 222.8 at April 1966. After allowing for cost of living at 144.3, real wages index was 154.4. In comparison and using the same base, cattle prices index was 118.1 but in this period the cost of production index had risen to 162.8 bringing the real price of cattle to 72.5. In only two years (1950-51) were cattle dollars worth more than 100 and in one year they were down to 69.7. Average for the 16 years is very close to 79, the figure at which it stands today. It would seem to be rather less than true for the wage and salary earner to say that he cannot avord to eat beef.

The lowered percentage of income spent for beef cannot be accounted for by lowered consumption. On the contrary, per capita consumption of beef has increased from 60 pounds average for the years 1946-1950 to 80 pounds in 1966.

Not only has the relative cost of beef decreased in the last 16 years but the quality has greatly improved. In 1949, 6.4 per cent of the slaughter graded Choice—the top grade. For 1965 the figure was 33 per cent Choice. So the evidence is strong that, not only did the consumer pay relatively less for his beef as the years passed, he also received more for his money in the added quality of the product.

In view of these facts, it would be logical to ask how the producer has been able to stay in business. Either he was receiving too high a price in 1949 when, incidentally, the housewives were not protesting—or he is getting too little now. We think the conclusion is evident. In any case, he has stayed in business, albeit with appreciable difficulty. Some of the factors permitting him to do this may be cited.

1. Efficiency of production. We refer here to the results of the application of improved techniques and modern technology without which a great many of them would now be among the wage earners in urban centres and enjoying the advantages that accompany that way of life. Whatever suspicion may attach to statistics, we know of no other way to demonstrate the progress that the agricultural producer has made in this factor. As measured by manpower output and again using the 1949 base, the Bureau of Statistics reports the

agricultural efficiency index at 276
General manufacturng index at 176
Commercial non-agricultural industry 152.5

2. Depreciation of capital assets. In the cattle business specifically, with a return to capital of 3 per cent, the operator has not been able to renew the capital plant and it has deteriorated accordingly.

The second logical question, we suggest, is why the primary producer is in this position relative to other segments. Before proposing an answer to this question we would like to make a few general statements that we think are pertinent.

It is our opinion that the absolute increase in the cost of living is a natural and inescapable result of inflation. Perhaps this is axiomatic and to that extent redundant. We make the prefacing statement because we believe it is necessary to seek the reasons—and perhaps the remedies—in the cause rather than in the effect. It is our opinion that prices are tied to purchasing power in its several forms relative to the supply of goods and services available for purchase. Perhaps this also is axiomatic and only states a generally accepted truism but it may be desirable to spell it out because if a premise is erroneous the conclusions drawn from it are likely to be fallible.

Cattlemen know from experience that a few too many cattle on offer will result in a softening in price. They reason that the dollar also is a commodity that is traded for goods and that too many dollars will lessen their value. If it is accepted that purchasing power has been in excess of the supply of goods and

services, then one may be justified in asking from where or from whom this power has come. We offer a few suggestions.

1. We cannot quote figures on the use of consumer credit but casual observation alone would indicate that it is staggering. It seems obvious that if lack of money is not an impediment to the purchase of goods, then demand must be increased thereby. We concede that cash will be required for the deferred redemption of the credit. The point we make here is that food sells for cash. If the income is already committed to meeting the payments on durable goods, the amount remaining for the purchase of food is likely to be somewhat less than that hoped for. The deduction: food costs are excessive.

2. Government Policy. We submit that government at all levels cannot escape a prominent share of responsibility of inflation. We appreciate that it is popular to name government as a culprit when at times it is a scapegoat. In support of out statement, however, we offer a few examples of chapter and verse.

(a) Excessive issuance of currency designed, the government says, to keep the wheels of industry turning. We suggest that an increase in the "money supply" of 50 per cent over 3 years cannot but have a terrific impact on the buying power of the nation. Perhaps the wheels might be permitted to turn more slowly.

(b) Ledger credits. This also is buying power and a very great volume of it must arise from the several loaning policies of governments —particularly federal and provincial—e.g. farm loans, housing loans, etc.

(c) The frantic rush to do adopt projects that may be desirable but certainly are not urgent. Urban re-development could be cited as one that could await the action of private enterprise which is occurring daily—only a little patience is required. Why a rancher in northern B. C. should contribute through federal taxes to the re-development of East Calgary is, to say the least, a trifle obscure.

(d) Legislation. Such measures as the Canada Pension Plan, Unemployment Insurance for farmers, and proposed medicare, all contribute to farm operating costs. The first two particularly are anathema to western agriculture. They increase the cost of farm labor and cause the farmer many hours of frustrating record keeping and stamp licking.

The recent "mini-budget" with its sales tax provisions will further increase the cost of farm operations.

Labor legislation over several years has protected the urban labor force from competition and permitted it to bring the economy to the brink of stagnation. Minimum wage and hours of work legislation cannot possibly contribute to increased productivity. We suggest Canada needs more—not less—hard work, and less—not more—easy money.

Competition by government for goods and services in the market place—using the taxpayer's money of course—probably also is a demand-increasing factor, particularly when financed by deficits.

To return now to the question of why primary producer is in a disadvantagious position we suggest one or two reasons.

1. In beef production, 2 to 3 years must elapse between the breeding of the cow and the marketing of a finished animal. Forward planning for such a period is most difficult.

2. The beef market is a North American one—the wheat market is international. So the farmer produces under domestic impediments and markets his product where these do not exist. He has little influence in this broad field.

3. The primary producer, traditionally, has never been able to demand a selling price. For this reason he cannot pass on added costs to his customers as we believe must be done by a merchant if he is to survive. Thus social welfare programs that add to this costs bear inequitably on his operations. Neither can he strike for a higher price—his product is perishable.

This generation appears to have implicit faith in legislation to cure all ills—"there ought to be a law". Perhaps it is from this general philosophy that suggestion originates for a Department of Consumer Affairs. We do not subscribe to it. All affairs are consumer affairs. To us it appears as another excellent opportunity for the operations of Parkinson's Law. We are convinced that it would add to the tax load—a load that already is severely straining the proverbial camel's back. Conversely we are by no means convinced that it would produce useful results but could produce more problems than it would be likely to solve.

Finally, we predict that, unless the relative position of the primary producer improves, the rest of the economy may look forward with confidence if not with pleasure to the prospect of higher,—not lower—prices for food.

Respectfully submitted

CANADIAN CATTLEMEN'S ASSOCIATION

212 Stock Yards Building
Calgary Alberta

BRIEF to the Special JOINT COMMITTEE of THE SENATE and HOUSE OF COMMONS on CONSUMER CREDIT (PRICES) Presented on behalf of the ALBERTA PROVINCIAL ASSOCIATION of the CONSUMERS' ASSOCIATION OF CANADA

by

FLORENCE ELGAARD, PRESIDENT

February 23, 1967 Edmonton, Alberta

ALBERTA PROVINCIAL ASSOCIATION of the CONSUMERS' ASSOCIATION OF CANADA

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Calgary Branch President:	rs. W. N. McKay	6735 Leeson Ct. S. W. Calgary, Alta.
Red Deer Branch President:	Mrs. A. R. Brock	R. R. 2, Lacombe, Alta.

Total paid-up membership in Alberta as of December 31st, 1966, was 1,900 as reported by National membership records. The distribution of members is approximately 1/3 in rural and small town regions, 1/3 in Edmonton and 1/3 in other cities.

Witnesses for presentation of the Brief:

Mrs. K. Elgaard	Provincial President
Mrs. W. R. Cheriton	Research Chairman
Mrs. G. L. Raynard	Edmonton President
Mrs. P. N. Gray	Past President, Edmonton Branch

Honourable members of the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices):

Preface

The "guide for Submission of Briefs" issued by this Committee calls for more detailed and formal commentary than we had anticipated, or are prepared to provide. Your "Order of Reference" seeks data regarding "... Trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living..." We attempt to offer some relevant remarks and suggestions about trends in the cost of living.

Your Committee has accumulated extensive data about prices and pricing, and in this area we acknowledge some influential factors. Business authorities in Edmonton tell us that this city has sufficient food markets now to serve a population of one million. It is evident that some of these retail outlets are not individually profitable, and are being "carried" by the retail chain of which they are a part. The costs thereof must be borne by customers of that chain, and the consumer cannot estimate the influence on prices that comes about through "carrying" uneconomic units.

We observe and acknowledge also that there is price influence from the municipal regulations about store hours, fully realizing that members of the trade have differing views on how the applied local regulations affect their service to customers and the costs of that service.

We are gratified that the Government of Alberta has successfully prevented the use of trading stamps in retail stores (Licensing of Trades and Business Act, Alberta Regulations 239/57 and 379/59). We are encouraged by the progress the Government of Alberta is making toward clear interest rate disclosure for all types of credit, likewise the Government of Canada and other provincial governments. We are also grateful for Alberta's "Direct Sales Cancellation Act" of 1966 which provides for a 4-day "cooling-off period" for off-premises agreements to purchase.

We submit that a cost of living factor, exceeding prices in impact, is the misjudgments and disappointments of consumers. These expensive experiences are caused partly by inadequate product description and partly by insufficient training of consumers. Our main conclusions are that education of consumers needs much more emphasis than is now common practice in both formal and informal educational media and that government has a vital role in providing for careful identification of all goods as offered for sale.

Rights and the Consumer

Our voluntary association has specialized in observing the Canadian marketplace for 20 years. It seems apparent that the right of the consumer to be informed is, in practice, secondary to the right of the marketplace to neglect or avoid basic product information. The rights of consumers, in our view, are the following: the *right to safety,* the *right to be informed,* the *right to choose,* and the *right to be heard.* We proceed to specify areas where these consumer rights are not fully practised, and the mistakes made by consumers in selection or use of merchandise is a vast factor in the cost of living of Canadians.

The Right to Safety

Toxic substances. Our Association has requested the Federal Government to introduce legislation requiring those products which have toxic properties to carry on their labels cautionary statements or warnings regarding their use and storage, and information regarding antidotes. The Canadian Manufacturers of Chemical Specialties Association has, as an industry, taken the matter of public safety very seriously, and in 1966 adopted a Code of Labelling Ethics.

We are aware that every company marketing chemical products is not a member of the C.M.C.S. and will not necessarily abide by their code. There are some government regulations in this area, but in order to maintain the public's right to safety, EVERY toxic product must carry clear warnings and instructions.

The consumer who erred in their respect for a toxic product would have an awesome cost of living experience. We acknowledge that proper instructions are usually provided, though not always impressively enough. Marketing procedures that ensure the consumer's right to safety must provide consistent and reliable data for consumers about product hazards.

Fabric flammability. A 1965 CAC National Annual Meeting Resolution reads as follows:

> Whereas there are on record statistics revealing serious injury and sometimes death from the igniting of garments and other articles made from inflammable fabrics, and whereas there exists in Canada no legislation preventing the sale of highly inflammable fabrics, and whereas such legislation has been enacted in both the U.S. and Great Britain...be it resolved that CAC again request the Canadian Government to set up tests and standards for inflammability of fabrics, and be it further resolved that following the setting up of these standards, CAC renew its efforts to have legislation enacted to control the sale of dangerously inflammable fabrics, whether imported or domestic, in Canada.

This advice has not yet been heeded by the government. Just last Christmas the press allerted the public to the existence of a doll that was manufactured from material that would explode and burn in contact with excessive heat. When it is possible for a merchant to offer for sale such a hazardous product, there is something lacking in attention to the consumer's right to safety. The potential cost in human tragedy is an ominous threat until legislation and regulations are enforced to prevent the use, in consumer goods, of any materials that have an unreasonable and unseen risk.

Automobile standards. The automobile has come under censure for incomplete emphasis on mechanical reliability, and our Association's 1966 National Annual Meeting passed a resolution, quote:

> ...to request that the Federal Government give wide publicity to the 'Standards for Safety of Automobiles' being prepared by the Canadian Government Specifications Board, and further that the standards be compulsory for all new cars sold in Canada.

We are told that the Standards are now a fact for the use of the government's selection of automobiles, and are "available" to the public. We ask, "How available?" Will every automobile dealer have the Standards on file for reference of customers? Or must consumers apply personally for a copy of the Standards?

Governments have a vast responsibility in making the highways as safe as possible, and we acknowledge that standards for traffic signs have been agreed upon and are gradually being provided.

Tire Standards. Our Assocation adopted a resolution in 1966 concerning tire standards, quote:

> Whereas the multiplicity of makes and types of automotive tires on the market creates confusion for the purchaser, and whereas advertising of tires as to plys and to the meaning of terms as 'lifetime' may be confusing and possibly misleading to the purchaser, and whereas the purchaser has no reliable means of ascertaining the quality, performance, or weight a tire should carry, be it resolved that CAC ask the Federal Government to establish minimum standards of quality and safety for all automotive tires sold in Canada, and that this information be permanently displayed on the tire.

There is a very significant cost of living inherent in consumer misjudgment of the proper grade and quality of tire for the automobile of one's choice. The Automotive Retailers Association in Alberta has expressed concern, as merchandisers of automotive supplies, about the confusion in the tire business, and in their Brief to the Alberta Cabinet (presented December 7, 1966) request establishment of tire standards by the Canadian Standards Association and the Government of Canada.

The Right to be Informed is surely an interesting exercise in confusion with, in our view, much need for attention. In the supermarket era, the label is the salesman; selection is by reading, not asking. The consumer must understand the label-information, rely on it to be accurate and adequately comprehensive.

Food Grading. The Canada Department of Agriculture administers the CANADA AGRICULTURAL PRODUCTS STANDARDS ACT, which provides detailed regulations for grading of all foods produced in this country and marketed according to grade.

We admire this service very much, but are impatient with the complex terminology that expresses grade on retail food merchandise. The consumer generally visualizes three qualities, and our Association has recommended that all graded food be identified as CANADA NO. 1, CANADA NO. 2, and CANADA STANDARD. If sub-grades are necessary, such provisions may be applied. We mention a few prominent graded foods with their officiel grading terminology:

Eggs	A-B-C
Fresh Beef	Red, Blue, Brown brands, denoting Canada Choice (red); Canada good (blue); Canada Standard (brown)
Tinned Fruit-Vegetables	Canada Fancy, Canada Choice, Canada Standard
Fresh Apples	Canada Extra Fancy, Canada Fancy, Canada Commercial
Potatoes	Canada No. 1, Canada No. 2

With the variance of terms to denote grade, the consumer is not always clear on which grade is offered, even though it is carefully stated on the merchandise. Note difference of meaning of same terms: Canada Fancy on apples is second grade, but on tinned fruits and vegetables is first grade. Canada Choice is second grade for tinned fruits and vegetables, first grade for beef. We point out also that the word "Fancy" is used without referring to any grade, but merely as a descriptive adjective to quality.

Meat packers use a Brand grading system for their products that are not government graded, and when the consumer is acquainted with the 1-2-3 order of these Brands, a satisfactory choice is usually obtained.

Net contents, weights and measures. The Food and Drug Directorate specifies labelling regulations for all foods, with careful attention to where and how boldly the net weight fact must be stated on the label. The net contents is required on most merchandise, though bar soaps have eluded net contents statement. If the product is not edible, the net contents fact is not, by law, boldly visible on the product display. Our association has studied the fractional ounces on many products, and passed the following resolution at the 1965 National Annual Meeting:

> Be it resolved that CAC again request the Department of Trade and Commerce to standardize the stated net weights of packages weighing four ounces and over into units of quarter, half and whole pounds, and to end the use of fractional ounces in the weight of net contents of packages which makes comparison shopping difficult and confusing for consumers.

This suggestion has not been acted upon by the government in relation to any products, edible or nonedible. We observe that if this suggestion for standardizing net contents over 4 ounces into units of quarter, half and whole pounds were in effect, it would serve two valuable purposes. The fractional-weight calculations would no longer harass the comparative shopper, and manufacturers would not easily conceal price increases by slight decrease of net contents.

Fabric Fibre content. When approached about a fabric fibre content question, the ladies ready-to-wear manager sighed in despair and said that he wished there was a Canadian law for fibre content labelling of all fabrics. This is the

biggest headache in his business. Our Association passed the following resolution at the 1966 Annual Meeting regarding yardgoods:

> ...that CAC ask the Federal Government by revision of the Textile Materials Marking Regulations, to require manufacturers of yardgoods to provide on a label, the generic name of fibre or fibres, basic care information, trade name and country of origin, and that this label be permanently affixed to the product, its package or container.

In any transaction to purchase fabric, either as yardgoods or as a manufactured article, the consumer needs to know what the fabric is, as well as what it looks like, in order to anticipate its suitability. This basic fact is not required and our Association contends it is a significant cost of living to buy without basic facts, every misjudgment an expensive error.

The many trade names associated with fabrics should be accompanied by generic name. We refer also to Brand "grading" using the textile trade as an example. Dominion Textiles, in their pamphlet, "Your Linen Closet" on page 22 refers to 19 Brand Names of their Tex-made sheets and pillow cases. The goods range from utilitarian to luxurious, and we do not censure the Company for their efforts to identify qualities by Brand names. But we do point out that Tex-made's competitors also use Brand grading. The marketplace accumulates names, names, names, that have no definite relationship to each other within the comprehension of the consumer. It would seem useful to the consumer who really tries to buy carefully, to have access to an index of definitions for the non-dictionary words or meanings used on product labels and advertisements. (Such an index would be out of date before it could be published, so that is a more idealistic than realistic solution.)

Garment sizing. The garment industry admits there is a vast problem in sizing identification of clothing for children and women. Our Association has negotiated with the industry since we drew our first breath 20 years ago. After much government research specifications for Canada Standard Size (CSS) were established for children's garments by the Canadian Government Specifications Board, and licences available to all garment manufacturers. "An Important Message to Mothers" was published by the Standards Branch, Department of Trade and Commerce, to inform consumers that some 1962 mail order catalogues, and some retail stores would carry children's underwear made to Canada Standard Sizes, and children's outerwear would appear later. It is now five years later and still no Canada Standard Size in common use.

We comment that accurate size identity is exceptionally important on manufacturer-packaged clothing.

Pricing. Merchants and consumers are befuddled by the pricing fluctuations. National manufacturers are on the "gimmick" bandwagon and the promotion is synchronized to appear everywhere at the same time as the television advertisement. The merchants must cooperate with the manufacturer's promotions, and as more and more of their suppliers introduce an ingenious angle designed to increase or maintain their sales volume, they accumulate at the retail level adding to the merchant's display and operating costs. Goods are retail priced on the manufacturer's label, or have "cents off" or are package deals, or involve coupons to be redeemed, or have premium enclosures, or offers a "prize" to the lucky customer. The merchant does not always welcome these package and price changes but the famous Brand names have ceased to provide a choice between the goods in routine display form or the goods with temporary eyecatching sales emphasis.

In talking with store managers we find they are more harassed by pressures of enterprising manufacturers than are the customers. The Automotive Retailers Association in Alberta, as a service industry, is distressed by the pressures of the oil companies' marketing policies. The Service Station operator must cooperate or fall into bad grace with the supplier. Theoretically he is an independent

businessman, but exerting his independence by defying instructions that he believes to be contrary to the best interests of his business and his customers will have subtle and effective economic repercussions.

We urge the Committee to solicit experiences of the local merchants to determine their reactions to modern sales procedures. We do not offer solutions to the pricing dilemma, but we sympathize with the challenges faced by retailing merchandisers.

Credit. We make brief reference to credit, aware that this Committee has studied this aspect of consumer affairs in minute detail. Canadian households that are overburdened with debt often become the broken homes which cause society so much expense and distress. Our general attitude about credit is that the consumer should have to ask for credit privileges, and should know exactly what the service costs them. The credit granting industry needs to protect itself and its customers by careful investigation of the applicant's capacity to assume the obligation. Unsolicited credit cards should never be issued to consumers.

Source of Goods. A right of consumers, in our view, is to know the precise source of goods. This is provided by law for food and drugs, but is not required on other classifications of merchandise. Products will say "Made in Canada," there is a Brand name, the manufacturing company and the address of that Company is not always shown. We provide as an exhibit a pair of socks to illustrate the manufacturer-identity need. The original label, attached, states that this product will not shrink even in a drier. The socks on exhibit were men's size 11, and have been laundered but never subjected to a clothes dryer. They will now fit a child.

The consumer cannot, by reference to the label, inform the manufacturer of a disappointing experience with the $1.50 socks. If the consumer happened to purchase the product in their routine marketing area, they can return to the store, and the merchant will probably replace the product. The merchant might return the product to the manufacturer, relating the consumer's experience. At best, this is a slow and obscure means of communication between consumer and manufacturer. If the precise identity of the manufacturer is required on all merchandise, the consumer has reasonably convenient access to the source of goods when they wish to convey a usage experience, or perhaps suggest a product innovation that would increase its consumer appeal. *We urge this Committee to recommend that all Made-in-Canada products carry exact source identification.*

The Right to Choose

On the surface this right looks like it never "had it so good." But we wonder if there is always an "effective economic choice" available to the consumer. If an utilitarian product of low sales volume is removed from shelf display, the consumer whose purse or purpose requires the product without "gimmicks" or "convenience" or elaborate package, cannot make the economical selection. Perhaps the fancy package carries the same price as the inexpensive package. One case in point is fluid milk in Edmonton, where the dairies tabulate that it costs at least 1 cent more per quart to distribute milk in cartons than in glass bottles. But the milk is priced the same in either container. There is, then, no effective economic choice for the consumer to indicate the package they prefer.

The consumer has no effective economic choice between top grades of fresh beef and third or fourth grade beef. The supermarket offers only the best grades of fresh beef, and there is no noticeable price differential between those two grades. When the third and fourth grades are not offered, the consumer cannot select them. This could be a serious cost of living to the low income household.

There is suspicion by consumers that Companies will have a big-give-away with Brand A, which the consumer can accept or decline by virtue of patronizing or withholding patronage of Brand A. But consumers wonder if the other Brands

of the Brand A Company will help to pay for that special promotion. If indeed the "give-away" is not entirely financed with revenues from sale of the products(s) which carries the "offer" the consumer who chooses to use the "economic" method of give-away resistance must withdraw acceptance of all the products of the Company. With the vast diversification of major food companies, this would be an impossible economic choice.

The Right to be Heard

This right is not actually denied to anyone, but if the label does not say where the product originated, the consumer has a hard time to be heard with a user comment. "Consumer demand" is the phenomena industry claims as defence of its apparently profitable salesmanship. There could be a difference between economic consumer demand, and actual consumer demand. By buying the consumer approves four things: the product, the package, the promotion and the price. If, in introducing something new, a manufacturer places a "bargain" price thereon, it is logical that consumers will be tempted to try the product. This may be a temporary economic acceptance by the consumer, but when the product's predecessor is sought, that product is "discontinued." Take household cleanser as an example. A Company added bleaching agents to cleanser, many consumers (but not necessarily all customers) like this better than the product without bleach additive. Gradually every company converted to cleanser with bleach, and today it is difficult, if not impossible, to obtain cleanser without the bleach additive. Similarly with a newer, more costly package. It raised the price a little bit, but the customer accepts this cost when the "old" package is not on display to show the difference in price due to packaging.

Recommendations

We have appeared before this Committee as laymen, respecting the very complex challenge of the problems of high and ever higher prices. We know that the Combines Act and laws about restrictive trade practices are under scrutiny of the Economic Council of Canada, with many necessary detailed studies in progress and pending. We are not competent to evaluate or discuss the high levels of law and economics relevant to business procedures and a progressive national economy. But we do submit that the practical adjustments reviewed in this Brief will ease some problems of the cost of living of some consumers. We summarize with no order of priority:

1. simpler terminology for food grades
2. cautionary advice on all toxic or hazardous products
3. prevent use of dangerously flammable fabrics
4. consumer access to automobile standards
5. establish identifiable tire standards
6. abolish fractional ounces in net weights
7. standardization of net contents over 4 ounces
8. fibre content identification of all fabrics as offered to consumers
9. garment sizing that is meaningful to consumers
10. an effective economic choice between plain and elaborate packaging and promotion and grades
11. source of goods identity on all Made-in-Canada merchandise
12. clear interest rate disclosure for all credit

We believe these suggestions about presentation of goods will not restrict opportunities of the marketplace to be progressive, imaginative and competitive. Careful reliable product description that is understood by consumers will ease the cost of living, though it has little influence on prices.

We commend the government for its serious appraisal of the cost of living through establishment of this Committee. We believe a Federal Department of Consumer Affairs is essential, and do not visualize an extension of government services so much as a coordination thereof, and improving the consumer's access

to information. We mention three government publications: "Buy by Grade," "The Label Story," and "Drugs, Handle with Care," that deserve to be handbooks in every household. *Perhaps this Committee should recommend that government publications like these be distributed to householders*, not just offered and available to those who enquire. Consumers do receive much communication from industry without soliciting such information. With a Ministry for consumers, there might be more attention by individual householders to available informative publications. At the present time, consumers have a vague concept of what is available and where to apply. We regret that so little practical use is made of the government's publications and consultants.

We hope our discussion of rights and the consumer is of value to the considerations of this Committee. Thank you for our privilege of appearing today to utter some comments that interest our members and other consumers.

APPENDIX

Price changes observed and reported by CAC members in Alberta: 1966-67. Provided without analysis; for information only.

Product	"Old" Price	"New" Price	Remarks
Encore Laundry detergent (5 lbs.)	$ 1.29	$ 1.49	
Margarine—Solo—3 lbs.	.89	1.05	
Wheat Puffs—45 pints	.59	.63	
Honey Grahams—13½ oz.	.39	.42	
Cornstarch—1 lb.	.25	.27	
Instant Coffee—10 oz.	1.39	1.59	
Vanilla Extract—8 oz.	1.05	1.09	
Tin Beef Stew—15 oz.	.37	.39	
Instant Coffee—10 oz.	1.57	1.76	
Matches—3 boxes	.35	.39	
Wire Staples—1,000	.35	.45	
Pastry lard—2 lbs.	.45	.63	3-year change
Butter—1 lb.	.65	.70	
Dried Beans—4 lbs.	.79	.89	
Rolled Oats—5 lbs.	.69	.83	
Baking Powder—3 lbs.	1.29	1.35	
Flour—25 lbs.	2.29	2.43	
Macaroni—5 lbs.	.73	.79	
Corn Syrup—5 lbs.	1.05	1.23	
Peanut Butter—48 oz.	1.23	1.43	
Benylin Cough Syrup	1.75	2.30	
Tuna Fish	.43	.39	
Aerowax—40 oz.	.89	.93	32 oz.
Toilet Tissue—4 rolls	.39	.49	
Flour—25 lbs.	1.69	2.20	
Snap Lids—small—dozen	.23	.27	1965-66 prices
Ice Cream—3 pints	.49	.69	
Rolled Oats—5 lbs.	.65	.79	between Jun-Sep/66
Beef Liver	.59	.75	
Cherries (Woodland)—1 lb.	.85	.97	
Apple Jacks—10 oz.	.49	.51	
Kleenex—400's—2 packages	.65	.69	
Cheese—process skim—1 lb.	.59	.63	
Shortening—3 lbs.	1.39	1.47	
Corn Syrup—2 lbs.	.46	.51	
Maple Syrup	.69	.83	
Wink—soft drink—was 66¢ less 12¢ when bottles returned; became 64¢ when non-returnable bottles introduced.			
Sunlight Liquid Detergent—12 oz.	.35	.39	
Salmon—7¾ oz. tin	.35	.57	
Apple Juice—48 oz.	.37	.43	
Oxydol Soap Flakes	.43	.53	
Mustard—3½ oz.	.29	.33	
Peppermint Extract	.19	.25	
Soup—Campbell's 10 oz.—2 tins	.41	.45	
Sunlight Detergent—large	.75	.89	
Syrup	.53	.63	
Hand Lotion—40 oz.	1.35	1.85	

BRIEF

to

PRAIRIE PROVINCES PRICE COST COMMISSION

Presented on behalf of

THE ALBERTA PROVINCIAL ASSOCIATION

of the

CONSUMERS' ASSOCIATION OF CANADA

by

Florence Elgaard, President

February 7-8, 1967
Edmonton, Alberta.

Honourable members of the PRAIRIE PROVINCES PRICE COST COMMISSION:

Introduction

The Consumers' Association of Canada is a national voluntary non-profit association, with a paid up membership in Alberta of 2,000. Approximately ⅓ of these members reside in rural areas. Local branches in Calgary, Red Deer and Edmonton carry on an educational program within their communities. The total National membership of this association is 20,000.

Prices and the Consumer

Prices are the surface phenomena of very complex inter-relationships of the marketplace. We refer this Commission to the PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES), No. 24, December 6, 1966, when our national association were witnesses, and presented our association's policies towards promotional factors that lie within the price of merchandise. We quote paragraph 32 on page 1802 of the Proceedings:

> The complex economic, legal and technical factors behind the price and quality of goods finally offered for sale, as well as the terms of the offer to sell, must be studied by full time professionals. Moreover, only a branch of government could succeed in bringing about the long overdue coordination of legislation affecting consumers. And a department of consumer affairs would provide a specific place in government to which we could address ourselves as consumers, and would have primary responsibility to take action on such representations.

Rights and the Consumer

We assert that consumers have four definite rights: The right to SAFETY, the right to BE INFORMED, the right to CHOOSE and the right to BE HEARD. The major government influence toward honouring those rights lies federally, and when the SPECIAL JOINT COMMITTEE ON CONSUMER PRICES comes to Edmonton on February 23, 1967, we shall discuss the following area where we consider procedures to be inadequately providing for the consumer's rights:

Labelling of toxic substances
Prohibit use of inflammable fabrics
Clearer food grading terminology
Automobile safety standards

Source-of-product identification
Fractional weights and measures
Fibre content labelling of fabrics
Meaningful garment sizing
Tire Standards

Since these subjects involve federal authority, we refer you to our Brief to be presented February 23, for information.

Provincial Legislation

We cite some Provincial statutes that are important to consumers, with comment.

Fair Competition and Business Practices

THE LICENSING OF TRADES AND BUSINESS ACT, Alberta Regulation 239/57 amended by Alberta Regulation 379/59 says:

> "15. No business licensed under the Licensing of Trades and Business Act shall secretly or otherwise give or offer to give any premiums, free goods, or use coupons, coupon books, stamps, trading stamps or similar plans for the purpose of furthering the sale of any commodity or service."
>
> (Opening Day Offers by a new business are exempt from the above regulation for not more than seven days)

In the General Code of Fair Competition and Business Practices in and for the Province of Alberta, within Regulation 406/60 the following clause appears:

> "3. No licensee shall give, or offer to give, directly or indirectly, any gifts, premium, services, concession, prize or other benefit of any kind or character whatsoever to any person
> (a) who purchases any goods or services from the licensee, or
> (b) to induce any person to purchase any goods or service from the licensee, or
> (c) for the purpose of furthering the sale of any goods or service by the licensee."

And, further, in Article V of Alberta Regulation 416/57 within the CODE OF FAIR COMPETITION AND BUSINESS PRACTICE FOR THE AUTOMOTIVE INDUSTRY, the following procedures are prohibited:

> "7. Lotteries, the use of lotteries, or games of chance for the purpose of promoting or furthering the sale of any commodity or service for use on or to any motor vehicle.
>
> 8. Coupons, etc. The use of coupon books, trading stamps or premiums for the promoting or furthering the sale of any commodity or service for use on or to any motor vehicle."

These regulations have kept Trading Stamps out of Alberta's retail establishments. The consumer might wonder, with such statutes in effect in Alberta, why there are so many premiumed and gimmicky products offered for sale. The key word in the statutes is "licensee", and the Provincial Government has no control over the companies who supply the goods for the licensee to retail.

There is consumer resentment of the extensive promotional costs built into the retailing of merchandise. Supermarket boycotts erupted in many areas of Canada. Our Association has been persistent in advising consumers to avoid buying gimmicks, and in urging merchants to resist handling them, and the government to discourage or prevent them. But to no avail. The trade insists there is "consumer demand". Sales records show a greater profit from the higher sale volume of these elaborately presented goods.

We comment about two specific examples: gasoline and shredded wheat. In the case of gasoline, the service station operators claim that part of the expense of the tumbler or beach ball is met by them, and they would rather not be

bothered with it since their staff needs all the time they have to service the cars. Those who do manage to record a profit through volume of gasoline sales find that profit is mostly, if not entirely, offset by the operating expense in handling the gimmick. Yet they must cooperate with the promotional policy of the oil company, or lose their privilege of being an Esso or Shell or whatever dealer. The motorist consumer buys the quantity of gasoline that the vehicle requires, and automatically receives the premium. There is no choice between buying the gasoline with, or without the "fringe benefit". It is unfortunate that the law of Alberta is ineffective in preventing a direct expense to the licensee in distributing the gasoline gimicks.

We refer also to Nabisco Shredded Wheat. It happens to be a timely and available example of a common practice by industries, and we review it in some detail. This product has been around for a long, long time, and packaged in quantities of 12 and 18 one-ounce biscuits. The price of this package was 43 cents, purchased in 1967. The previous 18 biscuit package was also 43 cents. However, this latest purchase contains 15¾ ounces, while the previous 18 biscuit package held 18 ounces. In the 18-oz. package the product cost 2.38 cents per ounce, in the 15¾ oz. package the product costs 2.73 cents per ounce. At the earlier price rate of 2.38 cents per ounce, 15¾ ounces should cost 38.64 cents or 39 cents. What does the customer receive for this 4 cents price differential? There is, on the new package, information that the customer can obtain a handy "Space Saver" for $2.00 and 2 boxtops, mailed to a Toronto address.

In order to get this "bargain" the customer must spend 8 cents more for the product in order to have two labels, plus the postage and envelope to place the order (6 cents minimum expense), plus the cost of either cheque or money order. There are also some uncertainties; "While the supply lasts" says the offer, there is no colour or style choice, and no privilege of inspecting the product or comparing it with other similar products. Even if the customer considers it worthwhile to buy hardware this way, it is probably wise to check the local sources who may have the item for $2.14 or less.

What we as consumers resent in this example is not that the shredded wheat tells us about the Space Saver, but that we pay more for the shredded wheat when it carried this promotion of a product that is not normally produced or sold by the Nabisco Company.

We hope this Commission can exert some influence to recommend measures whereby the products offered for sale do not have built-in promotional expenses that describe OTHER products. In the case of the Shredded Wheat's Space Saver, it would seem justified for the Space Saver Company to obtain some advertising space on the Shredded Wheat package, so long as it is not an expense to the Shredded Wheat Company and thereby reflected as a cost within Shredded Wheat's retail price. The product price increase in this example is, in round figures, 10 per cent.

Credit and Loan Agreements Act

Section 7 says:

> "A loan agreement shall, in writing or in printing not smaller than ten point print, set out
>
> (d) the whole cost of the loan to the borrower expressed as a rate per cent per annum on the amount actually advanced to the borrower and declining balances thereof from time to time outstanding."

A similar clause refers to time payment contracts. This statute was assented to March 29, 1963, proclamation still pending. We are assured that the Government of Alberta, has diligently pursued the intent of this legislation, a Supervisor of Credit was appointed and his charge is to work out the complex formulae required to make the statute operational. Other provinces are in various stages of providing for interest rate disclosure, and there must be some continui-

ty of procedure across the nation. We respect the challenges involved and are anticipating proclamation of the amended Credit and Loan Agreements Act in 1967.

We present, for information, the booklet of a department store entitled "Enjoy what you want NOW, use credit plans from:... Without being critical of the store's credit services, we observe that the word "interest" is never mentioned, and service charge is specified only once, on page 7:

> "A modest service charge of 1 per cent of your balance owing will be added to your account at the beginning of each monthly billing period".

Is the credit customer likely to interpret this as '12 per cent per annum on declining balances thereof'? Our association has campaigned for clear interest rate disclosure for a long time. We are concerned that some consumers who are easily persuaded to use credit, do not fully comprehend their obligations, and thereby incur unmanageable debts.

We are disturbed to note that some merchants distribute unsolicited credit cards. We believe that credit should be available upon request, and proper investigation of the applicant. The consumer should never have credit privileges without applying for them, and knowing precisely their obligations to the credit grantor.

The Direct Sales Cancellation Act

An Act providing for the summary cancellation of certain sales of goods and services was assented to April 15, 1966. The schedule states:

> "2. The buyer may cancel this contract by giving notice of cancellation within four days after the date on which the buyer's copy of this contract is delivered or sent by mail to him, without giving reasons for cancellation.
>
> 4. A notice of cancellation...may be delivered to or sent by mail to (name and address of the seller) and if sent by mail, is deemed to be given at the time of mailing.
>
> 5. The buyer is advised to make and keep a copy of the notice of cancellation for his own use and to note the date on which it was delivered or mailed, if it is not sent by registration mail.

Our Association welcomes this regulation that protects consumers from hasty judgments through transactions occurring away from the business premises of the seller. We hope that all consumers are aware of their right to cancel a door-to-door purchase agreement within four days of the solicitation.

Quilted and Stuffed Articles

Provincial Board of Health Regulations, under the Public Health Act, Alberta Regulation 572/57 states Regulations governing Mattresses and Upholstering. We quote the following classes:

> "32-3-1 No person shall employ or use for any of the purposes enumerated in the two preceding regulations hereof any material known as "second hand" unless since last used, such second-hand material has been renovated and sterilized or disinfected by a process approved by the Provincial Board of Health.
>
> 32-3-2 Every article of bedding and every article of upholstered furniture which is wholly or partly made of second-hand material shall have attached to the same a label or tag bearing in legible type the words "Manufactured from second-hand material".

The regulations also define "mattress" as "an quilted pad, mattress, mattress pad, protector, bunk quilt or box spring, consisting of an outer cover of cloth, ticking or other textile materials, stuffed or filled with feathers, feather down, wool, cotton, hair, jute, fibre, moss, straw, hay, grass, corn husks, kapok, wood shavings, or other materials to be used on a couch or other bed for reclining or sleeping purposes."

Our Association is aware that clothing and toys and other stuffed articles that are neither mattresses nor upholstery can be manufactured in Alberta without similarly careful attention to sanitary conditions of the stuffing material. We have urged the Government of Alberta to extend their mattress regulations to other quilted or stuffed goods, and until the regulations are comprehensive there is the risk of contaminated merchandise being offered to, and purchased by consumers. This detail relates to the right to safety.

Motor Vehicle Inspection

The Automotive Retailers Association of Alberta has been campaigning for Compulsory Motor Vehicle Inspection as a public safety measure in this Province. The Government of Alberta's Highways Department is moving positively toward requiring periodic compulsory inspection of vehicles, and our Association applauds this activity. It seemed significant to us that, with the voluntary vehicle testing centre program of 1966 (as reported in "Within Our Borders January 1967) of 9,335 vehicles examined, only 30.8 per cent passed the initial test. We ask this Commission to examine the Automotive Retailers' Association's Brief to the Alberta Government, presented December 7, 1966, especially those sections regarding tire standards and vehicle inspection.

With regard to the mechanical reliability of automobiles, we note with interest an article in Readers Digest, January 1967, describing "Automotive Diagnostic Centres" in some localities of the U.S.A. For a fee of around $10.00 the Diagnostic Centre analyses almost 100 performance details of the vehicle and issues a written itemized report. This seems an excellent private service to detect operating weaknesses of a very complicated mechanism. Whether it is a feasible procedure here is not determined, but it would appear to have a useful role in assisting the motorist to determine maintenance requirements before they are serious and expensive.

Package—Plain or Fancy

There is public criticism of packaging often being too elaborate for the practical purposes. We bring forth one point illustrating a condition where a plain and a costlier package is used for a product, without a difference in retail price. The commodity is fluid milk, as distributed in Edmonton.

The dairies use two types of quart containers, the glass bottle and the carton. The dairy claims that the glass quart costs 10 cents and makes an average of 60 trips between dairy and consumer. The carton costs 2½ cents and makes one trip from dairy to customer to garbage. Allowing for the handling of the glass container, the dairy claims to spend between 1 and 2 cents more per quart to distribute fluid milk in the carton container, yet the price to the consumer is identical in either package. If most milk were sold in cartons, the dairy would have to apply for an increase in retail price. We note that the consumer has no economic power of choice between patronizing the inexpensive or the costly milk container. We feel that those who prefer their product in a carton should pay the extra cost the dairy can tabulate as additional packaging expense. With the present arrangement, the consumer who uses the inexpensive container is underwriting the consumer who chooses the costlier package.

We point out that in Alberta the *Public Utilities Board* controls the retail pricing of milk, setting a *minimum price*. We appreciate this careful attention to the distribution of milk, providing sufficient, but not excessive gains at all levels of industry.

Margarine Act

The prairie provinces have statutes known as the Margarine Act. Alberta's was passed in 1949, revised in 1955 and amended in 1964. We suggest that the intent and effect of this legislation be reviewed, and we offer some comments.

The marketing conditions for butter and margarine in 1967 are quite different from the circumstances in 1949. Our country now has a shortage of butter and has arranged for importing this product. The industry producing margarine is a minor industry in the prairie region, but the food they produce is wholesome, mainly a product of the agricultural industry, and is subject to all regulations of the Food and Drug Directorate for its labelling and additives of colour, vitamins and preservatives. Section of the Margarine Act states:

> "5. (1) No person shall within the Province, sell, offer for sale, have in his possession for sale, or serve in a public eating place margarine coloured the natural colour of butter or a shade of yellow that might cause that margarine to be mistaken for butter.
>
> (2) For the purpose of this section, margarine that has a tint or shade containing more than one and six-tenths degrees and less than 10 and one-half degrees of yellow or of yellow and red collectively, measured in terms of the Lovibond tintometer scale, read under conditions substantially similar to those established by the United States Bureau of Internal Revenue, or the equivalent of such measurement, shall be deemed to be colored the natural color of butter or a shade of yellow that might cause the margarine to be mistaken for butter.

We note that the Legislation does not prevent the manufacture of margarine within Alberta according to the shade of yellow that could be mistaken for butter, but merely prevents the sale of such product in this province.

It is significant to notice that in 1961 General Foods obtained a patent for Dream Whip, and other whipped-cream substitutes are now on the Canadian market, including Alberta's retail food stores. There is no regional or national restriction on the color of this cream substitute. It seems inappropriate to legislate a marketing restriction on one industry that does not apply equally to the competitive industry.

In the case of margarine, we note that it has other problems, for it competes with a government subsidized product as well as having a sales tax cost within it, applied at the wholesale level, with exemptions granted to certain institutions. Our Association has requested withdrawal of that tax on margarine. The Financial Post of January 7, 1967, points out editorially that the recent 1 per cent increase in the sales tax will reflect as a 2½% increase in the retail price of margarine. This is very significant to the cost of living.

We provide also a pricing commentary regarding margarine. We present labels from one Brand with price markings from '3 lbs. for 79 cents' to the current price of '3 lbs. for $1.05'. During the time of this price climb, the product changed from vegetable and marine oils to vegetable oils, the manufacturing company is different but the distributing Brand is the same; the package has changed from a light-weight cardboard around each pound to a heavy cardboard container with 3 wrapped bricks, and an "exciting nylon stretch glove offer". The consumer cannot estimate the proportion of the price that is necessary production and distribution costs, and the proportion that is accounted for by sales tax, a heavier container and the glove offer.

Regulations for identification of margarine and whipped toppings where they are sold unpackaged, as in public eating places, is justified. But we do have some doubts that the regional provisions about what color the product shall be are consistent with the general principles of normal competitive business.

Consumer Education

The Alberta Department of Education provides a section on Consumer Credit in the Grade 10 Social Studies curriculum. The high school courses relating to business practice and investments and commercial law are electives, and very few students delve into this area of practical training during their public school years. Most girls obtain Home Economics training, but there is

negligible emphasis, even for the girls, in the broad area of household management obligations; basic expenses of living, taxation, product selling regulations, budgeting, laws of ownership, and so on.

The Alberta Department of Agriculture's Women's Extension Service brings an excellent medium of "continuing education" for homemakers through District Home Economists in rural Alberta. But the urban consumer does not receive similar direct services through the government's Home Economists. There are university extension courses, but they are predominantly attractive to the already well-educated consumer. The novice homemaker is usually confined to home with the care of young children, and finds herself unavailable to pursue consumer training beyond the accumulated experiences of contact with enterprising salesmen and advertisers and merchandise displays.

It appears that a Federal department for consumers will gradually evolve and it will be a great asset to the consumer to direct enquiries and request information through this Ottawa ministry. The Consumer Section, Canada Department of Agriculture, and the Food and Drug Directorate, offer varied and excellent consumer oriented publications, but the average home rarely accumulates a file of these publications.

What does, or can, the consumer do to obtain counsel on problems that are not soluble by discussion with the merchant? There is no regulation that the precise identity of the manufacturer, with a mailing address, shall be on the label or merchandise (except edibles). So keeping labels is of limited help. When a Company states an address as Toronto or Montreal, it would be unfair to the Post Office to give an incomplete address on one's enquiry.

Consumers are not provided with easily accessible advisors. Members of our Association are sometimes reached, and within the limitations of the experience of the member, do provide assistance. We review one incident to illustrate the void of understanding because communication from consumers is not channelled through sufficiently informed authorities. This happened on CFRN radio on January 19, 1967, and casts no adverse reflection on the consumer or the station's host.

This is the story. A consumer had purchased a 25 lb. bag of No. 1 Grade potatoes, which in that consumer's observations contained only 20 lbs. and was of lesser quality than the Grade indicated. She thought that, with all the talk of cost of living and things, this experience should be pursued, but what should she do? It seemed inadequate just to talk to the merchant about it, though that would probably bring recompense for her. What about other customers who might be getting potatoes short weight and below grade?

That consumer did not know, and the radio host did not spontaneously mention to her, that she should report the short weight to the Food and Drug Directorate's Inspector who could verify her impression that she did, in fact, obtain short weight. The F & D official would record the details of the product and investigate. In the matter of grade, that consumer did not know that the Fruit and Vegetable Marketing Branch of the Canada Department of Agriculture is responsible for potato grading, and should be consulted if and when the consumer obtains a product that is contrary to stated grade. Either the consumer is correct, and an investigation is justified, or the consumer has a misimpression of the specification for No. 1 potatoes, and the government official would correct her information. Unless that consumer has, by chance, talked with someone who knew more than herself or the radio host, she is still wondering what is the proper action to take about her problem.

Consumer Advisory Service

We urge this Commission to recommend to the Provincial Government, that a Consumers' Advisory Office, at least one per province, would serve a valuable service in assisting consumers to express their right and desire to be heard, as

the question or problem would describe. We visualize a service restricted to counselling. Pursuit of the problem would remain the duty of the consumer. Just to contact the Consumer Advisory Service to find out where and how to pursue a problem is possibly the most effective stimulant to consumer communication that we can suggest.

An informed consumer is a protected consumer. The misinformed consumer is easy prey for every imaginative persuasive sales inducement. The inducements may even be contrary to the law, or intent of the law, but will flourish as long as there are enough persuadable consumers. The "Buyer Beware" slogan, to "investigate before you invest", comes to people from the Better Business Bureau, usually after they have made an irretrievable error and learned an expensive lesson. The trial and error experiences of consumers can be a vast cost of living factor.

We note there are various gestures toward consumer education. Utility companies have Home Economists conducting cooking schools and answering many questions about food preparation and use of appliances. CBC Radio has a daily 5-minute "Assignment for Consumers" broadcast, and on Tuesday afternoons there is "Consumers' Counsel" on Trans Canada Matinee. CFRN Radio carries daily items on "Consumers Corner". These are informative, along with press reports of consumer news. Some newspapers have a local shopping columnist. By keeping an alert eye and ear the consumer picks up many useful tips. But when the consumer has a specific problem there is no "reasonably convenient access" to informed advice. We believe a Consumer Advisory Bureau would be such; "reasonably convenient access" to the consumer who thinks he/she has a problem.

General Remarks

We have purposely avoided commentary at length on the prices problem, The terms of reference of this Commission, Order in Council 2466/66, Section (d) states:

> (d) "to make such recommendations as the Commission from time to time deems appropriate and in the public interest to combat the price spiral and assist consumers to ameliorate the problem of increases in the cost of living."

We submit that the following summary of suggestions from the Brief would directly "ameliorate" some problems of the cost of living:

1. Any action that would serve to provide the consumer with an effective economic choice between the practical and the flamboyant packaging and sales promotion of merchandise. We mentioned gasoline, shredded wheat and milk.
2. Clear explanation of the costs of credit accounts.
3. Reliable manufacturing standards for consumer products. We mentioned stuffed toys and quilted garments that could be hazardous as present regulations apply.
4. Periodic mechanical inspection of motor vehicles.
5. Assurances that the laws for business procedure are similar for competitive products. This is doubtful with the Margarine Act in effect.
6. Provide for reasonably accessible consumer advisory service.

We have made no reference to "hidden" price factors like freight rates, tariffs, wages, and many types of taxation. Some consumers wonder how much of the price increase in basic products, like oatmeal is attributable to the Company's introduction of a "convenience version" of the product. Some consumers wonder if a Company distributing various products will decide to run a contest promotion with one of these products, and use the income from other products to help pay for that promotion. If Brands B,C,D, and E of Company X help to pay for the

give-away to the lucky customer of Brand A, the consumer must avoid Company X's products completely in order to avoid being a party to the give-away.

A consumer in Pincher Creek has asked why food prices in stores serving Indian reservations are higher than food prices in other stores. We cannot investigate the observation, to prove or disprove its validity. But it is possible that a double-check should be made.

Another consumer, who has resided in Vancouver and Edmonton as well as in the northwestern United States asked this question. Why does Sun Rype Apple Juice, 48 oz. tins, produced in B.C.'s Okanogan Valley retail for 43 to 47 cents normal price in Vancouver and Edmonton, but is on the shelf in a supermarket south of the border priced at 25 cents? Some consumers wonder if "X Off" labels, and retail prices on manufacturer's labels are reliable assurances of proper pricing of merchandise.

We share these questions in our general remarks, and hope our submission is valuable to the responsibilities of this Commission.

Thank you for the time appropriated for the presentation of this Brief.

SUBMISSION BY LETHBRIDGE MILK PRODUCERS ASSOCIATION

FEBRUARY 1st, 1967.

Mr. Chairman, Members of The Public Utilities Board, Gentleman:

Before we enter into any discussion of Canada Safeway's entry into other controlled areas of Alberta, we would wish to review events leading to the Canada Safeway entry into the Edmonton milk marketing area.

In 1963 Canada Safeway made application to the Public Utilities Board to obtain a license as a processor-distributor of fluid milk and milk products in Alberta, which was refused by Public Utilities Board decision dated February 6th, 1964.

Again on January 11th, 1965, Canada Safeway Ltd. applied to the Advisory Board, under The Dairyman's Act, for permission to establish a processing and distributing plant in Alberta, for the distribution of milk and milk products in the Province; and again, upon extensive study and consideration by this committee, this application was subsequently refused.

In 1966, Canada Safeway Ltd. purchased Jasper Dairy Ltd., Edmonton, which gave them entry into the processing and distributing of milk and milk products within the Edmonton controlled area.

Radical changes have been made at Jasper Dairy Ltd., under the new management, for the new owners have disposed of all their retail routes, confining sales to the supplying of only Canada Safeway Ltd. stores in the Edmonton controlled area.

We are informed that the purpose of this meeting is to discuss Canada Safeway's expansion of sales into other controlled areas of Alberta. At present Canada Safeway Ltd. have only begun the complete transformation of Jasper Dairy Ltd. operation to a specialization into store sales, and no information is available as to the impact of this specialization of sales upon the fluid milk market. All of the information that we seek at the present, will most certainly be available at some future date.

In all probability, a complete assessment of all the affecting factors *could* not be made before one complete year of operation in the Edmonton area. We believe, and we feel others will agree, that the first year of the operation of Jasper Dairy Ltd. under Canada Safeway ownership, will impose many problems that must of necessity come before the Public Utilities Board, and that this body will deal with these problems as the situations warrant.

Some of these changes are most likely to occur in the transfer of producers and quotas, and transfer of bulk milk. It is our feeling that producers must be protected in the effecting of transfers, in payoffs and the control of surplus buildup at any plant in the Edmonton controlled area. It is our belief that the Public Utilities Board may find that these problems mentioned above will possibly be taxing and extremely difficult to deal with toward the realization of a satisfactory solution for all parties concerned.

In a discussion of future licensing of Canada Safeway Ltd. in other controlled areas, and we refer especially to the Calgary controlled area, we would wish to convey our anxieties concerning problems likely to arise.

At present, and for many years past, all areas under Public Utilities Board control have experienced adequate and surplus supplies of milk, and the consumer has been supplied with a continuous supply of some of the best milk available anywhere in this country. The quota system, and the payoff to producers, have been fairly well above reproach, and we believe that there will be no benefits to be derived by either producer or consumer with the entry of another distributor into these controlled areas, and in fact feel that this even could be of harmful consequence.

If Canada Safeway Ltd. is allowed to market their products in the Calgary controlled area, and if the same procedure is followed which has occurred in the Edmonton area, serious reflection will occur to existing quotas and payoffs. Regardless of what system will be employed, some producers will suffer financially, as transportation problems and sales disruption cannot be satisfactorily overcome.

Milk producers supplying the Calgary market cover a wide area of Alberta, and a loss of their sales area could be a very serious event. The geographical diversity of the production areas makes impossible the successful transfer of quotas and producers, and these transfers will engage the best efforts of the Board.

In discussions with Canada Safeway Ltd. officials, it becomes apparent that the long range objective of this supermarket chain is the supplying of all Safeway stores in Alberta. A future eventuality could be the possibility of a request for a store differential, a request applied for, but refused in the past. It is our contention that the purchase of Jasper Dairy Ltd., and admission into the Edmonton milk market, is part of a general master plan, and we feel that producers will ultimately suffer, problems of quota control, transportation costs problems, and distributors costs problems may provoke increased prices to consumers.

It is our firm belief that further licensing of Jasper Dairy Ltd. (Canada Safeway) into other controlled areas, cannot be condoned at this time. The Lethbridge Milk Producers Association, by a motion at a special general meeting, were unanimous in requesting that no changes be made in existing controlled areas, and that no changes be made that would affect the position of the producers now supplying milk to their respective markets.

Our Association contends that no changes be made until the Public Utilities Board has had an opportunity to deal with all phases, and has given a thorough study to all affects on the consumer, the producer and the other processor-distributors. It is also our conclusion that a close scrutiny of the overall affects be made for the impact upon the people of Alberta as a whole, and also to the whole country.

Strong consumer protests have already occurred concerning supermarket chain store controls of food retailing, and the protests of vocal consumer protest groups must be always considered.

Canada Safeway Ltd. already controls the major portion of the canning industry in Southern Alberta; their plants contract with the producer for supply, and completely dominate the processing and distributing of their products. This vertical integration is alarming and dangerous.

In which other fields of agriculture Canada Safeway Ltd. is engaged, we are not prepared to say. A public inquiry along these lines should be made to determine the extent of their enterprises, and to determine whether the trend should be allowed to continue.

If we concede to Canada Safeway Ltd. the right to enter other milk markets at will, we are in essence taking away from the present distributors for much of what they pioneered the industry: in the high calibre of quality milk, in the continuity of supply to the consumer. It must be borne in mind that this corporation wishes to enter markets already adequately serviced, to take away the plums of the milk trade, and to supply no others excepting their own supermarket chain stores.

The Lethbridge Milk producers are anxious to know whether this meeting is for laying plans for the rest of the industry, to put away all that they have worked for, for these many years. Surely some concessions must be made for those already in the industry.

Our Association is prepared to bring forward to this meeting a motion asking that a Commission be formed by the Government of the Province of Alberta, or the Federal Government, to investigate the total involvement of Canada Safeway Ltd. in agriculture and the related manufacturing products, for the far-reaching consequences of this involvement has a bearing in the lives of all the people of Alberta.

All of which is respectfully submitted.

Lethbridge Milk Producers
Association

LETHBRIDGE MILK PRODUCERS ASSOCIATION

P.O. Box 424

Lethbridge—Alberta

FEBRUARY 1, 1967.

WHEREAS: Consumers protest groups, alarmed at rising food costs, were primarily responsible for the appointment of a Federal Investigating Committee into rising food costs; and since this Committee divulged the far-reaching involvement of the Weston Chain in affiliations, subsidiaries and satellite companies, but failed to disclose the number of involvements of other supermarket chain stores, be it hereby

RESOLVED: That the Provincial Board approach the above-mentioned Commission to inquire when they are holding hearings in the localities of our milk-marketing areas, for the reason that members shall appear to inquire into the total involvement of supermarket chains, creating a situation of vertical integration of agricultural commodities, and to disclose for public information their control of producers, and distributors and the consumers, and the means and methods of exercising their control.

STATEMENT

Prepared by the

EDMONTON WELFARE COUNCIL

to the

JOINT COMMITTEE ON CONSUMER PRICES

On the impact of increasing living costs,

Particularly shelter costs, on low income groups

Edmonton, Alberta
February 23, 1967.

STATEMENT PREPARED BY THE EDMONTON WELFARE COUNCIL TO THE JOINT COMMITTEE ON CONSUMER PRICES

On the impact of increasing living costs, particularly shelter costs, on low income groups

The Edmonton Welfare Council is a citizen organization dedicated to the well-being of all members of our community. Our statement concentrates on the impact of rising costs, particularly shelter costs, as they affect low income families. This requires consideration of the impact of increasing costs on the family budget.

I. *Low Income Groups are Hardest Hit by Increased Living Costs*

Low income families include the unemployed, pensioners, the disabled, widows, persons without skills or training, newly arrived immigrants, welfare recipients, Indian and Metis. By and large they are families with fixed incomes. As costs increase the purchasing power of these families decreases. Since shelter costs are unavoidable families adjust by reducing their expenditures for food and clothing and education, or they reduce shelter costs by moving in with friends or relatives, or into housing converted to smaller units.

II. *Low Income Groups Pay a Higher Proportion of their Income for Shelter.*

A study done by the Ontario Federation of Labour indicates that families with the lowest income pay the highest proportion of income for shelter.

Income Group	Percentage of Total Expenditure
$2,500 - $2,999	20.2%
3,000 - 3,499	19.8
3,500 - 3,999	18.5
4,000 - 4,499	16.7
4,500 - 4,999	16.9
5,000 - 5,499	17.1
5,500 - 5,999	16.7
6,000 - 6,499	15.7
6,500 - 7,000	15.9

SOURCE: D.B.S. "City Family Expenditure—1957".

III. *The Shortage of Low-Income Housing Aggravates this Problem.*

In our view, there is a shortage of housing for low income families in Edmonton now. Therefore, these families have no choice of accommodation. The shelter dollar therefore purchases less in the way of space and forces families to accept sub-standard housing. In brief, higher costs aggravate shelter problems.

The Edmonton Welfare Council is aware through a number of community sources of this increasing shortage of housing for low income families. From January, 1965 to November, 1966 our Welfare Information Service received 286 enquiries for low rental housing.

Officials from the Department of Manpower indicate a serious problem in locating housing for newcomes from other countries. Usually these people are on low salaries at first, have little actual cash and no furniture.

Officials from the Department of Public Welfare indicate it is becoming increasingly difficult for families who receive social allowance to find any kind of housing. If they do locate something it is either priced out of their reach or is so run-down that it will barely meet minimum health and decency standards. There are cases where large families have to be returned to the place they came from.

We are also advised by officials of the Public Assistance Section of the City of Edmonton Social Service Department that they too find it increasingly difficult to obtain adequate housing for their clients at a reasonable rent rate. Costly emergency placements in hotels and motels are often prolonged during the time that the search for desirable living units is going on. Often higher than maximum allowable rates must be paid or families are forced to stay with friends or relatives in overcrowded circumstances while waiting for a move. In some cases unhealthy accommodation such as units without running water, outside toilets, unheated sleeping rooms in basements or those with insufficient living area per person, are kept in continuous use for lack of proper accommodation.

In addition to clients being unable to find housing within the amounts laid down, in some cases exorbitant rents for sub-standard accommodation have been charged, the Department having no choice but to pay them.

While the Edmonton Welfare Council has no conclusive evidence it is reasonable to assume that families not in receipt of public aid but on marginal incomes (the equivalent of or even in some cases less than public aid) are the unfortunate victims of both increasing costs and shrinking housing stock. We see this situation increasing as urbanization continues to accelerate. The chief victims will be unskilled rural population, and particularly Native people unused to the urban environment with its emphasis on employment skills and a money economy.

IV. *Social Problems Accentuated by Increasing Shelter Costs*

Many of the people now forced to live in substandard accommodation by reason of increasing shelter costs are unable to cope with the conflicts tensions and ill-health attributable to overcrowded and dilapidated housing, unfavourable environment and poverty, and invariably become a greater burden upon the welfare services provided by government and private agencies.

Some of the indirect results of substandard housing are:

1. higher incidence of adult crime;
2. higher incidence of juvenile delinquency;
3. higher rates of fire insurance;
4. necessity for an increased number of police personnel;
5. poor physical and mental health of the occupants;
6. deterioration of the family as a unit;
7. loss of self-respect and initiative;
8. increased financial dependency.

Although three of Edmonton's Urban Renewal Districts represent 6 per cent of the city's population, they contribute only 4.1 per cent of tax revenue and they account for nearly a quarter of all physical assaults, juvenile problems and tuberculosis cases, and over 10 per cent of infant mortality and residential fires. All factors point to a distinct relationship between these problems and sub-standard living conditions.

The following table, taken from "Regent Park: A Study in Slum Clearance" by Dr. Albert Rose of the University of Toronto, clearly shows the social benefits that can be achieved with improved housing:

Newark, New Jersey	*Low Economic Area*	*Public Housing*
Tuberculosis per 10,000 (15 to 40 years of age)	58.8	29.2
Infant mortality per 1,000 births	41.5	34.7
Communicable diseases per 1,000 children under 15 years	158.8	114.2
Fatal home accidents per 10,000	2.5	nil
Fires per 10,000 persons	28.8(city)	7.9
Gary, Indiana	*Entire City*	*Public Housing*
Communicable diseases per 1,000 school children	11.0	8.0
Arrests for crime per 1,000 white population	20.0	1.5
Arrests for crime per 1,000 negro population	50.0	6.0
Averate cost per residence fire	$2.58	$0.65
School grades: excellent	11.0%	9.0%
satisfactory	77.0%	82.0%
unsatisfactory	12.0%	9.0%

V. *Conclusion*

We have reached the inescapable conclusion that increasing costs and especially increasing shelter costs are making the poor poorer and aggravating the problems of family conflicts and tensions, ill health, crime and family breakdown attributable to overcrowded and dilapidated housing and an unfavourable physical and social environment. The unavoidable effect of this will be a greater burden upon the welfare services provided by government and private agencies. The Federal Government has committed itself to a policy of eliminating poverty. The elimination of poverty would be achieved more quickly if low-income families were able to spend an increased portion of their household dollar on education. With the advent of increased shelter costs, not only are such families unable to spend an increased portion of that dollar on education—they are forced to severely curtail or perhaps delete entirely any amount previously set aside for education. Therefore it is our view that increasing shelter costs are making a mockery of this desirable social goal and will simply make that goal recede beyond our grasp.

Submission

to the

JOINT COMMITTEE ON CONSUMER PRICES

by the

NATIONAL FARMERS UNION

Edmonton, Alberta,

February 23,1967

Introduction

We welcome the opportunity of appearing before your committee. May we state at the outset that our organization consists of some 75,000 farm families belonging to autonomous provincial farm unions in Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, who have affiliated for the purpose of speaking jointly on national policies.

We will outline our views on matters relevant to basic food production policies in Canada and the effect on the family farm structure in agriculture. We wish to discuss the direction in which we believe policies should be oriented in future years to serve the best interests of both producers and consumers.

Your committee has received much evidence related to the respective roles of the various segments of our economy in the production, processing, distribution, retailing and consumption of food. From this evidence, we believe it has been generally accepted that the primary producer of food has greatly increased his productivity, that his costs of production have exceeded the growth rate of farm prices for farm products, and that the farm share of the retail food dollar has declined from a level of 58 per cent in 1949 to 41 per cent in 1964.

The Changing Structure in Agriculture

The growing productivity and efficiency in farming has not resulted in a proportionate rise in levels of income to the majority of farm families. To the contrary, the spectrum of farm size and efficiency has been growing ever wider in range. Indeed it prompts one to seriously examine what our national agricultural policy has achieved and what it is designed to do in the future.

National economic policy in Canada since its inception has been to create an industrial economy. Agricultural policy has been functional yet subordinate to national policy. Canadian agricultural policies have been primarily policies to expedite this basic national objective. As such, there is no comprehensive policy for Canadian agriculture which sets out terms of references and objectives.

Agricultural policies have been basically policies of adjustment oriented to encourage growing farm efficiency and productivity with a view toward perpetuating a source of labor and cheap raw material for secondary industry.

The cheap raw material objective has been realized and many thousands of rural people have migrated to urban centres to serve the emerging industrial complex. We do not question the desirability of farm efficiency provided it is reciprocated with adequate income. In spite of what they have accomplished on the one hand it is clear our agricultural policies have thus far failed to solve either the economic or social problems of a majority of those farm people still remaining on the land.

In having implemented policies of adjustment to agriculture, federal and provincial governments have emphasized capital expansion and in this way have greatly influenced the shape of the agricultural community. Farm credit programs have resulted in the substitution of capital for labor and permitted the rapid mechanization of many thousands of our farms. This has assisted industry

through providing an expanded farm market for industrial goods. Credit policies have enabled the expansion in farm size, resulting in greater output per worker employed in agriculture and in some instances reducing unit costs of production. It has helped create an elite group in farming.

On the other hand, federal credit policies are discriminatory in nature, enabling only some to qualify and leaving others the alternative of accepting a lower living standard or selling their farms.

Thousands have left the land but many thousands have stayed. In 1961, 45 per cent of our farms sold agricultural products of gross value less than $2500 per annum. Of these, it is clear some considerable number may participate in off-farm employment, but this does not overshadow the fact that Canada has a serious problem of rural poverty on its hands at the present time. It is now often referred to as a "social" problem rather than an agricultural problem because it is recognized that the future rehabilitation of these people will not likely be achieved in farming.

The financial costs of rehabilitating these citizens to a useful role in society will be astronomical. The January, 1967 edition of "Resources" a publication issued by the Canadian Council of Resource Ministers, reports on an Agricultural Rehabilitation and Development Act project as follows:

> "Canada's first large-scale attempt to rescue a whole area of the country from the grips of poverty and ignorance has been undertaken by the Federal and New Brunswick governments. Over the next ten years $114 million will be spent by the two governments on comprehensive rural development plans for the northeast and Mactaqua areas of New Brunswick."

We predict within ten years, failing alternate farm programs, the problems which now confront ARDA will be substantially compounded.

Neither can one suggest that the group comprising 25 per cent of farmers in 1961 in the gross sale of farm products bracket from $2500-$5000 are by any stretch of the imagination secure in their positions. Many of them might, if given proper opportunity now, be both efficient and viable. However, rising input costs, insecure prices and limited opportunities for expansion predestine this group in agriculture as the next logical candidates for the rural poverty scrap heap.

The farmer who acquires a neighboring farm at inflated values well above the known productive potential of land does, in fact, singlehandedly bear the economic cost for social relocation of the displaced farmer and his family. In this sense, he is waging a one-man war on poverty and perhaps merely prolonging the day until he himself may become a casualty.

Farm Credit

There is evidence to support the belief that the problems of many low income farmers may be aggravated through use of higher cost forms of credit.[1] For example, $300 million is estimated to have been loaned to farmers in 1964 through supply company finance for short terms at interest rates averaging 10 per cent. A further $200 million was loaned in intermediate financing ranging from 18 months to 10 years at average rates of 9 per cent.

The same credit problems which this committee recognized for low income wage earners exist for low income farm people. *We recommend that consideration be extended in meeting the credit needs of low income farmers.*

The inflationary cost of farm lands is a major problem facing farmers. It is creating problems not only for those presently established in agriculture, but promises to create major problems of land transfer from the present to the following generation.

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[1] See "Farm Credit Expansion in Canada" by R. S. Rust, Published in Canadian Farm Economics, Vol. 1, No. 1, April, 1966.

In its 1964-65 annual report, the Farm Credit Corporation notes as follows:

> "Land prices, which have continued to increase during the year in many areas, have accentuated the problems of those wishing to start farming in those areas. A major factor influencing these prices appears to be the demand for land to expand the size of farms. The steady upward trend in land prices also may have attracted some investment in land by non-farmers. Under present circumstances, it is sometimes difficult for a lender such as the corporation, in making appraisals for loans which are repayable over terms up to 30 years, to reconcile current land prices in some areas with the net income potential and loan repayment capacity of many farms in those areas."

The above observation indicates that acquisition of land by non-farmers is a recognized problem to entry into agriculture by young farmers. We believe this trend deserves consideration.

In an article by John Schriener contained in the "Financial Post" of January 29, 1966, it is noted:

> "A massive demand for farm credit is being created by the transfer of farm ownership to a new generation. This transfer began early in the 1960s, and, according to some economists, will continue into the 1970s before easing off."

The prospect of carrying a lifetime debt on a possible investment of $60,000-$100,000 is not a great inducement for young people to enter agriculture.

We believe it may be necessary to evaluate the practicability of continuing a completely owner-operator philosophy for farm land in future years. Security of tenure may be guaranteed in other ways which will spare heavy capitalization of land resources for more productive purposes. We believe there is room for greater direction of public land allocation in our economy, perhaps through the medium of a Land Allocation Authority.

It is noted, for example, that there is now thinking in government circles towards buying up small and so-called inefficient farms and consolidating them into efficient units, training operators, modernizing buildings and allowing older farmers to sell their land to the government but remain in rural residence.[1] It is also proposed these consolidated units be sold. We question the wisdom of this latter proposal. We believe long-term leases would be more practical toward meeting transfer needs in the present and the future and perhaps forestall the growing threat of land ownership and control by the large corporation.

Who Shall Control Agriculture?

Our organization represents family farms. We believe that both economically and socially it is in Canada's national interest to retain a structure for food production which is broadly based among numerous producers. We regret that no blueprint for agriculture is in evidence in this country. While much lip service is paid to the principles of retaining the family farm, the industrialization of agriculture through integration is proceeding ahead at full steam.

Our concern as a farm union is: Who shall control agriculture? What is to be the pattern of agriculture in Canada for the future? What are the policies going to be today to assure a tomorrow for the family farm?

Time, we believe, is not on our side. The next plateau in agriculture is obviously the growing trend toward production and market domination by large corporations which threaten the independence of every producer. Vertical integration which relegates the farmer to laborer is already established in this country. The trends here have followed those in the United States which are

[1] Article by Clive Baxter, Financial Post, January 25, 1966.

advanced by approximately 10 years[1]. The patterns and problems of integration are being experienced in Western Europe.[2] Industrialization in the production of certain farm commodities such as broilers already is complete in this country. Still, those producers who have entered this highly specialized field of production are extremely vulnerable to risk. Whose benefit will really be served? We say it will be neither that of the producer nor the consumer when corporate enterprise controls the means of food production.

The industrialization of production in turkeys, eggs and hogs is rapidly descending upon us. One must question the relative security of the individual producer in an economic climate which puts him in direct production competition with an integrated corporation also representing the market outlet on which the producer relies, or alternately, a contractual arrangement which relegates him to the role of hired man or share cropper under contract for production.[3] Under corporate management of production and supply, the consumer can expect an end to food bargains.

We are concerned by the inadequacy of price support programs which, in large measure, fail to be meaningful in providing primary producers with an adequate level of price stability and income. It is clear the prime objective of support policy for farm products has been to act as a stop-loss measure and thus pattern supply to the domestic market production. It has achieved this to such an extent in some commodities, notably manufacturing milk and cream, as to require foreign imports of butter to supplement domestic supplies. Even so, recent support increases in milk prices have been grudgingly and reluctantly granted to producers. The federal Minister of Agriculture, the Honourable J. J. Greene,[4] recently stated that man's most crying problem in the next three decades will be the ability to feed himself and that Canada, with the most productive and efficient farmers in the world, is suited to giving leadership in remedying world hunger. We quite agree, but farmers cannot produce at a loss in a high cost of production economy.

Farmers are becoming weary of being exhorted by experts to specialize, to diversify, to produce more and to become ever more efficient. To make the farmer more productive appears to be a national preoccupation while other sectors of our economy on which the farmer relies for goods and services are able to convert the fruits of his efficiency and technology into profit centres. The question arises: How efficient must farmers become? Efficiency equated in terms of an industry which is able to regulate its profit margins to demonstrate a profit on its operations is one matter. Efficiency equated in terms of a profitable farming operation which must produce on the basis of high cost, profit centred inputs supplied by the industrial sector and sell to a market which also will build profit centres into the farmer's product before it is consumed, is quite another matter.

Supermarkets, in our view, are overexpanded in numbers as are gasoline service stations which mushroom in profusion in every town and city. Our packing companies are overexpanded in capacity. The basic design and efficiencies of our grain handling and transportation systems have not changed greatly in sixty years. Farm implement prices have been rising each year as the farmer is overburdened with a multiplicity of models, designs and colors to appeal to his

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[1] See "Economic Growth and the Farm Problem" by E. J. R. Booth, Associate Professor of Economics, University of Connecticut, Storrs, Connecticut, presented to the 1966 Western Farm Leaders Conference, Banff School of Fine Arts, Banff, Alta., March 21-25, 1966.

[2] See Article: "Vertical Integration in Western Europe" by John Higgs, Published in FAO Monthly Bulletin of Agricultural Economics and Statistics, Vol. 15, No. 12, December, 1966.

[3] See "Structure and Concentration in the Canadian Poultry Meat Industry" by J. T. Hill, Canadian Farm Economics, Vol. 1, No. 2, June, 1966, published by Economics Branch, Canada Department of Agriculture.

[4] Report in Winnipeg Tribune, Jan. 25/67, of address by Hon. J. J. Greene to annual meeting, Canadian Federation of Agriculture, Winnipeg, Man.

baser instincts. Efficiency in these instances, it would appear, is rationalized on balance sheets which extract a profit from the consumer rather than through the more efficient application of resources.

We believe this committee must consider and recommend some guidance to government on the shape of the agricultural industry for the future. Failure to recognize the present shape of future events in the primary food industry may well lead to the destruction of the family farm and substitute an administered industry regulated and controlled by private corporations.

Farmers and Co-operatives

The principles of co-operation first applied by the Rochdale Pioneers in 1844 provided farmers in Canada with a model on which to build present-day producer marketing and farm supply co-operatives. Canadian farmers have been the creators of both farm supply and producer co-operative institutions in Canada.

The early voluntary farm movement from which some present day farm unions have descended were the creators of many present day commercial co-operative institutions and as such these institutions are part of the farm movement. Farm people have employed co-operative principles to organize commercial enterprises and they have organized these enterprises to perform specific, specialized functions on their behalf. These basic functions are to provide goods and services at cost and to return any earnings as patronage refunds to individual members on a proportionate basis relative to the amount of purchases.

The motive in this form of enterprise is to provide members with goods and services at cost. Properly managed, there is no likelihood of producer or consumer exploitation, since the cause for exploitation, namely profits, does not exist. Where this motive does exist as in corporate enterprise, the effect is cost increasing to the consumer of the good or service.

An additional advantage to Canada from co-operative enterprise is that co-operatives are entirely owned and controlled by Canadians. This is a technique through which Canadian ownership of industry is attained.

There should not be a problem of monopolistic or restrictive trade practices which occasionally tempt the private and/or corporate sectors of our economy. The savings members realize as a result of their patronage of consumer co-operatives may be returned to them in cash or retained within their association for expansion of services. In this manner, that portion of their earnings through patronage is loaned to the association on an interest-free basis.

Earnings accruing to farmers through patronage of producer co-operatives may also be refunded in whole or in part by the producer co-operative. *In both cases the entire earning accruing to the farmer is taxable and must be declared as part of the farmer's income for the year in which the earning occurred whether or not the farmer member actually receives the saving.* Savings of the members retained by co-operatives, for whatever purposes, may be employed interest-free.

It is therefore with considerable concern we regard the malicious attacks made from time to time by private and corporate enterprise sectors of our economy upon the so-called "tax concessions" accorded to co-operatives. Co-operative members do not enjoy splitting or appreciation of their shares as accorded private or corporate enterprise, although many thousands of co-operative members have invested risk capital in co-operative enterprise.

Aside from various economic arguments supporting co-operative institutions, there exist social values not associated with corporate or private enterprise. Co-operatives provide members with the opportunity for decision-making in policy matters on a one-member-one-vote basis. Members of co-operatives may avail themselves of information or services provided through their respective associations which might not otherwise be available.

Co-operative organizations have grown in Canada, but not nearly to the extent which we believe desirable, either from the standpoint of the primary producer or the consumer. Producer marketing through co-operatives in 1964 approached $1.3 billion. Co-operative consumer purchases of all types reached only $522.8 million out of aggregate retail sales of $20 billion. This may largely reflect the lack of adequate understanding of this form of business enterprise by co-operatives and co-operators themselves. It may also reflect the lack of adequate encouragement from governments, particularly at the national level. We suspect that most governments have not actively encouraged the growth and development of co-operative institutions in this country nearly to the extent possible.

By way of example, may we remind this committee as others have, that there has been a demand in the farm movement for a federal co-operative act as far back as 1905, and such legislation still does not exist on the federal statutes. Bill No. 5, an Act Respecting Co-operation, unanimously passed the House of Commons in 1908, but was defeated by the Senate on July 10, 1908.

Recommendations

The family farm structure of agriculture in Canada is, in our view, at the crossroads. We believe a comprehensive farm policy is an urgent necessity if indeed it is the objective of government to perpetuate the family farm as the main food productive force in Canadian agriculture.

If this is to be the case, and we believe it must if the best interests of producers and consumers are to be served in future, we urge the following broad recommendations be accepted by your committee:

(1) The federal government should immediately issue a clear statement of policy objective in terms of its concept toward the role of the family farm in constituting the basic food production in Canada in the future.

1. (a) We ask your Committee to recommend a formula for publicly regulating the expansion of Corporate retail food chain outlets, in order to avoid food cost increases which flow from excess Capital investment and under-utilization of such outlets.

(2) A broadly based and realistic farm price support program which will remove the uncertainties of financial risk to the farmer in production and provide him with the opportunity to earn a basic national level of income through employment of his productive resources is essential. (Canada's expenditures on farm support under the Agricultural Stabilization Act in 1965-66 was $57.3 million or a per capita outlay of $2.75.)

(3) A broadening in the base of farm credit arrangements is necessary. Provision must be made for access to low interest rate credit for low income farmers.

Provision must be made to ease the transfer of farm operations from one generation to the next and encourage greater entry into farming by young farmers.

(4) Research and study must be given to the practicability of altering the generally accepted concept of land ownership as the only practical manner of assuring a farmer of security of tenure. The possible establishment of long term leasing arrangements of farm units under the jurisdiction of a land allocation authority may be a practical answer to problems of succession and the growing encroachment upon land ownership of private corporations.

(5) Research and study should be undertaken on the extent of non-farm purchases of farm land, speculative and otherwise, foreign and domestic, and the effect of this practice in exerting inflationary pressures on land prices and restricting opportunity of farm people.

(6) Study and research should be directed toward assessing the present degree and possible future trends and impact of vertical integration on Canada's farm structure and consumer interest.

(7) Passage by the federal government is recommended of national marketing board legislation to provide farmers the opportunity of exercising greater discipline and control in the production and marketing of farm products.

(8) We urge this committee recommend:

(a) The immediate introduction in the House of Commons of a National Co-operative Act as a concrete measure towards extending active support to the growth of the co-operative movement in Canada.

(b) That the government of Canada make available a continuing fund of $100 million for the purposes of co-operative development in Canada.

(c) That interest charged on monies loaned by the co-operative development fund be not greater than 3 per cent per annum simple interest.

(d) That the period of tax exemption on new co-operative developments be extended from the present three years to five years.

(9) We support requests for the establishment of a Department of Consumer Affairs and legislation requiring the full disclosure of annual interest rates in such instances as installment buying plans and finance company borrowings.

All of which is respectfully submitted by
THE NATIONAL FARMERS UNION.

BRIEF

LETHBRIDGE CONSUMERS' PROTEST ASSOC.

TO THE JOINT COMMITTEE ON CONSUMER CREDIT (PRICES)

Mr. Chairman and Members of the Committee:

Our group has a membership of 235 persons and the support of the Labour groups in Lethbridge as well as many other consumers.

We wish to give complete support to the briefs submitted by both the Winnipeg Homemakers' Protest Committee and the Ottawa Consumers' Protest Assoc.

The brief is essentially the same as presented to The Prairie Provinces Cost Study Committee on February 9, 1967.

Due to the distance to Edmonton from Lethbridge, we do not submit groceries to verify price increases, price rub-outs, etc. We do state that Lethbridge on an overall basis has higher prices than either Calgary or Edmonton and not only in food but all fields of merchandise. The differences between Lethbridge and other centres in prices, we believe, are not justified by the merchants claiming that freight rates make the difference.

Lethbridge last summer was declared a depressed area in the building trades. Actually, little of the buoyant economy in the rest of Canada was or is evident in the city of Lethbridge itself. The only real way Lethbridge realized Canada's prosperity was in sharply rising prices, especially in food.

We do not believe that prices needed to rise as quickly nor to the level they have and they are *still* rising.

The following quote from the February issue, 1966, of Western Grocers' Magazine commenting upon record grocery retail sales in 1965 speaks for itself:

> Food stores apparently maintained or increased their share of available consumer dollars. Many causes—among them:
>
> "Higher dollar volume for meats brought about by reasonably maintained tonnage with sharply higher prices.
>
> Higher prices for a fairly wide range of products and few reductions.
>
> More milk volume through stores compared with routes.
>
> More promotional non-food sales including relatively high priced merchandise as seasonal specials. This includes everything from lawn chairs and barbecues to tickets for various entertainments.
>
> More stores expanding non-food sections.
>
> Proportionately more sales of prepared and semi-prepared foods compared with staples and *at higher prices as incomes rise.*"

The article contained more, but for brevity, the content was reduced.

A further quote from the March 1966 Western Grocers by Mr. Fred Chalmers, President of the Meat Packers' Council of Canada is:

> "Canadian cattle slaughter in 1965 was at an all-time high. The plentiful supply did not affect high prices." (The Consumer was told there was a shortage of cattle due to export.)

We are constantly told that the law of supply and demand governs consumer prices. The statement by Mr. Chalmers makes a mockery of this stock declaration. The same holds true with flour. Flour exports have declined, yet the price to the consumer in Lethbridge for ten pounds of flour has risen from .85 cents to $1.15 in the last 18 months. There are many more instances, but the consumer rarely wins as evidenced by meat prices and flour prices.

We wish to make mention of the percentage mark-up systems used by retailers. We wish to show that this system may very well be detrimental to the consumer:

For instance: (These are not actual case prices—figures are strictly example)

1 case of 24 lbs. of margarine wholesales for $3.60.
Retailer's mark-up is 20 per cent. He realizes $4.32 on this case—a profit of .72 cents.
The wholesale price rises to $4.00
The retailer now realizes $4.80 on the case. 80 cents profit—an increase of 8 cents profit.

One can see that obviously he would have little desire to complain—he makes more profit and can blame the wholesale level for the rise in price.

We used margarine as an example and now wish to state our feelings on the 12 per cent sales tax on this commodity. This tax was imposed to help the dairy industry in regards to sales of butter when there was a surplus. As we are now on an import basis for butter, this situation no longer exists. The price of butter will now rise and more people will turn to margarine as a substitute. Most consumers already using margarine are doing so by necessity and this unfair tax penalizes the fixed and low income groups. We respectfully request the Committee to ask for the removal of this tax. It is one situation the Federal Government can alleviate.

We wish to make mention now that we deplore:

At the retail level:

(a) Cash registers obscured by displays or by any other means.
(b) Consumers required to place their purchases on a moving conveyor belt to the cashier. What is being rung-up cannot possibly be watched carefully. An opportunity for dishonesty is present. It should *not* be there.
(c) Merchandise placed in end displays inferring sale items, when in truth they are regularly priced or higher.
(d) Recently in a food store, it was noticed that a 25-pound bag of flour being purchased was leaking. The bag was asked to be weighed. This bag contained only 24 pounds 4 ozs. The price was adjusted by the manager. This whole lot of flour had defective bags, yet it is still being sold at the same price. How many unsuspecting consumers have bought these bags with short weight?

At the merchandising level, we deplore:

(a) Reduced content disguised under a package change-over. Price remains the same or is increased. For instance, Nabob Foods have recently converted their spices from cans to bottles. In many cases, chili for example, the content was decreased and the price increased.
(b) Kimberly Clark reduced the Kleenex in their economy pack from 200 double sheets to 180 double sheets when introducing their "prettier package." In answer to an inquiry, Kimberly replied "rather than increase the price, the content was reduced." Of course, this is just a disguised price increase. (Their letter was submitted to the Prairies Cost Commision.)
(c) We especially wish to point out a practice gaining prominence. We do not believe that any manufacturer should pre-price their commodities. This is now being done on packaged cooked meats. (Incidentally, this is another example of reduced content and increased price. These meats were packaged with 8 ozs. at one time—for some time now the content is only 6 ozs.) A retailer pointed to these meats and said that he would have charged 2 cents less if the price was not already set.

We wish now specifically to discuss Canada Safeway Ltd. This chain is by-far the dominent chain in Alberta and the West. We find it hard to understand why Canada Safeway in Lethbridge in view of their dominence and of

their highest return of any chain in North America (food chain to clarify) should find it necessary to mark-up an average of 22 per cent when most retailers find 18 to 21 per cent is sufficient for profit. We suggest that the consumer is paying for their rapid rate of expansion in Alberta. If they were content to expand much less rapidly that they are doing, the consumer would be paying less for their groceries. Most grocery stores set their prices by Safeway.

In the long run, the consumer is to blame because he or she has by their patronage given Canada Safeway the ability to expand and only the consumer pays for the expansion of a firm in one way or another.

We are very aware and concerned with the Garfield Weston Empire. In this regard, we ask the Federal Government to thoroughly investigate firstly the vertical integration of Safeway and also to thoroughly investigate the much-rumored connection of Canada Safeway Ltd. to this empire. It has been rumored that as much as 48 per cent of this chain is controlled through the American owned Companies of Garfield Weston. This may be possible as all common shares of Canada Safeway Ltd. are owned by Safeway Inc. Oakland, California. But, who owns Safeway Inc. and so on back. Only the Federal Government has the means to throughly investigate and prove or disprove Garfield Weston's connection. We feel that in the public interest this investigation *must* be made.

Our concern with high food prices is because the rest of the economy suffers because of the ever-occurring price increases. The more spent on food, the less for anything else. We suggest that volume selling is no longer the case—prices are what the traffic will or will not bear. If volume is down, prices rise to cover the decrease thus initiating a vicious circle.

We believe, also, that Federal, Provincial and Municipal taxes have a very important relationship of our shrinking purchasing power. We now quote the National Social Credit Leader, Mr. Robert Thompson who wrote—"The Canadian Tax Collector is now taking close to half of every dollar earned in this country. It is estimated that national earnings for 1966 will run just over $40 billion dollars. Governments will require $20 billion dollars to pay the bills to the end of the year. It is easy to see almost half the money we earn goes to finance governments." We submit the clipping of this quote.

We do not know the answer to this as it is an expensive necessary thing to run this country of ours. We, however, do pay dearly to be a Canadian.

We now submit on behalf of the President of the Lethbridge Milk Producers their brief presented to the Public Utilities Board in Calgary and which they feel should be of concern to the Joint Committee on Consumer Credit.

We also request that copies of both these briefs be made available to the Economic Council of Canada which has recently begun a study at the Federal Governments request into combines, mergers, monopolies and trade restraint, etc.

We thank the Committee for making possible personal presentation of these briefs.

Thank you.

FEBRUARY 23, 1967.

BRIEF PRESENTED

to

THE SPECIAL JOINT COMMITTEE OF THE

SENATE AND HOUSE OF COMMONS

ON CONSUMER CREDIT AND COST OF LIVING

by the

CONSUMERS PROTEST ASSOCIATION,

Calgary

The Consumers' Protest Association of Calgary respectfully submits this brief for your consideration and advice. We are neither economists or sociologists, nor do we have any affiliation with political or other interest groups—we are merely a group of interested consumers who are concerned as to why, when there is such an abundance of food commodities on the market, prices have risen so sharply during 1966.

A telephone survey of the Calgary district in November, 1966, showed that of 2,790 people contacted, 2,272, or 81.6 per cent were in support of our Association. On the whole they showed concern about rising food costs, objected to wide price fluctuations and were bewildered by the confusion of weights and sizes, but saw little hope that effective steps could be taken to improve this situation.

Objectives

1. To encourage government to further examine the food processing and food marketing industries to see if they are exploiting the consumer and making excessive profits.

2. To encourage government to establish a department whose objective it is to protect and educate the consumer and to encourage the industry to engage in more active price competition.

3. To provide support for the other objectives of this brief by presenting evidence and opinion with regard to:

(a) Monopolistic Practices in the Food Merchandising Industry in Calgary.
(b) Vertical Integration in the Food Industry.
(c) The Need for Standardization of Weights and Packaging.
(d) Misleading Advertising, Gimmicks, and Manufacturers' Markdowns.
(e) Wage Settlements and Their Effect on Food Prices, as Compared to Profits.

Monopolistic Practices in the Food Merchandising Industry in Calgary.

In our opinion monopolies are being allowed to operate too freely, leaving little or no competition and thus stiffling the free enterprise we value so highly. We understand that the food chains in the United States are subjected to more restriction in their movements than they are in this country. Would this not substantiate wholly or in part, the fact that a higher profit margin was shown by Canada Safeway Ltd. who showed a net profit on every dollar of sales of 2.56 cents compared to its parent company in the United States who showed a net profit of 1.65 cents?

Product monopoly can, be sheer weight and force, be put automatically in a position to dictate prices to other grocers, especially the smaller retail outlets

who, in some cases must conform or be put out of business. This tends to support the premise that there are too many supermarkets compared to the number of shoppers patronizing them.

Judging by the number of retail outlets, "Canada" Safeway Ltd. is the largest food chain in Calgary. Ten years ago they had fourteen stores in this city, to-day they have thirty-five. The growth of other retail food chains in the Calgary area appears to be noticeably slower, and it seems strange that a large company belonging to the Weston empire would only offer token competition. Loblaw Groceterias Company Ltd. have only seven retail outlets operating in Calgary at the present time, opening their first store in 1958.

Dominion Stores Ltd., said to be the largest single food chain in Canada, operates a total of 380 stores but only three of these are located in Calgary. This company has closed two stores during the past ten years, one of which was located within close proximity to a recently opened Canada Safeway Ltd. store.

It has been noted that some food chains have disappeared from the Calgary scene altogether. These are A and P, Shop Easy Stores Ltd., Jenkins Groceterias Ltd. and Town and Country Stores. Perhaps the most noteworthy of these disappearances are those of A and P, who had but one store in Calgary, of their total 196 outlets, and Jenkins Groceterias Ltd. Mr. Jenkins had a total of forty-five retail stores, a few of which were located in country towns, and was bought out by George Weston Ltd.

These examples are suggestive of monopolistic practices in the food industry in Calgary.

Vertical Integration in the Food Industry

According to a telegram sent to Premier Manning, Municipal Affairs Minister Hook and Agriculture Minister Strome by the Milk Producers Associations of Lethbridge and Medicine Hat,

> Safeway now have 75 per cent of the grocery business, 41 per cent of the ice cream business and 95 per cent or more of the canning business. You are now putting them in the milk business so that they can now take up another ten or fifteen per cent of the grocery business. Hutterite colonies were stopped from expanding and their money stayed in Alberta, but Safeway are allowed to come in and gobble up everything, leaving nothing for Albertans. We humbly urge you to put a stop now in the interest of the citizens of Alberta. We humbly urge you to put a stop at once to Safeway going into the milk business in the interest of the farmers, the business men and the citizens of Alberta.

The telegram also states "Their own government won't let them do this in the U.S.A., why should you allow it?"

We understand Safeway recently purchased a large dairy in Edmonton and are now putting their own milk on the market. The sale of Broders Cannery in Southern Alberta to the same firm is another case in point where the processes of vertical integration are becoming an increasingly common practice in the food marketing industry.

In substantiation of the concern expressed in the above telegram, the *Calgary Herald* contained the following report in the January 11th edition:

> Canadian Press reported recently that the Norfolk Berry Growers Association,. . . voted to dissolve itself as it had been caught in a squeeze from increasing labour and operational costs and competition from imports.
>
> The co-op marketed only 744,00 quarts of strawberries last year compared to a peak of 2,700,000 only a few years ago. Mexican and Polish imports had grabbed the rest of the market.
>
> Four years ago the co-op had 497 members; last year it had only 157.

Also from Ontario comes word that Leamington area vegetable growers are dropping out of production and putting their farms into low-value crops such as wheat, corn and rye—

The reason given for the drop is that chain stores have changed their buying methods. They used to allow their local outlets to buy from local farmers. Now the head office places one large order to supply all stores and most of these orders are being placed with large organizations in the United States, organizations which can guarantee continuity of supplies of large quantities.

Call it passive resistance or an unofficial strike or what you will, the fact remains that if the corporate giants controlling the buying, processing, packaging and marketing of Canadian farm produce intend to play fast and loose with farmers, farmers are merely going to walk away on them.

There were several cases reported during the Joint Committee hearings of accelerated retail prices, while wholesale prices were being reduced. Further, Mr. Eugene Whelen reported an instance of an 800 per cent mark-up on cucumbers and a case where six-quart baskets of tomatoes were sold at 75 cents, while the farmer who was still unloading his truck, was given 40 cents a basket.

Chain stores claim to save the consumer money partially through vertical integration, but we question if it does not allow further licence for price setting and controlling. How much variation of price is there if one company is able to control prices from field to grocery shelf? Dominion Stores Ltd. are said to not operate through vertical integration, but are able to compete favourably with prices.

We suggest that vegetables and fruit which can be grown locally should be marketed first, before foreign supplies are turned to. Land is not being utilized to its full extent, for there is no point if growers cannot sell what they produce.

We realize that this situation has many implications and a great deal of specific information will be required before determining whether it is having a beneficial or adverse effect on our free enterprise way of life. But if monopolistic practices were beneficial to the economy, and public opinion was favourably influenced by the knowledge of their existence, why was the extent of the Weston-Loblaw empire kept secret?

The Need for Standardization of Weights and Packaging

Standardization of weights and packaging would eliminate much of the confusion experienced by the consumer and would facilitate comparative shopping. Differences in weights and prices per unit commodity serve only to confuse the public and outweigh any claims by the manufacturer and retailer that they are catering to the needs of the consumer. These practices also allow the retailer and manufacturer to camouflage price increases.

The following methods are some of those employed:

1. *Charging the same or more and giving less.*

   e.g. Nabisco Shredded Wheat, retailing at 43 cents, formerly held 18 biscuits at a net weight of 18 ounces. They now hold 18 biscuits at a net weight of 15-3/4 ounces.

2. *Enlarging the size of the container but not increasing the contents.*

   e.g. Kraft grated parmesan cheese comes in two different sized containers—each containing 4 oz., but one is at least one half inch taller than the other. Although the actual difference in size is slight, the impression upon the consumer is that one holds considerably more than the

other. It is also interesting to note that there is no other brand of grated cheese available and that at 51 cents for 4 oz., the consumer pays $2.04 per pound for this cheese.

3. *Marketing of convenience foods.*

Convenience foods undoubtedly have their place on the market, especially for the married women in the labour force, and understandably should be higher priced than unprepared commodities. But when convenience foods do not sell as readily as the manufacturer had hoped, the price of food which has had less preparation increases to balance extra cost involved in producing the more fully prepared version, and we have found convenience foods at lower prices than others.

e.g. Quick oats sell by the pound and instant oats (which take 2 minutes less to cook) are sold in ounces. On the same date, 5 lbs. of quick oats were selling more expensively than a comparable package (72 oz.) of instant oats.

Coloured tissues sell for the same price as white tissue, yet the cost of producing them must be considerably higher.

Cake mixes are less than the cost involved in buying the ingredients to bake a cake by recipe.

4. *Creating general confusion*

e.g. Instant coffee is now available in 2—6—7—8—10 and 12 oz. sizes. This unnecessary variety of size (in some instances only 1 oz. difference) is often further complicated by different brands, 'cents off' deals offered by manufacturers, and store 'specials'.

5. *Charging more for bulk purchase.*

The myth, which the fancy packaging manufacturers and retailers assert that the consumer demands necessarily increase the cost of the commodity, is found to be untrue in some cases.

e.g. Fancy packaged back-bacon sold for 59 cents per 1/2 lb., while at the same time in bulk it sold for $1.69 per lb.—the customer paid 51 cents per lb. more for bulk.

Caramels in fancy packages sold more cheaply per pound during Halloween than bulk quantities of the same brand.

6. *Using non-refillable containers.*

Soft drinks are now being sold in cans and non-refillable bottles. Green Giant, in their testimony before the Joint Committee on food costs, revealed that the cans cost more than the corn and beans that filled them. (Can—24.4 cents, Beans—19.1 cents for every dollar of cannel beans sold). While the can appears to be the most economical container for processed fruit and vegetables, the same is not feasible in the case of soft drinks. The value of the contents compared to the cost of the can would surely present an even wider price spread than the can-beans ratio. This is hardly economical since the cost of collecting and disposing of the nation's garbage is presenting an ever increasing problem.

The above examples indicate the necessity of asking government aid with regard to standardization of packaging. More than one supermarket executively has agreed that the enormous variety of packages and sizes does increase costs and makes comparative shopping almost impossible.

Misleading Advertising, Gimmicks, and Manufacturers' Markdowns

1. *Coupons*

The public is continually plagued with costly advertising in the form of coupons and free samples. Firms often state that they lose money through such

advertising, yet the preponderance of such articles is a most unwelcome addition to the daily mail. When the coupons are redeemed at the retail store, the article must be of specified size, and the cashier must spend time in identifiying the article, ascertaining the discount and tallying same on the grocery total, thus wasting valuable man hours.

2. *Flyers*

Duplication of advertising in the form of flyers to the householder is another area of superfluous advertising. The contents of these flyers are commonly repeated in the newspapers. Expense for the delivery of the flyers must be redeemed in the food cost. Apart from adding unnecessarily to the food price, the high cost of advertising also discourages smaller retail outlets from competing, as the large chain store can saturate the advertising media.

3. *Appeals to Children*

Advertising is often unethical, appealing to children exclusively; often telling them to demand specific products from parents. While parents must accept final responsibility for their children's behaviour, the constant barrage of such questionable methods upon our public media is unnecessary.

4. *Manufacturers' Markdowns*

Manufacturers confuse the shopper by marking 'cents off' on certain items. This is a highly suspect practice and we question its legality as markdowns imply a fixed price set by the manufacturer. Other methods employed by manufacturers are deceptive and misleading.

e.g. 'Suggested prices' on instant coffee.

> The following appeared on a package of detergent: "The price of this package is 20 cents below the most common price for this quantity of the leading high quality laundry detergent." This statement neglects to say whether this product is, in fact, a high quality detergent.

5. *Stamps and Gimmicks*

Trading stamps, now illegal in Alberta, are in our opinion, another 'gimmick' used by firms which leads again to higher food prices. 'Give aways', 'free trips' etc. are further examples of such practices.

6. *Balance of Profit*

The average shopper is at a disadvantage if she fails to realize that staples not included in the "specials of the day" are commonly increased in price to balance the store's total profit as tallied on the 'ups and downs' sheets.

According to the Calgary *Herald,* November, 1966:

> The supermarket executives themselves seemed at a loss to explain how they fix on the price of an individual item...
>
> This explanation seemed to be in line with what one executive described as the task of achieving a total 'merchandising mix' whereby all the various mark-ups would average out in the end to produce the desired amount of profit. How the mix was brewed seemed to be a mysterious, occult practice which the retailers could not explain and the committee could not begin to understand.

Wage Settlements and Their Effect on Food Prices, as Compared to Profits.

Because we are not economists, we are confused by the argument as to whether it is wage increases or excessive profit that cause inflation. But the vast majority of Canadians, who have no formal organization to represent them,

suffer because their incomes are relatively fixed. This group includes, at least, old-age pensioners, people living on fixed incomes from insurance and pensions, and the unorganized majority of the working force which is not able to make effective wage demands.

Wage increases are commonly blamed for higher prices, yet the Provincial Government's monthly statistical summary as reported in the Calgary *Herald,* February, 1967 states:

> The average wage in the Alberta retail trade last year was down from 1965 levels, but employment in the same category was up...
>
> Retail trade was the only category to record a wage drop during the one-year interval covered by the report.

Despite the fact that some firms claim profits lower than two per cent per year, Donald MacDonald, Secretary of the C.L.C., as quoted in the Calgary *Herald,* charged:

> Some corporations are running at a profit level of 103 per cent a year, while profits of 40, 60 and 80 per cent are common, yet far more moderate wage increases take the brunt of public blame.

This seems to substantiate recent Dominion Bureau of Statistics figures quoted by Mr. T. Douglas:

> Recent D.B.S. figures—based on 1961 figures as 100—show productivity in Canada increased to 138.6, wages increased to 135.3, while profits were increased to 152.0 or 16 per cent above productivity.

Too much attention is focused on profit/sales figures, yet profit/investment statistics would surely present a more realistic picture to the public. Investment in expansion must surely come from profit, but it is not represented in quoted figures.

The Consumers' Protest Association is not objecting to the free enterprise system unless it leads to irresponsibility. We feel that government should be should be aware that control is being gained by certain food chains which are concentrating growth in specific areas of Canada, and we encourage investigation at all levels of food merchandising in an effort to prevent further 'empires' from developing.

There is sufficient concern to justify demands that food commodities be packaged in such a manner that the consumer may be reasonably sure of the comparative per unit price.

Advertising practices at the manufacturing and retail levels should be limited to avoid oversaturation of the buying public, and waste of money.

Realistic statistics concerning profit and expansion of firms should be readily available to government and public, and be devoid, as much as possible, of confusing and ambiguous material.

While fully realizing the fact that the consumer must take the responsibility for being discriminatory and informed, we are convinced that there is much that can and must be done by government to alleviate the economic pressures caused by the inexplicable rise in food costs as compared with other costs in our standard of living.

BRIEF

to the

SPECIAL JOINT COMMITTEE

of

THE SENATE

and

HOUSE OF COMMONS

on

CONSUMER PRICES

Presented

by the

DEPARTMENT OF ECONOMICS
UNIVERSITY OF ALBERTA

February 23, 1967 Edmonton, Alberta

I. Nature of This Brief

These comments have been prepared by the members of the Department of Economics at the University of Alberta. This does not imply unanimous approval of every part of them.

We are not offering new results from previously unpublished research. The following suggestions have often been heard before, but are made again on the grounds that they seem important.

A summary of each section is presented at the beginning of the section.

II. The Pattern of Recent Inflation in Canada

Summary: It would probably be impracticable to avoid mild continuing inflation in Canada. That is, it would appear to be less costly to compensate those who suffer from inflation than it would be to prevent inflation altogether. (Mild inflation means up to 2 or even 3 per cent per year.).

The Canadian Consumer Price Index rose from 129.2 in 1961 to 143.9 in 1966 (1949=100), or by 11.4%. The following figures show the per cent increase in each year over the previous year, for the total index and its major components:

		Goods			Services	
	Total index	Food	Other non-durables	Durables	Shelter	Other
Weight	100	27	31	12	18	13
1961-62	1.2%	1.8	0.7	−0.7	1.7	2.1
1962-63	1.8	3.2	1.0	0.2	1.7	2.0
1963-64	1.8	1.6	1.7	−0.9	2.5	3.7
1964-65	2.4	2.6	1.5	0.1	2.6	6.1
1965-66	3.7	6.4	2.7	0.3	3.2	4.4

There is considerable variation among the components of the index, from price stability for "durable goods" to rather rapid inflation in "other services". Such variations in relative prices are to be expected in a dynamic economy. Consumers' expenditure patterns change, and resources must be reallocated to meet the new pattern of demand. The *relative* increase in the price of "other services" reflects this process. As the standard of living rises, consumers spend larger portions of their income on such relative luxuries. The rewards to these services must increase relatively to attract more resources into their production. The portion of the increase in food prices that reflects more costly packaging is of a similar nature, (but packaging appears to be but a small element in the recent sharp increase in food prices).

If the overall price index is to be stable while relative prices change within it, some prices must decrease when others rise. But we cannot realistically ask that significant groups of prices shall decrease. Canadian business and labour obviously seek their gains in the form of higher money wages and profits, not in the form of lower money prices for what they buy. The political and economic costs of changing this attitude would be exorbitant. We can not hope to see any major group of prices decline. But we must expect relative prices to change. This means that, at best, some prices will rise while others do not, and some continuing increase in the over-all price level is unavoidable.

Of course, even mild inflation involves problems. If these problems were severe enough, they would justify more extreme measures to prevent inflation altogether. However, the main difficulties that result from mild inflation may be overcome in less drastic ways. Pensioners are one of the main groups who suffer from inflation, but this burden could be spread over the whole community by pensions tied to the cost-of-living index. Personal savings could similarly be protected from inflation by means of a Savings Bond of which the face value and coupons are tied to the cost-of-living index.

III. The "Trade-Off" Between Unemployment and Inflation

Summary: Traditional monetary and fiscal policies serve to combat extremes of unemployment or inflation, but other policies are much needed to reduce both at once.

The following figures indicate Canadian experience with inflation and unemployment in recent years:

	Unemployment as a per cent of the labour force	Per cent increase in the Consumer Price Index
1961	7.1%	0.9%
1962	5.9	1.2
1963	5.5	1.8
1964	4.7	1.8
1965	3.9	2.4
1966	3.7	3.7

The relationship between price increases and unemployment is of course complicated in various ways. Price changes are related to foreign prices, exchange rate movements and so on, as well as to unemployment. And unemployment is related to structural change in the economy, changes in labour force participation, and so on, as well as to inflation. But a trade-off between unemployment and inflation clearly exists, even though there is a range of uncertainty about where it lies. The above figures are used here only as a rough indication of where it lies.

The gross tools of monetary and fiscal policy can push the economy toward a "better" mixture of unemployment and inflation, for example, away from the

1961 toward the 1964 or 1965 mixture. This is important, but it is not enough. *None* of the mixtures in the above table can be regarded as acceptable. There is need for reduction of both unemployment and inflation simultaneously. Monetary and fiscal policy cannot do this, and other measures are needed. Some suggestions appear later.

IV. Monetary Policy

Summary: Canadian monetary policy is obliged to be mainly concerned with the balance of payments, and thus is not readily available for domestic stabilization policy.

The considerable mobility of funds between countries in response to interest rate differentials means that no country can ignore the international consequences of its monetary policy. Canada is in a peculiar extreme position in this respect, as a result of our agreement with the United States over their Interest Equalization Tax against foreign lending by Americans. The U.S. has agreed to exempt American loans to Canada from this tax. Canada in return has agreed not to use U.S. loans to increase our foreign exchange reserves. This means in effect that we have agreed not to let our reserves increase above the present level. In this situation, the Canadian authorities must not let Canadian interest rates get significantly out of line with U.S. rates. If Canadian rates were to rise faster than American, the resulting increase in Canadian borrowing in the U.S. would swell our official reserves, in violation of our agreement. In short, our monetary policy must in present circumstances be primarily concerned with the size of our official reserves, not with domestic inflation or unemployment.

Our monetary policy could to some degree be released from this restraint. One means of doing this would be to abandon the agreement with the U.S. However, this would involve imposition of the Interest Equalization Tax against Canada and the consequent sharp increase in the cost of U.S. capital to us. Alternatively, we could achieve stability in the official reserves by returning to a flexible exchange rate, thereby releasing monetary policy for domestic purposes. This of course would require negotiations with the I.M.F. to permit a change from a fixed exchanged rate.

V. Fiscal Policy

Summary: As long as monetary policy is largely confined to balance of payments objectives, fiscal policy bears an especially heavy responsibility for domestic stabilization. There is need for greater co-ordination between federal and provincial budgets to meet this responsibility.

Provincial and municipal governments account for over half (about 56 per cent on a national accounts basis) of government expenditure in Canada. The remainder, federal expenditure, is still large, but large parts of it and of provincial and municipal expenditure are inflexible. Maximum flexibility of government expenditure obviously requires co-ordination of those parts of it which are flexible at each level of government. It is very difficult to devise effective procedures for co-ordination, especially at a time when provincial powers are being emphasized for other reasons. However, we endorse the Economic Council's suggestions (pages 176-8, *Third Annual Review*) of an expanded role for the annual meetings of federal and provincial finance ministers and of publication of documents to encourage a pre-budget open season for debate on public finance.

It may be noted that co-ordination of federal and provincial fiscal planning need not require every province or region to make the same plans. "Regional" monetary policies would be ineffective, even if politically and constitutionally possible, because mobility of funds throughout the country would force each region to adopt the same policy as the others. But "regional" fiscal policies could

to some extent be tailored to local conditions while remaining consistent with the national fiscal policy.

VI. Incomes Policy

Summary: We agree with the Economic Council's conclusion that an incomes policy would not work in Canada.

A set of wage and price guidelines, which the government might seek to impose by more or less strong persuasion, looks tempting as a means of improving the trade-off between unemployment and inflation. However, such factors as the dispersion of power among federal and provincial governments, the openness of our economy, and our *laissez-faire* folklore, would lead to so many exceptions to the guidelines that the guidelines would become ineffective.

There is a further difficulty in setting guidelines for wages, a difficulty not emphasized in the Economic Council's *Third Annual Review*. Wages guidelines tend to be set according to current increases in productivity. That is, they tend to freeze the existing division of national income between wages and other income. However, economic theory predicts, and wage negotiators would in different words confirm, that within a certain range the division of income between wages and profits is indeterminate. That is, within a certain range the division depends merely on sheer bargaining power, not on any underlying economic forces. Labour readers may refuse to accept guidelines for wages, even if they accept the need to curb inflation, because they may believe that the division of income between wages and profits is not as favourable as it could be. This sort of argument often appears in terms of "ability to pay", with the implication that management could absorb wage increases which exceed productivity growth. The argument may be stronger in some industries, weaker in others; guidelines based on productivity neglect it in all industries.

It is significant that the United States administration, in mid-January this year, officially announced the abandonment of its guidelines policy.

While we do not regard productivity data as a sufficient guide for wage settlements, we do not want to imply that such data are useless. There is room and need for much detailed work in productivity studies. For instance, industry by industry productivity comparisons between the United States and Canada would be an important *part* of a full understanding of the consequences of pressure toward wages parity with the United States.

VII. Exchange Rate

Summary: A pegged exchange rate is somewhat of an impediment to Canadian economic policy. A "creeping peg" is suggested as a useful compromise between the pegged and the floating exchange rate systems.

It was pointed out in Section IV that with our fixed exchange rate and fixed official reserves, monetary policy in Canada must be primarily concerned with the balance of payments. It may also be noted that the Canadian balance of payments at present seems strong enough that the Canadian dollar would appreciate in foreign exchange markets if it were free to do so, and that this appreciation would tend to reduce prices within Canada. These are arguments in favour of a more flexible exchange rate policy.

Mr. J. A. Black, an economist at Oxford University, has recently presented an idea of considerable interest in this context. (See his "A Proposal for the Reform of Exchange Rates," *Economic Journal*, June, 1966.) Under his scheme, each country would continue to keep its exchange rate within one per cent of a par rate as under existing I.M.F. arrangements. However, the par rate itself would be frequently re-calculated, as an average of market rates over the most

recent months. If the market rate averaged out equal to the existing par rate, the par rate would not change. But if the market rate tended to stay near its upper (or lower) limit, the par rate and the limits would creep upward (or downward) with each re-calculation. Exchange rates would thus be somewhat flexible, but there would be a "speed limit" on their movement.

It would seem that if such a scheme had been in force in Canada in recent years, it would have eased the upward pressure on our price level to the extent that the pressure originated in our international transactions. Of course, exchange rate policy is a matter for international consultation and agreement, and sudden or radical change is most unlikely. However, we do wish to raise again the advantages for Canada or a more flexible exchange rate system.

VIII. Tariffs

Summary: A time of inflationary pressures is an especially appropriate time for the lowering or removal of tariffs.

Tariffs increase a country's price level. A lowering of tariffs is almost the only measure which might actually reduce significant groups of prices. And the unpleasant adjustments among producers, which lower tariffs may entail, are least difficult at a time of buoyant demand and inflationary pressure. It is true that the most rapid price increases are in food and services, where tariff protection is least relevant. However, restraints on any components of the cost of living index are helpful. Our government's efforts in the Kennedy round of tariff negotiations are welcomed, for this and other reasons.

IX. Mobility of factors and products

Summary: Greater mobility of goods and of people within Canada would help one region's depression to alleviate another's inflation, and *vice versa.*

The Economic Council of Canada has made a number of important recommendations for manpower policy. We endorse these for their usefulness in coping with regional problems, as well as with problems of mobility of labour between jobs, industries and occupations.

To the extent that these and other measures can achieve greater uniformity of economic conditions across the country, federal or nation-wide monetary and fiscal policies become more appropriate.

One specific suggestion applies both to the general question of mobility and to the particular problem of bottlenecks in the construction industry. We suggest a single registry or information centre in which all large government contracts (federal, provincial and municipal) be advertised. Such an agency would have a purely passive role, but it would enable any contractor to find out quickly and easily what contracts are up for bidding at any time. This information service could increase competition for contracts, improve geographic mobility of resources in the industry, and ease some bottlenecks. These benefits would be prevented to the extent that governments give preferences to local contractors, but the real cost of such preferences would at least be made more evident if more outside competitive bids come in.

X. Regional and Provincial Economic Statistics

Summary: More rapid and comprehensive collection of these statistics is prerequisite to a wide variety of efforts to adapt policies more sensitively to regional problems.

XI. Direct Protection and Information for Consumers

Summary: Of the great variety of specific measures which are conceivable, one of the most effective might be generous government financial support of the appraisal of consumer goods by the Consumers Association of Canada.

We do not oppose legislation about quality, standards, packaging, specifications, labelling and so on. These are important sources of protection for consumers, especially as no individual consumer can hope to keep himself fully informed about every one of the thousands of products available. However, the variety, complexity, and rate of change in modern consumer goods and services seems far too great to permit adequate consumer protection by legislation alone. A body such as the Consumers' Association of Canada can play a watchdog role with speed and adaptability. It can discover and publicize particular problems or abuses without the need for some specific legislated authority to do so. And the mere possibility that it may discover shortcomings can only make producers more careful to avoid them. The Consumers' Association is severely restricted in its research activity by shortage of money. There is thus a strong case for government financial assistance to it.

We welcome and support your Committee's recommendations regarding disclosure of finance charges.

Measures to make "comparison shopping" easier would not immediately affect the consumer price index. They would help the consumer to get more value for his money at existing prices. Over the longer run, if consumers were to compare prices more carefully, price competition would increase among producers and price increases would be restrained. One useful but relatively simple measure toward this end would be a standard "information space," in about the same location on every sort of package. Buyers would gain the habit of looking there for the main facts, including the price per *standard* unit. (*Standard* units, to avoid such barriers to comparison shopping as the conversion of grams to ounces.)

XII. Combines Investigation

Summary: Rising fines imposed upon convicted price fixers mean an increasing deterrent. Some effective restrictions on detrimental mergers must await the findings of the Economic Council of Canada.

The increasing level of fines in Combines convictions suggests that the penalty aspect of the present law will be acting as a more effective deterrent against price fixing.

As mergers can accomplish on a more enduring basis what is often the outcome of conspiring, some effective restrictions on detrimental merging seem indicated. It is of course assumed that the reference to the Economic Council of Canada means their study will form an important part of future decisions regarding mergers and the public interest.

XIII. Economic Research into Industrial Organization

Summary: For Parliament and the Government of Canada to national economic growth and development, it is essential that considerable research be undertaken to provide wider knowledge and deeper understanding of industrial structure, market behaviour and economic performance in all sectors and regions of the country. These ends are best served outside the criminal law.

Among the 1952 recommendation of the MacQuarrie Committee was a proposal to carry out "a more extensive programme of research into monopolistic

problems." The effect of that proposal has been minimal. A mere handful of studies has been carried through to a published report; their impact on policy has been unimpressive.

It is urged that research into the industrial structure of most sectors of the Canadian economy be so expanded as to make the MacQuarrie recommendation on research seem to be an even mor modest proposal than it in fact was. The Canadian people and their members of Parliament require much wider knowledge and much deeper understanding of the relationships among firms in order to create economic policies that will effectively improve market behaviour and economic performance. It is quite likely that changes in their environment will alter the responses of firms in the changing conditions of our growth and development. It is unlikely that we can enjoy such consistent good luck as to achieve important goals through policies grounded on wastelands of ignorance.

The expanded research activity must have economic direction and economic purposes, quite detached from the legal and legalistic world of crime and punishment. It may well be necessary for useful policy results to create a separate division, possibly under the Registrar-General or as a part of the Economic Council of Canada. Such a change of direction will have at least three valuable results:

1. The purpose of the research will be to discover and publish useful information about industrial structure in all its aspects and the effects of that structure upon the market behaviour of companies operating in Canada and the economic performance of the country. For example, companies with sufficient power to administer their prices are likely to behave differently in different product markets and as compared with firms lacking such power. Sensible policies must rest upon an awareness of the essential differences in the economic results rather than upon concept of criminality.
2. It will aid in the transfer and in the recuitment of personnel qualified to conduct the empirical research necessary to carry out a reliable economic analysis of various sectors of the economy. The education and experience of such people is quite distinguishable from being "learned at the law."
3. The assembling, analyzing and publishing of significant economic information in a policy-making context will become the raison d'être for the research staff. Important inquiries will not perish because of a counsel of perfection, which may well be relevant regarding the provisions of a criminal statute but is highly suspect in the examination of economic data. Companies rarely enjoy the luxury of making market decisions on the basis of complete knowledge.

It seems appropriate to give warning that there is very considerable difficulty in assuring that the significant results of excellent economic research and analysis will be fully used in the establishment of effective Canadian policies. There is always present the danger that the policy-makers, Parliament and the Government of Canada, will be inhibited by procedural arrangements. For example, the reporting so far under the Corporations and Labour Unions returns Act seems to be heading in a useful direction but with great caution and restraint most likely imposed by the decision concerning the method of collecting data. If the restraints, quite proper in terms of the means chosen to gather information, are operating to bar plicy-makers from examining rather specific information in many particular industries, much of the usefulness of this extensive and continuing study is clearly dissipated. Even if Members of Cabinet have wider access, which seems improbable, there will remain the undesirable effect of a less knowledgeable Parliament and a less informed Canadian people.

The collection and analysis and publication must involve administrative procedures that keep the entire process open to complete access to policy-makers and to the public. It is easy to conclude about public affairs, the less secret the less venal. Your Committee itself is powerful and favourable support of that viewpoint.

Your Committee is dealing with an important aspect of the continued and indeed improved growth and development of the Canadian economy. That such matters are clearly of national concern is sufficient indication of a Canadian need to place the Canadian conduct of economic research in some more appropriate place than The Criminal Law, Head 27, of Section 91 of the British North American Act. The "Regulation of Trade and Commerce" clause has seemed to be a possibility and has been popular in proposals to have an alternative to (not simply a replacement for) The Criminal Law approach. There is also a strong case to be made for conducting research into monopolistic elements and into all aspects of the industrial structure of sectors and regions of the Canadian economy under the quite reasonable power of Parliament "to make Laws for the Peace, Order and good Government of Canada." Our knowledge of economic affairs is at least extensive enough that we know the future good government of Canada requires ever-growing information and understanding of the economy of Canada. As Parliament is concerned with the government of the country, so it must have the means to understand the economy of the country.

MEMBERS OF THE DEPARTMENT OF ECONOMICS

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M. D. Stewart

Council Chambers,
City Hall,
Quebec City, P.Q.

THURSDAY, Feb. 23, 1967

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate:* The Honourable Senators Carter, Croll (Joint Chairman), McGrand and Vaillancourt.—4.

For the House of Commons: Messrs. Allmand, Asselin, Boulanger, Choquette, Code and Morison.—6.

The following were heard and questioned by members of the sub-committee:

Mrs. Lucien Farrell,
L'Association Canadienne des Consommateurs
Quebec City Section,
551—23rd Street,
Quebec City, P.Q.
(Brief)

In attendance: Mme Paul Demers, Mme T. J. Lamontagne, Mme G. Goulet.

Mr. Andre Morin,
La Federation de Quebec des Unions régionales des Caisses populaires Desjardins
Desjardins Bldg.,
Lévis, Quebec.
(Brief)

In attendance: Senator C. Vaillancourt, Mr. Irenee Bonnier, Mr. Henri Louis Marier, Mr. Jean-Paul Langlois, Mr. René Croteau, Mr. Paul Émile Charron, Mr. Harry French.

Mr. Armand Trottier,
Controller, City Council,
Quebec City,

Immediate Past President of
The Canadian Construction Association,
175 Benoit XV Blvd.,
Quebec City
(Verbal presentation)

At 12.30 p.m. the Sub-Committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Dr. Roger Dehem,
Laval University,
Quebec City, P.Q.
(Brief)

Mr. Jean-Claude Allard,
Manager,
Yves Germain Inc.,
Building Contractors,
321 St. Paul Street,
Quebec City 2, P.Q.
(Brief)

A recommendation was made by Mr. Asselin to the sub-committee with reference to complaints received against notaries.

A vote of thanks to the Executive Council of Quebec City was proposed by Mr. Choquette and seconded by Mr. Asselin and carried unanimously. It was recommended that thanks be conveyed verbally by Senator Croll to His Worship Mayor Lamontagne.

Attest.

Marcel Boudreault,
Clerk of the Committee.

L'ASSOCIATION CANADIENNE DES CONSOMMATEURS

Section de Québec

Monsieur le Président, Messieurs les membres du comité,

Je suis, Madame Lucienne Farrell, présidente de l'Association Canadienne des Consommateurs, section de Québec. Notre groupe est formé de plus de 300 membres, tous canadiens-français, aussi suis-je heureuse d'ajouter que nous sommes la plus importante locale de l'A.C.C. de langue française au pays.

Je suis accompagnée de madame J. T. Lamontagne, conseillère, madame P. Demers, secrétaire-archiviste et madame G. Goulet, publiciste.

Au début de cet exposé je désire mentionner que la section de Québec, que nous représentons ici, est affiliée à l'Association Canadienne des Consommateurs Nationale dont les bureaux sont situés à Ottawa, laquelle a présenté un mémoire devant votre comité, lu par madame Lawrence Wilson, lors de la séance tenue à Ottawa le 17 janvier 1967.

A la lecture du rapport de cette séance, qui nous a été fourni par notre bureau national, nous sommes fières du travail présenté devant votre comité par notre Association Nationale, et nous l'appuyons sans réserve et l'en félicitons, même s'il nous a semblé qu'à certains moments quelques-uns de vos membres ont paru s'offusquer des termes employés par nos représentantes.

Nous regrettons cependant de ne pouvoir présenter le mémoire que nous avions déjà préparé parce qu'il contenait sensiblement les mêmes griefs que ceux contenus dans le mémoire soumis par notre bureau central d'Ottawa, particulièrement en ce qui concerne certains produits dont l'empaquetage tend à fausser la vérité et d'autres faits similaires.

Cela se comprend facilement du fait que nous sommes une branche de cette Association. Nos sources d'information et les buts poursuivis étant les mêmes. D'autre part les questions posées aux représentantes d'Ottawa par les membres de votre comité nous incitent à croire qu'il est nécessaire sinon préférable de présenter des preuves à l'appui de griefs spécifiques. Vous comprendrez qu'une Association comme la nôtre, sans but lucratif, non confessionnelle, non politique, indépendante du commerce et de l'industrie, prélevant ses fonds des cotisations de ses membres composés de personnes appartenant à la classe moyenne de la société, étant privée du support précieux que pourraient nous fournir les classes plus favorisées, le problème des prix élevés ne leur apparaissant pas un obstacle sérieux; nous n'avons pas les ressources financières qui nous permettent de nous adjoindre les services précieux de spécialistes, d'économistes et d'avocats pour faire les recherches nécessaires et présenter un mémoire scientifiquement élaboré.

Cependant permettez de vous rappeler ici qu'une trop grande liberté d'action est laissée au commerce et à l'industrie, aux financiers, aux sociétés prêteuses dont les taux d'intérêts sont scandaleux. Les journaux ont publié récemment quelques bribes d'une étude faite par un organisme syndical du Québec, sur le crédit à la consommation. Il a été clairement démontré que les actionnaires d'une compagnie de finance se distribuent annuellement de 105 à 185 pour cent de leur investissement. Cette même compagnie aurait payé en dividendes aux actionnaires en cinq ans 8.8 fois le montant investi ce qui veut dire du 88 pour cent de revenu. Qui croyez-vous sont les victimes de cette exploitation? «Le gagne-petit». Cela se pratique dans notre beau pays le Canada au vu et au su de nos gouvernements et de tout le monde.

Un autre secteur qui draine de façon honteuse un pourcentage élevé des revenus du petit salarié, c'est le prix exorbitant des remèdes. Un journal hebdomadaire de Montréal publait récemment qu'un certain médicament acheté

aux États-Unis au coût de $2.58, après avoir été empaqueté au Canada à peu de frais, était revendu au détail $58.00. Comment qualifier de tels abus?

Messieurs, l'A.C.C. locale de Québec, que j'ai l'honneur de représenter ici, prie avec instance le Gouvernement canadien d'instituer le plus tôt possible le Ministère du Consommateur, et d'inscrire dans les règlements que le titulaire de ce Ministère ne soit jamais un membre de la finance, un directeur de compagnie, pas même un simple marchand, mais un ouvrier et de préférence une femme de classe moyenne. Ce Ministère devra avoir la responsabilité de protéger le public contre l'exploitation sous toutes ses formes, qu'il s'agisse de la fixation des prix, de la publicité trompeuse, des emballages truqués, des taux d'intérêt usuraires des sociétés de prêts etc, etc.

Ce Ministère recevrait les plaintes des consommateurs, ferait enquête et s'il est prouvé qu'il y a eu exploitation, des mesures sévères seraient prises contre les coupables.

Certains organismes ont suggéré de taxer la publicité, d'autres de créer une régie d'état de collection, d'autres d'abolir les sociétés de prêts etc. Nous ne croyons pas que l'on doive pénaliser le journal qui annonce une vente à bas prix d'une marchandise que le marchand n'a pas en magasin. Ce serait faire une injustice au journal ou à l'agence de publicité qui n'est pas réellement responsable. Non! Nous ne voulons corriger une injustice par une injustice. Nous voulons des mesures pratiques et efficaces et non des cataplasmes. Une réglementation des ventes à tempérament basée sur la capacité de payer, c'est-à-dire basée sur les revenus de l'individu et restreindre les privilèges de repossession du marchand qui ne respecte pas la loi. Amender les lois actuelles sur les prêts de façon à réduire les taux d'intérêt au même niveau que des taux d'intérêts chargés par les banques plus un pourcentage raisonnable d'administration. Nous comprenons que le mécanisme réglementant un contrôle des prix dans le secteur de l'alimentation comporte sûrement la montage d'un rouage complexe, mais il y a possibilité de l'instituer de façon à ce qu'il assure une protection efficace aux consommateurs parce qu'il opère dans le secteur où tout le monde doit puiser pour se nourrir. Les petits salariés doivent se nourrir pour survivre comme le font les individus appartenant aux classes plus favorisées.

Il existe dans presque tous les pays civilisés des organimess qui exercent une surveillance sur les prix des produits alimentaires parce que c'est là une nécessité de la vie, tout le monde doit se nourrir. En France on l'appelle la Régie ou le Bureau des denrées alimentaires.

Il est vrai qu'au Canada certains Canadiens croient encore que nous sommes une colonie; disons qu'ils ont un peu raison et demandons-leur de nous gratifier du terme de "colonie évoluée" et qu'on veuille bien nous laisser progresser un peu plus en ne s'objectant pas aux revendications justifiées des consommateurs du pays.

Québec le 23 février 1967,
L'Association des Consommateurs canadiens,
Local de Québec.

Comité spécial mixte du Sénat et de
la Chambre des Communes
chargé d'enquêter
sur le
CRÉDIT AU CONSOMMATEUR

MÉMOIRE SUR LE CRÉDIT À LA CONSOMMATION

soumis par
La Fédération de Québec des Unions régionales
des Caisses populaires Desjardins

Québec, le 23 février 1967

Le crédit à la consommation fait de plus en plus partie de nos habitudes de vie. L'enquête Tremblay-Fortin, effectuée au Québec en 1959, établissait que 50 p. 100 des familles salariées canadiennes-françaises avaient des dettes à la consommation pour une valeur moyenne de $500, soit environ 12 p. 100 de leur revenu.[1] Une étude du Bureau fédéral de la statistique estimait qu'au printemps de 1964, 52 p. 100 des familles et des individus isolés avaient des dettes à la consommation pour une valeur moyenne de $905.[2]

A la fin de 1948, le crédit à la consommation en cours au Canada était de $835 millions et représentait 7.5 p. 100 du revenu personnel disponible des Canadiens. A la fin de 1965 le crédit en cours était de $7,058 millions et représentait 20.2 p. 100 de notre revenu personnel disponible. Nous sommes de plus en plus engagés dans le crédit à la consommation; il fait maintenant partie de nos habitudes de vie. Ce phénomène n'est pas particulier au Canada; toute l'Amérique du Nord en est atteinte. Signalons seulement qu'aux États-Unis, à la fin de 1965, le crédit à la consommation représentait $85,983 millions.[3]

Le Centre de recherche de l'Université du Michigan a étudié, en 1964, l'attitude des consommateurs face au crédit à la consommation. Les grandes lignes de cette étude furent publiées dans la revue *THINK*, janvier-février 1965;[4] en voici les principaux points (nous en avons fait la traduction).

(a) Le crédit à la consommation augmente parce qu'un plus grand nombre de familles l'utilise et non parce que les mêmes familles sont de plus en plus engagées dans des dettes.

(b) Les consommateurs américains ne regardent pas l'achat à tempérament d'abord comme une dette mais

1. Ils regardent l'achat à tempérament comme une façon de payer une chose en l'utilisant. Il y a trente ans nous pouvions payer chaque semaine une journée de salaire à une buandière; maintenant nous achetons une lessiveuse automatique qui nous oblige à payer d'un seul coup une somme importante. De la même façon, on allait au cinéma plus souvent avant d'avoir la télévision; ceci nous amenait à une série de petits déboursés répartis dans le temps tandis que l'achat d'un appareil de télévision présuppose un seul paie-

[1] Tremblay M. A. et Fortin G., *Les Comportements économiques de la famille salariée du Québec*, (Québec, Presse de l'Université Laval), p. 186.

[2] B. F. S. 13-525 *Income, assets and indebtedness of non farm families in Canada—1953* (Ottawa, Imprimeur de la Reine, 1966), tableau 42.

[3] Federal Reserve Bulletin, février 1966, p. 252.

[4] Mueller Eva, "Why Consumers Behave as They Do", *THINK* (Think Magazine, IBM, Armonk, New-York) Janvier-Février 1965), pp. 16-20.

ment important. Le consommateur américain voit l'achat à tempérament comme une façon de transformer le prix d'achat d'articles dispendieux en une série de versements qu'il fait en utilisant l'article.

2. Plusieurs consommateurs voient dans l'achat à tempérament une façon de budgeter. Quand une famille achète un article ménager important ou une automobile par versements, elle est forcée d'allouer une partie de ses revenus à l'acquisition de quelque chose de durable. Il lui reste moins d'argent pour les dépenses frivoles.
3. Le consommateur américain voit l'achat à tempérament comme une façon de protéger son épargne. Une minorité substantielle d'acheteurs à tempérament sont des personnes qui ont suffisamment d'argent en banque pour payer leurs achats comptant. N'étant pas certains qu'ils auront la volonté de reconstituer leur compte d'épargne s'ils l'utilisent pour payer un achat important, ces personnes préfèrent s'astreindre à payer par versements ces achats importants de façon à protéger les économies déjà réalisées.

Ce dernier point de l'étude du Centre de recherche de l'Université du Michigan est confirmé au Canada par l'étude du B.F.S., citée plus haut. Dans cette étude[5] on a comparé les dettes à la consommation aux actifs liquides détenus par les individus ou les familles. Les résultats sont les suivants: 34 p. 100 des gens ayant des dettes à la consommation auraient pu effacer leurs dettes en utilisant leurs actifs liquides, 40.9 p. 100 auraient pu réduire leurs dettes à l'aide de leurs actifs liquides, tandis que 25.1 p. 100 des gens ayant des dettes à la consommation n'avaient pas d'actifs liquides. Précisons que dans cette étude les actifs liquides comprennent les comptes courants et les dépôts d'épargne dans les banques à charte, les dépôts dans les autres institutions financières, les obligations d'épargne du Canada, les obligations du Canada et les autres obligations; l'argent en main ne fut pas considéré dans cette étude.

Le rapport de la Commission Porter, dans son étude sur la situation financière des particuliers, signale également que le crédit à la consommation a un côté logique. On y lit:[6]

> Un investissement en équipement ménager fournit une bonne part de son rendement sous forme d'allégement de la tâche de la ménagère et de plus grande commodité pour elle, ou bien—dans le cas des automobiles, des appareils de télévision et des tourne-disques—de plus d'agrément. On peut cependant calculer aussi ce rendement en termes monétaires par exemple, dans le cas des appareils de télévision, l'argent économisé en frais de gardiens d'enfants et de divertissements à l'extérieur du foyer, dans le cas des lessiveuses, l'équivalent monétaire peut être estimé sur la base du coût de services équivalents dans une buanderette. Des études récentes indiquent que de tels rendements peuvent être considérables—même si on ne tient pas compte de l'économie de temps et d'énergie de la ménagère—que l'investissement en biens durables peut donc se justifier en termes d'analyse économique pure, et que les emprunts des ménages à ce sujet sont rationnels et «productifs». Nous ne voulons pas pousser l'argument trop loin, mais nous pensons qu'il contient un point de vue intéressant et pas du tout déraisonnable.

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[5] B. F. S. 13-525 Idem, tableau 53.

[6] Rapport de la Commission royale d'enquête sur le système bancaire et financier—1964 (Ottawa, Imprimeur de la Reine, 1964), p. 25.

Dans le colloque sur le Crédit à la consommation au Canada tenu à Saskatoon les 2 et 3 mai 1966 le professeur W. P. Mors du *Babson Institute*, Mass., donnait les quatre causes suivantes expliquant la croissance du crédit à la consommation aux États-Unis:[7] (traduction de nous)

1. Un changement d'attitude des consommateurs qui, plutôt d'acheter directement des services, préfèrent investir dans des biens durables qui rendent ces services.
2. Un changement d'attitude de plusieurs consommateurs à l'égard des dettes.
3. Une plus grande proportion des consommateurs utilisent le crédit.
4. Depuis la deuxième guerre le revenu personnel est plus stable et a pour effet d'élargir les possibilités d'endettement des consommateurs.

Toutes ces raisons, valides pour les États-Unis et aussi valides pour le Canada, expliquent bien pourquoi le crédit à la consommation s'est tellement développé au cours de la dernière décennie et nous laissent aussi prévoir que le crédit à la consommation n'a pas fini de se développer et qu'il est certainement établi chez nous pour y rester. Il fait de plus en plus partie de nos habitudes de vie.

Les Caisses populaires sont de plus en plus conscientes de ce phénomène. Depuis plusieurs années déjà elles s'efforcent de répondre elles-même aux besoins de crédit à la consommation de leurs membres. Pour ce faire elles ont dû réorienter leur politique de prêt. Cette réorientation de la politique de prêt des Caisses populaires fut le principal résultat chez nous de l'étude Tremblay-Fortin portant sur «Les Comportements économiques de la famille salariée du Québec». Le tableau statistique suivant illustre bien l'évolution de la politique de prêt des Caisses populaires.

TABLEAU I—ÉVOLUTION DE LA POLITIQUE DE PRÊT

Au cours de l'année	Valeur des prêts effectués en millions de dollars		Taux d'augmentation des prêts en cours		
	Rec. de dette	Hypothèque	Rec. de dette	Hypothèque	de l'actif
	$	$	%	%	%
1958	51	78	10.5	14.6	14.6
1959	60	84	13.7	12.8	8.6
1960	65	62	9.7	3.1	9.5
1961	81	98	16.6	13.8	13.5
1962	98	105	23.9	12.1	11.1
1963	127	107	29.2	9.5	10.3
1964	160	109	28.8	8.0	11.1
1965	211	123	34.0	9.5	13.7
1966	253*	122*	28.1*	8.0*	11.7*

* Chiffres préliminaires.

Au cours de l'année 1966 les Caisses populaires auront prêté plus de $250 millions sur reconnaissance de dette à environ 250,000 membres. Elles auront, de plus, consenti environ 25,000 prêts hypothécaires pour une valeur totale approximative de $122 millions.

[7] Bors W. P., "Commentary", *Consumer Credit in Canada* (Saskatoon, Jacob S. Ziegel & R. E. Olley, 1966), p. 19.

Il vous intéressera peut-être de connaître les taux d'intérêt auxquels ces prêts ont été effectués. Tirés des rapports annuels 1966 de 958 Caisses populaires, voici quels étaient les taux d'intérêt en vigueur dans ces Caisses populaires à la fin de leur année sociale 1966.

TABLEAU II—TAUX D'INTÉRÊT EN USAGE DANS LES CAISSES POPULAIRES

FIN D'ANNÉE SOCIALE 1966

Taux d'intérêt	Nombre de Caisses populaires prêtant à ce taux	
	Rec. de dette	Hypothèque
Nil (aucun prêt)	9	66
5.0% ou moins	1	14
5.5%	1	18
6.0%	51	207
6.5%	106	201
7.0%	401	346
7.5%	210	88
8.0%	133	18
8.5%	26	
9.0%	16	
9.5%	2	
10.0%	2	
Total	958	958

Tous ces taux d'intérêt incluent l'assurance-vie prêt. Quelques rares Caisses populaires n'ont pas le service de l'assurance-vie-prêt ou le laissent à la charge de l'emprunteur mais pour rendre tous les taux comparables nous avons majoré de ½ p. 100, dans le tableau II, le taux d'intérêt utilisé par ces Caisses populaires. Les taux d'intérêt rapportés au tableau II comprennent donc tous l'assurance-vie-prêt. Inutile de vous dire que les taux d'intérêt illustrés au tableau II sont des taux d'intérêt véritable, c'est-à-dire des taux d'intérêt annuels simples portant uniquement sur le solde dû.

Nous avons particulièrement apprécié le récent rapport de votre comité parlementaire demandant que toutes les entreprises faisant commerce du crédit à la consommation, y compris les banques à charte, soient obligés de divulguer sans astuce le coût total du crédit tout comme le taux simple d'intérêt annuel. Il est souvent très compliqué de démontrer à un emprunteur que le taux d'intérêt de 7 pour cent ou 8 pour cent qu'il paie à sa Caisse populaire est moins élevé que le taux d'intérêt de 6 pour cent, à escompte capitalisé, offert par d'autres institutions financières même si ces taux représentent en fait un taux d'intérêt annuel de 11 pour cent à 14 pour cent.

Certains intéressés affirment que l'emprunteur ne désire pas connaître le taux d'intérêt de son emprunt mais qu'il veut connaître uniquement les remboursements qu'il aura à faire. Il faut reconnaître que cette attitude existe dans la réalité mais il ne faut pas en déduire qu'il n'y a pas lieu de déclarer le taux d'intérêt véritable de chaque emprunt, au contraire! Si certains emprunteurs ne veulent plus entendre parler de taux d'intérêt, c'est beaucoup plus parce que la grande majorité des gens sont perdus dans la jungle de taux d'intérêt, tous plus sophistiqués les uns que les autres, qui existent actuellement sur notre marché. Les banques à charte, les plus grands pourvoyeurs de prêts personnels au Canada avec $2.3 milliards de prêts en cours, ont dans le public la réputation de ne pouvoir prêter à un taux d'intérêt supérieur à 6 p. 100. Mais en capitalisant cet intérêt au début du prêt ou encore en escomptant l'intérêt à l'avance, les grandes banques à charte obtiennent avec leurs prêts personnels assurés des intérêts réels variant entre 9.7 p. 100 et 14.2 p. 100 selon la banque où l'on

emprunte et selon la durée du prêt. Les compagnies de petits prêts se présentent devant le public avec des taux d'intérêt mensuels multiples: 2 p. 100 par mois sur le premier $300, 1 p. 100 sur les $700 additionnels, ½ p. 100 sur les $500 qui suivent; pour l'emprunteur moyen il devient impossible de calculer à quel taux réel il pourra emprunter un montant donné dans ces organismes. Et pourtant ces organismes ont des prêts en cours pour plus de $1 milliard. Les grands magasins parlent du taux d'intérêt de 9 p. 100 qu'ils chargent dans leurs plans budgétaires mais dans beaucoup de grands magasins ce taux d'intérêt porte sur le montant initial prêté et non sur le solde dû, de sorte que le taux d'intérêt véritable est beaucoup plus près de 18 p. 100 que de 9 p. 100. Etc... Etc... La plupart des consommateurs sont définitivement perdus devant cette kyrielle de sortes de taux d'intérêt en vigueur au Canada.

Comme le crédit à la consommation n'est pas appelé à disparaître mais est plutôt appelé à se généraliser et à se développer il devient urgent de créer dans le public l'image d'un taux d'intérêt raisonnable. Cette image se créera naturellement par la compétition le jour où tous les organismes prêteurs seront tenus de se présenter devant le public sans masque, en affichant vraiment les taux d'intérêt réels qu'ils demandent. Le grand public pourra alors distinguer les usuriers de ceux qui ne le sont pas et se faire une idée d'un taux d'intérêt raisonnable. Du même coup on aura beaucoup assaini le marché du crédit à la consommation, un marché de $7 milliards actuellement au Canada et un marché encore appelé à se développer. Nous sommes très heureux de votre recommandation demandant que tous les organismes prêteurs soient obligés de divulguer sans astuce le coût total du crédit tout comme le taux simple d'intérêt annuel. Les Caisses populaires se joignent à vous, une fois de plus, pour demander qu'une législation soit passée en ce sens.

Il serait important, à notre avis, de compléter cette législation par une loi demandant que tous les contrats de vente à crédit ou à tempérament déclarent:

(a) le montant du prix de vente
(b) le montant payé comptant
(c) le montant du solde à payer
(d) les charges qui s'ajoutent (intérêt et frais de finance)
(e) les versements mensuels à payer (nombre de mois et montants)
(f) ce que représente en taux d'intérêt annuel simple les intérêts et les frais de finance.

Le crédit à la consommation demeure toujours, toutefois, un outil à deux tranchants. Bien utilisé il peut grandement aider une famille mais utilisé sans discernement il peut également causer la faillite d'une famille. Avec le changement d'attitude des gens envers l'endettement et avec la popularisation du crédit à la consommation il faut craindre qu'un plus grand nombre de familles ne s'enlisent dans les dettes. Pour essayer de limiter ce problème il conviendrait que l'on fournisse au public beaucoup de renseignements sur l'utilité du crédit à la consommation, sur ses coûts, sur les dangers qu'il comporte et sur les limites dans lesquelles on peut l'utiliser sainement. Les Caisses populaires ont toujours été soucieuses de ces problèmes. Elles ont toujours été préoccupées de fournir des conseils budgétaires adéquats à leurs membres. Qu'on nous permette de signaler leurs émissions éducatives à la télévision où, pendant deux ans, on analysa tous les postes du budget familial, la vaste enquête qu'elles ont commanditée sur les Comportements économiques de la famille salariée du Québec, le volume «Comment joindre les deux bouts» qu'elles ont répandu aux quatre coins de la province, leur publication bimestrielle «Ma Caisse» tirée à quelque 400,000 exemplaires, leur récente publication «L'art de dépenser» tirée à 75,000 exemplaires, etc...Depuis deux ans déjà le Service d'éducation des Caisses populaires s'est penché d'une façon particulière sur ces problèmes pour former des spécialistes en budget familial qui, à leur tour, pourront aider les familles dans le

besoin et faire un travail de prévention dans ce domaine. Ces cours, donnés à une vingtaine de personnes à la fois seulement, sont animés par des spécialistes des matières étudiées et sont répartis sur trois périodes non consécutives d'une semaine chacune. A date, 120 personnes ont participé à la première semaine de cours, 51 personnes ont également participé à la deuxième semaine de cours et 36 personnes ont vécu les trois semaines constituant le cours complet. Des cours analogues ont été donnés à Montréal par le Comité d'éducation économique et social mis sur pied par un groupe de Caisses populaires. Ces derniers cours étaient donnés par les soirs suivis d'une session intensive de fin de semaine. Une soixantaine de participants se sont inscrits à ces cours, groupant des mères de famille des religieuses, des travailleurs sociaux, des conseillères familiales du ministère de l'Agriculture, etc...

Ces cours sur le budget familial ont été popularisés dans des émissions éducatives à la télévision de Gaspé et à la radio de Drummondville et dans des cours du soir offerts au public à Montréal, Granby, Drummondville, St-Hyacinthe, Trois-Rivières, Sherbrooke, Rimouski, Gaspé et dans toute la région de Québec. Dans la région de Québec seulement au-delà de 1,000 personnes ont assisté à ces cours. Nous sommes à préparer un projet de cours en économie familiale qui sera bientôt présenté au Ministère de l'éducation de notre province pour que les cours aux adultes en économie familiale soient donnés de façon uniforme à travers la province.

Dans le récent rapport de votre Comité parlementaire vous suggérez que «la famille modeste, dont le revenu annuel ne dépasse pas $4,000, devrait pouvoir bénéficier, pour satisfaire à ses besoins essentiels, sans avoir recours aux requins de la finance, de prêts à faible taux d'intérêt, remboursables à longue échéance.»

Nous aimerions vous signaler que ces familles ont déjà un excellent accueil dans les Caisses populaires et que vos préoccupations relatives à ces familles coïncident avec les préoccupations actuelles des Caisses populaires.

En 1965 nous avons fait une étude détaillée de quelque 3,800 prêts effectués par 68 Caisses populaires. Nous avons réalisé dans cette étude que 14.7 pour cent de nos emprunteurs sur billets avaient un salaire inférieur à $3,000. et qu'une autre tranche de 23.8 pourcent de nos emprunteurs avaient un salaire entre $3,000. et $4,000.; 38.5 pourcent de nos emprunteurs sur reconnaissance de dette avaient donc un salaire inférieur à $4,000. De toutes les classes de salariés c'est la classe de $3,000. à $4,000. qui a obtenu le plus de prêts dans cette étude. Quelle était l'importance de ces prêts? Le tableau suivant vous indique que, même si la moyenne de ces prêts oscillait entre $600. et $900., on y rencontrait aussi de petits prêts et des prêts plus importants.

TABLEAU III—PRÊTS SUR RECONNAISSANCE DE DETTE

NOMBRE DE PRÊTS EFFECTUÉS SELON LE MONTANT PRÊTÉ ET LE SALAIRE DE L'EMPRUNTEUR

	Salaire de l'emprunteur									
Montant prêté	Inf. à $3,000.	$3,000. à $4,000.	$4,000. à $5,000.	$5,000. à $6,000.	$6,000. à $7,000.	$7,000. à $8,000.	$8,000. à $9,000.	$9,000. et plus	Indéterminé ou ne s'applique pas	Total
Inférieur à $100	35	14	13	8	1	1			8	80
$ 100. à $199.99	76	64	53	39	9	9			16	266
$ 200. à $499.99	135	176	129	98	59	23	12	21	33	686
$ 500. à $999.99	114	196	211	129	64	26	9	29	39	817
$1,000. à $4,999.99	108	311	306	264	169	97	48	119	53	1,475
$5,000. et plus	2		4	4	2	1	1	7	19	40
Total	470	761	716	542	304	157	70	176	168	3,364
Valeur moyenne des prêts	$596.	$897.	$981.	$1,064.	$1,161.	$1,258.	$1,490.	$1,691.		$1,000.

Dans quel but ces prêts furent-ils consentis? Tiré de la même étude le tableau IV nous donne le but des prêts accordés selon le salaire de l'emprunteur. On y note que 40 pourcent des prêts accordés aux emprunteurs ayant un revenu inférieur à $4,000. avaient pour but de consolider des dettes ou d'aider au budget général: vêtement, nourriture, vacances, loisirs, chômage, maladies, taxes, assurances, etc....

TABLEAU IV—BUTS DE L'EMPRUNT SELON LE SALAIRE

Salaire	Auto-mobile	Budget général, dettes	Éducation-épargne	Mobilier-logement	Moyens-production	Maison ou propriété	Total	Nombre de prêts
	%	%	%	%	%	%	%	
Moins de $3,000	19	42	14	9	5	11	100	497
3,000 - 4,000	26	40	2	12	5	15	100	820
4,000 - 5,000	27	34	3	10	4	22	100	836
5,000 - 6,000	28	34	1	8	6	23	100	622
6,000 - 7,000	27	30	3	10	7	23	100	346
7,000 - 8,000	21	29	1	13	9	27	100	183
8,000 - 9,000	23	24	2	9	9	33	100	92
9,000 et plus	18	29	3	7	11	32	100	220

Quelle garantie avons-nous demandée à ces emprunteurs? Toujours tiré de la même étude le tableau V précise les garanties demandées selon le salaire de l'emprunteur. On y note que même chez les bas salariés près de la moitié des prêts étaient consentis sur valeur morale ou simple signature.

TABLEAU V—GARANTIE DEMANDÉE SELON LE SALAIRE DE L'EMPRUNTEUR

Salaire de l'emprunteur	Avec endosseur	Valeur morale	Épargne	Hypothèque	Autre ou indéterminé	Total	Nombre de prêts
	%	%	%	%	%	%	
Moins de $3,000	40	42	9	5	4	100	497
3,000 - 4,000	37	47	6	7	3	100	820
4,000 - 5,000	24	53	7	14	2	100	836
5,000 - 6,000	18	59	8	13	2	100	622
6,000 - 7,000	15	59	12	12	2	100	346
7,000 - 8,000	15	57	12	14	2	100	183
8,000 - 9,000	12	54	10	24	—	100	92
9,000 et plus	6	53	19	20	2	100	220

Signalons que les prêts personnels décrits dans cette étude étaient généralement payés en 3 ans ou moins mais que 5 pour cent de ces prêts avaient une période de remboursement excédant 36 mois. Quant au taux d'intérêt demandé, 60 pour cent de ces prêts portaient un taux d'intérêt de 7 pour cent, et 24 pour cent portaient un taux d'intérêt inférieur à 7 pour cent. Seulement 16 pour cent des prêts portaient un taux d'intérêt supérieur à 7 pour cent.

Dans leurs contacts avec leurs emprunteurs les Caisses populaires cherchent toujours à continuer leur travail d'éducation. Elles cherchent toujours à effectuer des prêts qui s'intègrent bien dans le budget de l'emprunteur et qui tiennent compte de ses possibilités de remboursement de façon à ce qu'il puisse se désendetter. Nos prêts sont toujours effectués pour des buts utiles à l'emprunteur et à bas taux d'intérêt.

C'est la deuxième fois que la Fédération de Québec des Unions régionales des Caisses populaires a l'honneur d'être reçue par votre Comité. Merci pour nous avoir si bien entendus.

Face à la montée croissante du crédit à la consommation, nous nous joignons à vous aujourd'hui pour demander

(a) que toutes les entreprises faisant commerce du crédit à la consommation soient tenues, par la loi, de déclarer à l'emprunteur le coût de ce crédit exprimé en argent et en taux d'intérêt annuel simple.

(b) que l'on fournisse au public beaucoup de renseignements sur l'utilité du crédit à la consommation, sur ses coûts, sur les dangers qu'il comporte et sur les limites dans lesquelles on peut l'utiliser sainement.

Soyez assurés que les Caisses populaires vont tout mettre en œuvre pour collaborer à assainir les budgets familiaux. Elles ont déjà fait largement leur part dans ce domaine et elles se préparent à faire davantage en créant les cadres nécessaires pour faire face à ces problèmes d'aujourd'hui et de demain.

ABRÉGÉ D'UNE DÉPOSITION DEVANT LE COMITÉ DU SÉNAT SUR LES PRIX

par Roger Dehem, Professeur à l'Université Laval

Vu dans une perspective historique, le problème des prix élevés au Canada peut paraître un faux problème. En effet, dans l'après-guerre, c'est au Canada que les prix ont monté le moins, si l'on excepte les États-Unis. L'on peut ajouter que l'accélération de la hausse au cours des années récentes est un phénomène normal en période d'emploi élevé.

Toutefois, ce n'est pas sans raison que les consommateurs réagissent à la hausse du coût de la vie.

Aux demandes d'explication des consommateurs, l'on ne peut répliquer que tout est normal, que dans d'autres pays l'on ne fait pas mieux, et que la tendance des prix à la hausse est devenue un phénomène inévitable.

Cette attitude résignée et fataliste ne convient pas à l'économiste.

Deux problèmes essentiellement différents, et généralement confondus, doivent être distingués: celui des prix élevés et celui de la tendance des prix à la hausse.

I—*Le problème des prix élevés*

L'on peut dire que, pour un niveau donné des salaires, les prix à la consommation sont trop élevés. Ils le sont, parce que les méthodes de production et de distribution ne sont pas aussi efficaces qu'elles pourraient l'être, et aussi parce que certains droits de douane sont trop élevés.

L'on insiste beaucoup, aujourd'hui, et avec raison, sur l'importance de l'augmentation de la productivité. Je n'ai rien à ajouter à cet égard. Mais, je voudrais mettre l'accent sur ce dont le consommateur est devenu conscient: l'inefficacité au stade de la distribution.

Tout ce qui augmente la productivité n'augmente pas, pour autant, le bien-être du consommateur. Une partie des gains de productivité réalisés dans les usines est gaspillée entre l'usine et le consommateur.

Les coûts commerciaux sont hypertrophiés d'éléments stériles. Au niveau commercial, la concurrence prend des formes socialement coûteuses.

Le gaspillage le plus notoire est, sans conteste, la publicité. Non seulement celle-ci augmente-elle inutilement les coûts, mais elle fausse le jugement des consommateurs. En outre, la publicité commerciale pollue notre civilisation.

Les timbres-prime, dont il a été beaucoup question ces temps-ci, sont un autre abus de la concurrence, préjudiciable au consommateur.

II—*Le problème de la tendance des prix à la hausse*

La hausse tendancielle des prix est un phénomène de plus en plus préoccupant. Si les économistes cessaient de la considérer comme tel, cela deviendrait inquiétant.

Le troisième exposé annuel de Conseil économique du Canada fait une analyse très fouillée du phénomène, mais les conclusions qu'il en tire sont plutôt vagues.

De cette analyse, il ressort, à notre avis, que le rythme de la hausse de prix au Canada dépend, foncièrement, de trois facteurs: la variation des prix à l'étranger, principalement aux États-Unis, le degré de chômage au Canada et le cours du change.

De ces trois facteurs fondamentaux, un seulement est incontrôlable, ce sont les prix à l'étranger.

Il reste deux facteurs-clé du rythme de la hausse des prix au Canada: le degré de chômage et le cours du change.

Je souhaite, comme tout le monde, que le degré de chômage puisse se maintenir à un niveau aussi bas que possible. L'Europe occidentale a connu un plein emploi à peu près ininterrompu depuis quinze ans. En conséquence, la hausse des prix y fut relativement rapide.

Si les prix montèrent moins vite aux États-Unis et au Canada, cela fut principalement dû au degré plus élevé de chômage qui a régné en Amérique du Nord.

Les mécanismes de hausse trop rapide des salaires à l'approche du plein emploi sont encore mal connus, malgré d'excellentes études sur le sujet, telle celle du Professeur David Smith.

Le comportement des syndicats et des employeurs en période de plein emploi est aussi naturel qu'inquiétant. Le problème de la hausse des prix est donc, en partie, un problème de relations industrielles.

Reste le cours du change. Le fait que la hausse des prix fut plus accentuée au Canada qu'aux États-Unis, depuis 1962, est principalement dû à la dévaluation du dollar canadien.

Bien qu'il soit délicat pour un économiste de mettre le cours du change en question, je me permettrai de rappeler que le cours du change pourrait être utilisé, au Canada, comme instrument tout-puissant de stabilisation des prix.

Je sais les objections que l'on pourra m'adresser. Mais, qui veut la fin doit vouloir les moyens.

Si l'on voulait vraiment arrêter la tendance des prix à la hausse, il suffirait d'apprécier systématiquement la valeur du dollar canadien en fonction d'une formule simple ou complexe, mais rigide.

Si cette politique était appliquée avec presévérance et sagesse pendant une longue période de temps, les consommateurs canadiens jouiraient des prix les plus stables, les entreprises et gouvernements canadiens des taux d'intérêt les plus bas au monde.

Québec, 23 février 1967.

BRIEF PRESENTED TO THE SENATE COMMITTEE ON PRICES

Roger DEHEM, Professor at Laval University

In a historical perspective, the problem of high prices in Canada looks like a spurious one.

Indeed, since the end of the war, prices have risen less in Canada than elsewhere, except the United States. It may also be said that the more rapid rise in recent years is a normal phenomenon at the peak of the business cycle.

Nevertheless, it is not quite without reason that consumers react against the rise in the cost of living.

When consumers ask for explanations, one may not reply by saying that everything is all-right, that circumstances are not better elsewhere, nor that the rise in prices has become unavoidable.

This complacent and fatalistic attitude is not proper for an economist.

Two basic problems must be distinguished. They are generally being confused, when they should be dealt with quite separately. They are the problem of *high* prices, and that of the *rising trend* of prices.

I—*The problem of high prices*

It may be said that, for a given level of wages, consumer prices are too high. This is because the production and distribution processes are not as efficient as they could be and also because some tariff duties are too high.

The importance of raising productivity has been very much stressed in recent times, and rightly so. But I would like to emphasize the source of consumers' recent complaints, namely, the inefficiency or the waste at the trade level.

Increasing productivity does not, per se, raise the consumer's welfare in proportion. Part of the productivity gains achieved at the plant level is being wasted on the way to the consumer.

Trade costs are inflated with sterile expenses. Competition is inefficient or wasteful in so far as selling costs are exaggerated.

Commercial advertising is, obviously, the most conspicuous element of waste in selling costs. Moreover, besides increasing costs needlessly, advertising distorts the consumer's judgement and it pollutes our civilization.

Trade stamps are another instance of wasteful commercial practice.

II—*The problem of the rising trend of prices*

The rising trend of prices is causing, fortunately, increasing public concern. If economists would become more complacent about it, this would be disquieting.

The third annual report of the Economic Council of Canada contains a thorough analysis of he phenomenon, but the conclusions it draws are somewhat vague.

From this analysis, it appears clearly that the rate of price increases in Canada depends, fundamentally, upon three factors: the rise in foreign prices, mainly in the U.S., the rate of unemployment in Canada, and the rate of exchange.

Of these three basic factors, only one is beyond Canadian control, namely prices abroad.

Two key factors of the rate of price increases in Canada, namely, the rate of unemployment and the rate of exchange.

Like everybody, I wish that the degree of unemployment could be maintained at as low a level as possible. Europe has experienced full employment

almost continuously in the past fifteen years. As a result, prices increases have been relatively more pronounced there.

The fact that prices have risen comparatively less in the U.S. and in Canada, is to be related mainly to the higher level of unemployment that has prevailed in North America.

The mechanics of too fast rising wages when unemployment dwindles is still not well known, despite the excellent studies that have been made, namely that of Professor David Smith.

The behaviour of trade unions as well as of employers in times of high employment is a matter of concern. The problem of rising prices is thus, partly, a problem of industrial relations.

What can be said about the rate of exchange?

The fact that prices have risen more in Canada than in the U.S., since 1962, is largely due to the devaluation of the Canadian dollar.

The question of exchange rate policy is a very delicate matter. But I only wish to recall that the exchange rate is a very powerful instrument of policy. It could be used to bring about perfect stability of the price level. This is perhaps a bold statement, and I am aware of every objection that could be raised against it.

But, when there is a will, there is a way. If people would really want to achieve price stability, the easiest and surest way to it would be to revalue the Canadian dollar in a gradual and systematic way. The formula might be simple or complex, but it should be relatively rigid, in order to minimize uncertainties and undesirable capital flows.

If this policy were pursued with resolution and wisdom during a long period of time, the Canadian consumer would enjoy the most stable level of prices in the world, and Canadian business and governments the lowest interest rates.

Quebec, February 23, 1967.

RAPPORT DE JEAN-CLAUDE ALLARD, GÉRANT DE LA PRODUCTION ET DES PRÊTS HYPOTHÉCAIRES POUR LA FIRME YVES GERMAIN INC., CONSTRUCTEUR, QUÉBEC, AU COMITÉ CONJOINT DU SÉNAT ET DES COMMUNES SUR LE CRÉDIT AU CONSOMMATEUR

Ayant pris connaissance du rapport de monsieur William G. Connelly, président de l'Association nationale des constructeurs d'habitations à laquelle notre firme fait partie, je désire vous informer que j'approuve les recommandations mentionnées dans ce rapport et qui, nécessairement, s'appliquent aussi à la Région de Québec.

Si nous prenons pour acquis que le coût de construction est présentement trop élevé pour permettre aux salariés moyens d'acheter une propriété, il faut donc essayer de trouver des solutions pratiques afin de diminuer le coût sans toutefois affecter la qualité.

Il me fait plaisir de vous soumettre les suggestions suivantes:

1. Diminuer le coût d'achat du terrain en modifiant l'exigence que la Société centrale d'hypothèques et de logement applique depuis plusieurs années concernant la profondeur des terrains dans les subdivisions.

Explication

Il est vrai que dans le passé, la cour arrière d'une propriété était utilisée par les enfants comme terrain de jeux. De nos jours, la majorité des municipalités, ont, à la disposition des jeunes, des terrains de jeux très bien organisés

avec moniteurs ou surveillants et ce, pour toute la période estivale. La cour arrière devient donc aujourd'hui un endroit pour les parents qui l'utilisent pour leur activité sociale qui, comme vous le conviendrez, ne nécessite pas un espace très grand. Je suggère donc que la profondeur d'un terrain soit diminuée de 100 pieds ce qui laisse une cour d'environ 40 pieds de profondeur par la dimension de façade.

EXEMPLE:

TERRAIN: 70 pi. X 100 pi. = 7,000 pi. car. à 0.40 pi. car. = PRIX $2,800.00

SUGGESTION

TERRAIN: 70 pi. X 85 pi. = 5,950 pi. car. à 0.40 pi. car. = PRIX $2,380.00

Possibilités de diminuer le coût d'achat du terrain de $420.

2. Il faudrait prendre les moyens nécessaires pour utiliser la procédure concernant les documents légaux afin d'enregistrer l'hypothèque dans le plus bref délai possible et aussi l'émission des chèques concernant les déboursés du prêt durant la construction.

Explication

Selon notre expérience, le temps minimum requis pour enregistrer une hypothèque après avoir reçu l'acceptation du prêt de la Compagnie prêteuse, varie entre 5 à 6 semaines; ceci dû à plusieurs raisons entre autres le temps requis pour l'étude de ces documents par la Société centrale d'hypothèques et de logement qui varie de plusieurs jours d'un cas à un autre. Vous savez sans doute qu'aucune avance sur un emprunt hypothécaire n'est effectuée tant et aussi longtemps que l'hypothèques n'est enregistrée. La majorité des constructeurs débutent immédiatement la construction après avoir reçu l'acceptation du prêt. Ils ont le temps de compléter la construction avant que l'hypothèque soit enregistrée et naturellement sans avoir reçu aucun montant d'argent provenant du prêt. Donc il n'y a aucune possibilité pour eux de profiter de l'escompte de 2 p. 100 que les fournisseurs de matériaux allouent aux constructeurs qui paient à 30 jours les matériaux reçus. Si les constructeurs pouvaient profiter de cet escompte, il y aurait une économie d'environ $200, au minimum.

3. Contrôle pour diminuer le nombre de faillites dans le domaine de la construction qui nécesssairement augmente le coût d'achat des matériaux.

Explication

Selon les informations obtenues de plusieurs fournisseurs de matériaux de construction, il est normal que ces gens prévoient, dans le prix de vente des matériaux, un montant pour couvrir les pertes honoreuses qu'ils subissent chaque année par les faillites de plusieurs constructeurs.

Je crois que si un règlement mentionnant la clause suivante: Début des travaux de construction sera permis lorsque l'hypothèque sera enregistrée au lieu du règlement qui existe présentement et qui mentionne que le début des travaux doit se faire après l'acceptation du prêt. Le résultat serait le suivant: les fournisseurs de matériaux seraient en mesure de contrôler plus facilement le crédit du contracteur; le fournisseur serait assuré qu'il y a déboursé d'argent au fur et à mesure que la construction progresse et pourrait, par le fait même, exiger le paiement des matériaux durant la construction.

Présentement il n'y a pas aucune possibilité de savoir quand le montant de prêt sera versé par la Compagnie Prêteuse, alors la plupart des constructeurs qui font faillite, doivent utiliser ces montants pour d'autres fins que le paiement des matériaux. Certains fournisseurs m'ont informé qu'il y aurait une économie

d'environ $150.00 et même plus sur le prix des matériaux pour une maison moyenne s'il existait moins de faillite.

4. La loi concernant la garantie de 5 ans sur une construction neuve, devrait *être d'une durée d'un an seulement au lieu de 5 ans.*

Explication

Cette loi n'est sûrement pas juste pour les constructeurs qui demeurent dans le domaine de la construction pour plusieurs années et qui sont nécessairement obligés de se conformer à cette loi, ce qui les oblige à maintenir un ou plusieurs hommes pour donner le service aux clients même si la responsabilité ne relève pas du constructeur car il faut absolument constater le problème afin de déterminer la responsabilité. L'acheteur d'une maison en général est sur l'impression que tout est garanti sur une propriété durant une période de 5 ans. Cela cause au constructeur une perte de temps énorme et aussi une perte d'argent ce qui augmente le coût de construction tandis qu'un pourcentage très élevé de constructeurs demeurent dans ce domaine pur une durée d'un an ou deux et font faillite. Plusieurs recommencent dans ce domaine sous un autre nom et naturellement se dégagent de cette garantie. Je crois personnellement qu'il y aurait une économie d'environ $200.00 par maison si les constructeurs étaient sujet à une garantie d'un an au lieu de 5 ans.

J'espère, messieurs, que ces suggestions pourront vous faciliter la tâche qui vous a été assignée et qui, à ma connaissance, n'est sûrement pas des plus faciles mais comme vous êtes en mesure de le constater, il y a sûrement certaines modifications ou améliorations à faire afin d'arriver à diminuer le coût de construction et ce, tous les constructeurs le souhaitent ainsi que le public en général.

Bien à vous,

JEAN CLAUDE ALLARD.

Committee Room,
City Hall,
Vancouver, B.C.,
FRIDAY, Feb. 24th, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators McDonald (*Moosomin*) and Thorvaldson—2.

For the House of Commons: Messrs. Basford (*Chairman*), Johnston, MacInnis (*Mrs.*), Mandziuk, McLelland, O'Keefe and Smith—7.

The following were heard and questioned by members of the sub-committee:

Mrs. S. Ettinger, President,
Mrs. T. D. Stout,
Mrs. L. van Blankenstein,
Consumers' Association of Canada,
Vancouver, B.C.
Brief.

Co-op Wholesale Society of British Columbia:
Brief.

Vice-President.
Mr. K. F. Harding,
Mr. R. L. Simpson,
Assistant General Manager.
Mr. A. E. Pershick, Manager,
Retail Services Division.
Mr. Corbin King, General Manager,
Terrace Co-op.
Mr. Hans Hanston, General Manager,
Dawson Creek Co-op Union.

Mr. R. C. Haynes, Secretary-Treasurer,
Mr. Paul Phillips, Research Director,
B.C. Federation of Labour,
Vancouver, B.C.
Brief.

Mr. F. V. Bradley, Secretary Manager,
Mainland Dairymen's Association,
New Westminster, B.C.
Brief.

At 12.45 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Mrs. Carol Millan, President,
Women Against Soaring Prices,
Richmond, B.C.
Brief.

Mrs. P. R. A. Coombs,
Consumers' Association of Canada,
Victoria, B.C.
Brief.

Mrs. Elaine Podovinnikoff, Chairman,
Women Against High Prices,
North Vancouver, B. C.
Brief.

Mr. R. B. Stocks, Manager,
British Columbia Federation of Agriculture,
Victoria, B.C.
Brief.

Mr. W. E. Graham,
Director of Planning,
City of Vancouver,
Vancouver, B.C.
Document.

Mr. James Houston,
Vice-President,
West Coast Land Development Ltd.,
Vancouver, B.C.
Brief.

At 5.15 p.m. the sub-committee adjourned until Wednesday next, March 1st, at Saint John's, Nfld.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

Submission by the Consumers Association of Canada, Vancouver Association, to the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices)

Introduction

1. The Consumers' Association of Canada, Vancouver Association, is pleased to have an opportunity to present testimony to this Committee. Sixty percent of the members of our organization are housewives. We are concerned with the problem of shopping for our families during a period when prices which we must pay are rising faster than our family incomes. We understand that inflation is an extremely complex problem, and we do not pretend that there are any simple solutions. It is our contention, however, that as consumers we are suffering excessively from inflation because of various practices carried on by the producers and distributors of food and household products. In our brief we will illustrate some of these practices, and we will show how they make it extremely difficult, if not impossible, for a housewife to locate and select the items which afford the most value for her limited budget.

The nature of the Consumers' Association of Canada, Vancouver Association

2. The Consumers' Association of Canada is a non-profit, non-sectarian and non-political association which serves the interest of Canadians. The National Association has a membership of approximately 20,000. It is financed by individual membership fees and a government grant. CAC Vancouver Association has 400 members and is one of three CAC local associations in the Greater Vancouver-New Westminster area. There is only one membership fee to pay and those who have paid their $3.00 annual fee to the National Association automatically become members of the local association in the area in which they live.

Summary of Statements and Recommendations

3. In the paragraphs which follow we outline certain confusing and misleading merchandising practices. In so doing, it is not our purpose to point an accusing finger at specific individuals, companies, or government officials. Rather, we wish to demonstrate the practices which frustrate the efforts of housewives to shop intelligently. In a free market economy such as Canada's price-conscious consumers have an important role to play in fighting inflation by arranging their purchases so as to reward those sellers who strive to offer the best values. The practices which we will describe make such intelligent shopping virtually impossible.

4. We wish to offer one broad recommendation, the establishment of a federal department of consumer affairs. It has become abundantly clear to us that problems created by practices in the production and distribution of food and household products are usually complicated problems. A full investigation of any particular situation may often require resources beyond those available to private individuals. Furthermore, although under present laws we have various agencies whose activities do indeed benefit the consumer, we lack an agency whose *primary* concern is the welfare of the consumer. Some of the consequences of this shortcoming are evident in the particular situations which we have examined.

Why the Housewife is Handicapped in the Marketplace

5. (A) *Frozen Cut-up Chicken.* A comprehensive report on the local handling of frozen chicken was presented to the CAC Vancouver Association by one of its members who became concerned over the discrepancy between the net weight of chicken indicated on the packages she purchased and the actual weight

of thawed chicken which the packages contained. This discrepancy is illustrated below for two packages of chicken which were purchased on December 5, 1966. The weighings, both "as purchased" and "when thawed", were conducted by the Food and Drug Directorate, Vancouver Office.

	*Chicken Breasts	Cut-Up Fryer
Net weight indicated on package	1 lb. 9 oz.	3 lb.
Gross weight of package when purchased	1 lb. 7½ oz.	3 lb. 1½ oz.
Net weight of thawed contents	1 lb. 3 oz.	2 lb. 12 oz.

* The Weights and Measures Inspector has stated that in marking the Net Weight ¾ oz. to 1 oz. must be allowed for weight of tray and wrapping. Gross weight, should therefore have been 1 lb. 9¾ oz. or 1 lb. 10 oz. This package appeared to have been thawed and refrozen, so it is likely that the weight loss of 2¼ oz. to 2½ oz. occurred through seepage of water at the time the package was thawed and refrozen.

6. Our buyer suspected that an excessive amount of water is permitted to be frozen in packages of chicken pieces when the package is prepared. Poultry is washed, chilled, and drained prior to packaging, and will retain some moisture after this process. Circular No. 22A (August 1966) from the Health of Animals Branch, Department of Agriculture, specifies the maximum percentage increase due to moisture pick-up which will be allowed. For chickens 5 pounds and under, this amount is 8 percent. It is not possible to conclude, however, that the weight loss observed for the package of chicken breasts, 24 percent, was entirely the result of moisture entrained on the pieces during their preparation. The purchaser was advised by the Health of Animals Branch, Department of Agriculture, that frozen chicken also loses weight when thawed because of moisture loss from the cells of the meat. Whatever the cause—whether excessive moisture entrainment is occurring during the preparation of the cut-up chicken or whether such a large loss occurs because of the age and type of bird being processed—the fact remains that the consumer is apparently being asked to purchase a lot of water when she purchases chicken.

7. The study of practices in the preparation and merchandising of frozen chicken also indicated a serious problem related to the handling of the production. The suspicion that one of the packages of chicken has been refrozen after thawing proved to be amply warranted. Our buyer was told by an official of the Poultry Division, Department of Agriculture, that poultry once processed, packaged, frozen, and sent to a retail outlet may be returned to the plant if it thaws before being sold. It may then be repacked, refrozen, and sent once more to the retail outlet for sale. This practice was confirmed by other officials. Although it no doubt affects only a very small percentage of poultry sold, the consumer has no guarantee that the cut-up chicken which she buys is actually fresh frozen.

8. It appears, in fact, that the consumer has no protection whatever when it comes to frozen foods. While the General Services Division, Department of Agriculture, inspects retail stores, it apparently is empowered only to make suggestions. Thus if a freezer is allowed to run too warm, or if frozen food thaws for any reason, the food may be refrozen and offered for sale. However, housewives with home freezers are repeatedly advised that it is unsafe ever to refreeze frozen food once it has thawed.

9. Still a third type of problem was raised by the inquiry regarding frozen chicken. Grading is done in the plant of the poultry processor, and it is not to be confused with the inspection performed by the Health of Animals Branch prior

to and immediately after the killing and evisceration of fowl. The Poultry Division, Department of Agriculture, is responsible for confirming the grading done by the processor. Inquiries revealed, however, that cut-up poultry is not graded at all; only whole birds are graded. This procedure poses problems for the consumer in two ways. First, ungraded products are not subject to handling regulations which the Department of Agriculture enforces for graded products. Thus refrozen cut-up chicken, previously referred to, does not fall within the Department's purview. In the second place, if cut-up chicken is not graded, consumers may well wonder whether some poultry is marketed in this form simply because it might otherwise be classed only at Utility grade, or in fact be so inferior as to quality for no grade at all.

10. The preparation and sale of frozen cut-up chicken provides an illustration of the position in which the housewife finds herself. When she purchases a product she can only learn what is printed on the label. Fortunately, protection is sometimes provided by existing agencies, such as the Department of Agriculture. In some cases where protection appears to be lacking as in our illustration, it may be that safeguards might be implemented under existing law. The point which we wish to make is that at present there is no agency specifically charged with the responsibility of looking after the welfare of the consumer. Such an agency would be concerned with the product which actually reaches the consumer. Should questions of misrepresentation, inadequate or confusing specifications, or unsafe condition arise, this agency would investigate and be empowered to recommend and enforce corrective measures at the retail level. Should the source of trouble be traced to an earlier stage in the processing of the product, where an existing government department has jurisdiction, the consumer agency would make known its findings and secure corrective action from that department.

11. (B) *Packaging Procedures.* We have received many complaints locally about the manner in which the weight and size of packages obscures valid price comparisons between brands. Price-conscious shopping can help keep down the cost of living, a practice which favours those producers who give consumers the most for their dollar. We list below some of the specific complaints received.

(1) Different weight units are used for identical products. In toothpastes, CREST is measured in ounces; COLGATE, in grams.

(2) Cooking and salad oils are found in such awkward units as 15, 15½, 16½, 17½, 24, 25, 32 and 96 ounces, which again makes it extremely difficult to compare price per ounce.

12. Several types of regulations could safeguard consumers from such confusing practices as these:

(1) All products of a particular type should be labelled in the same *weight units.*

(2) Packages should contain *standard measures,* such as 2, 4, 8, 12 or 16 ounces rather than 13⅝ or 7 11/16 ounces.

(3) The consumer would be still more fortunate, and better able to shop wisely, if each package indicated the *cost per unit weight,* as is already done for most meats and produce. One function of the Department of Consumer Affairs which we recommend to be established would be to prepare and enforce such fair-packaging standards.

13. (c) *Preface*: Thrifty housewives will shop for economical purchases. However it has been found in the hazardous chemicals that the most economical products are inadequately labelled presenting physical hazards to families.

(C) *Labelling of hazardous materials.* As a guide to both the consumer and the manufacturer, the Canadian Manufacturers of Chemical Specialties

(CMCS) in 1965 approved a labelling code which covered points not dealt with in legislation. The regulations are extremely beneficial and could be of great service to the consumer. However, there is one serious drawback: there is no method of enforcing this code. In October, 1966, the membership roster of CMCS numbered 67. Compliance with the code is strictly on a voluntary basis and is followed by the members of CMCS, but as membership in the organization is not compulsory, there are many Canadian manufacturers producing chemical specialties who are in no way obligated to follow the code. Regulation 2 of this code states:

> On dangerous and hazardous products, the dangerous or hazardous ingredients shall be listed on the label. Common chemical or recognized generic names shall be used.

Regulation 10:

> Where first aid procedure or antidote is generally known and generally accepted, such first aid procedure or antidote shall appear on the label when the product is dangerous or hazardous.

Below are listed two drain cleaners sold on the national market. The portions of the labels dealing with this aspect of consumer information are itemised.

(1) *DRANO* (Product of The Drackett Company of Canada, Ltd., member of CMCS)

POISON (written in large red letters with the remainder of the warning in small red letters)

CONTAINS SODIUM HYDROXIDE (CAUSTIC SODA)

CAUTION—Avoid any splashing of Drano.

While Drano is in use, keep face and hands away from drain, do not plug drain or use plunger. Keep water out of can. Keep Drano off wood, painted surfaces and floor coverings. Don't use on aluminum.

Use cold water only.

ANTIDOTES—Call a Physician at once.

External—Flood with water then wash with strong solution of Epsom Salt or with vinegar. Follow with vegetable oils or butter.

Internal—Give vinegar or juice of lemon, orange or grapefruit generously. Follow with olive oil, butter, or other cooking oil.

Eyes—Flood with water for 15 minutes then wash out with 5 per cent boric acid solution.

(2) *GILLET'S DRAIN CLEANER* (Product of Standard Brands, Ltd., non-member of CMCS)

Poison (in small red letters)

Keep away from children. Call your doctor if Gillet's Drain Cleaner is put in the mouth or eyes. Bathe affected area with flowing water as soon as contact is noticed.

14. A check with the Poison Control Centre provided the information that the latter product was not listed in the *Book of Clinical Toxicology*, which is the standard reference for all emergency poisoning cases. We were told, however, that all drain cleaners contain caustic soda and that the specific household remedy prior to doctor's examination is to administer lemon or vinegar externally, milk or olive oil internally, and under no circumstances to induce vomiting. Given the incidence of burning with drain cleaners, it seems necessary to have some form of legislation making mandatory the proper labelling of all such products to conform with the CMCS code. As is evident above, the CMCS

member, The Drackett Company, provides an adequate and informative label for its product, while Standard Brands does not. Correspondence with Standard Brands elicited the information that their product does contain caustic soda and the antidote is similar to that recommended by the Poison Control Centre. However, their letter did not arrive until two weeks after the specific antidote information was required.

15. The matter of labelling of hazardous materials has been a concern of the National CAC for some time. In 1962 CAC wrote to the Minister of National Health and Welfare to introduce legislation requiring manufacturers to place cautionary statements on the labels of household chemicals. In 1963 the Minister of National Health and Welfare was again urged to introduce the required legislation because of the increase in poisoning reported to the poison control centres. In 1966 the federal government was again asked to introduce legislation requiring those products that have toxic properties to carry on their lables cautionary statements or warnings regarding the use and storage, and information regarding antidotes. Bill C242 requesting better labelling on household chemicals was introduced at the present session of government and is on the order paper, but it is not known if and when it will be heard.

Conclusion

16. In conclusion we would like to stress our principal recommendation: the formation of a fully-staffed Department of Consumer Affairs under its own Minister. The National CAC has already indicated to this Committee its recommendations regarding such a department. As a local group we have today presented illustrations of some of the practices which are making it increasingly difficult to shop wisely and economically. As processing and marketing procedures continualy grow more complex, it has become absolutely necessary that safeguards and standards evolve for the benefit and protection of the household shopper.

SUBMISSION

TO THE

JOINT PARLIAMENT COMMITTEE

ON

CONSUMER CREDIT (PRICES)

VANCOUVER—FEBRUARY 24, 1967.

BY THE B.C. CO-OPERATIVE WHOLESALE SOCIETY.

Introduction

The British Columbia Co-operative Wholesale Society is owned by 103 Co-operative Associations in British Columbia which in turn are owned by some 100,000 individual members.

On behalf of these consumers, the Society is pleased to have the opportunity to present our views to this Parliamentary Committee. We are also pleased that the authorities in Ottawa have undertaken to establish a Committee of this stature to inquire into the many innovations and, in our view, abuses occuring in the market places of today.

Our sympathy goes out to the protesting, angry housewives in their efforts to bring their problems to the attention of the proper authorities. In their efforts to shop intelligently they are confronted with and overwhelmed by all the promotional gimmicks, games of chance, odd-sized packaging, etc. which have unfortunately become part of retailing during the past decade.

We feel confident that the inquiries which your Committee is making and the information which you are gathering will result in some positive action being taken to ease this burden on the conscientious and often confused shopper.

Our submission will indicate that we, the Co-operatives, are very much opposed to the many underirable practices now employed in merchandising. We know however that these were brought into being over a period of time and accordingly will not disappear by the waving of a magic wand. They will have to be rectified over a period of time by the governments and by other representatives of the consumer implementing a planned remedy.

In our view the best that can be expected at the present time is to regulate against the most flagrant practices, such as, trading stamps, gift coupons, gimmicks, games of chance, deceptive pricing, deceptive advertising, confusing sizes and weights in packaging which obviously increases the cost of goods to consumers.

This should be followed by the implementing of regulations which will prohibit new and similarly undesirable practices.

This submission purports our view that the only permanent way to eliminate umproductive costs and uninformative promotional practices is for consumers to acquire ownership of their own merchandising facilities. Ony in this way will the consumer have a voice in merchandising, advertising and pricing policies. Only in this way will the consumer have a voice in the type and quality of shopping facilities and in the many other factors so important to the consumer in the selection of his day to day requirements at a fair and just price.

B.C. Co-Operative Wholesale Society

The B.C. Co-operative Wholesale Society, the youngest of the six Co-operative Wholesale organizations operating in Canada, was founded in 1939. Because of the great difficulty in acquiring merchandise they needed at a price and condition which would allow them to compete with other retailers, ten consumer retail stores in British Columbia joined forces and provided $428 in cash equity to incorporate and establish their own wholesale organization. It was indeed a grim and anxious time. Behind was a decade of depression and distress; ahead was the Second World War.

With the outbreak of war in the same year, quotas of all types were imposed and new firms, co-operatives as well as private profit businesses, found themselves without contacts or quotas. In addition as a co-operative, we were not accepted in the trade and found ourselves in an impossible position to procure goods.

Because of this the organization lay practically dormant for the first five years of its existence. It was not until the war's end that the organization could engage fully in the activity for which it had been founded.

By 1945 some thirty member associations had invested capital of $14,000 in the Society which was now in a position to enter the wholesaling business in a very small way.

During the past twenty one years, the B.C. Co-operative Wholesale Society has transacted some $66 million worth of business which has created a saving for member retail co-operatives of $706,000.

Members' equity in the Society today stands at $648,000. This represents the ownership investment needed to finance our wholesaling facilities and some $2 million in inventroy and accounts receivable.

The members' equity has largely been accumulated by allocating the surplus earned by the Society to patron members. The members mutually agreed to reinvest this portion in shares in order that their own Wholesale would have the necessary capital to carry on a business with its resulting benefits to the co-operative membership.

Of the 103 members of the B.C. Co-operative Wholesale Society, sixty associations operate retail co-operative stores. Of that sixty twelve have an annual sales volume ranging from $1 million to $4 million each. The balance of the retail co-operative stores conduct operations ranging from $250,000 to $750,000 each. The other forty three members are non-retailers engaged in fruit and vegetable packing and marketing, fish processing and marketing, transportation and other service industries. These members draw supplies and materials from the Society.

During the past two years, the Society has been able to pay some of its refunds in cash and our constitutions and agreement with member organizations provide that this will continue.

When the Society's surplus is allocated to the members at the end of each fiscal year, this rusplus becomes the property of the member associations in the form of shares and/or other equities. Our members add these revenues to their own earned surpluses and the total amount is allocated on a patronage basis to the individual members of our member associations.

Retail sales by member associations in the province during the past fiscal year were $42 million on which a net saving of $1,735,000 or 4.1 per cent was earned. This amount was allocated to the individual members shopping at their Co-op stores, and what was not paid out in cash was, by mutual agreement, credited to the shares of the individual in order that they would acquire the ownership necessary to be in business. Share certificates are issued to the individual members for paid up shares.

In addition to providing a wholesale service to members, the B.C. Co-operative Wholesale Society operates a Retail Services Division whose responsibility it is to supervise and assist the members in their retail operations. This Division employs specialists in retailing, who can advise local personnel of suitable and efficient store layouts, adequate accounting procedures, proper display of merchandise, control of absolescence and spoilage, etc. They advise local directors of the financial needs of their associations and all other matters which contribute to efficient retailing. For smaller associations which are not economically able to employ qualified accounting personnel, this Division provides centralized accounting service. The retail associations submit weekly reports to our offices where qualified personnel maintain the accounting records needed for the smaller retail operations.

The B.C. Co-operative Wholesale Society also makes an Auditing Service available to its members. This service is under the administration of a chartered accountant. He and his staff visit the associations and audit their records and, in many ways, advise them on financial and accounting matters, income tax regulations, etc.

A director of Staff Training is also employed by the B.C. Co-operative Wholesale Society. He is available to the members to conduct staff training courses for retail employees. So that they will become better qualified to deal with their day to day responsibilities and better acquainted with the Co-operative method of doing business as well as the relationship of employees and staff to the members and patrons.

In order to provide a budget account program for members, the B.C. Co-operative Wholesale Society has established the C.W.S. Finance Corporation Limited. This is a wholly owned subsidiary in which the associations wanting to

use its services invest 20 per cent of the total amount they need to have financed. The Corporation finances, on a budget basis, the installation of furnaces, the sale of durable goods under conditional sales agreements, the purchasing of fixtures and equipment for the co-operative stores, etc. Interest at 9 per cent per annum is charged on furnace installations and 1 per cent per month on the unpaid balance on durable goods. The Corporation operates on a co-operative basis. During the past fiscal year the Corporation paid 5 per cent interest on shares and a 25 per cent refund on interest charges. The amounts involved are paid in cash.

The Society also provides a budget program for the users of petroleum heating fuels. No interest or service fee is charged for this budget service.

The Society, together with the member associations concerned, also own two Holding Companies. Through the holding companies the Society has assisted smaller associations in providing ownership capital necessary to buy land and construct suitable buildings and fixtures. An annual rental is being paid by occupying associations which will amortize these investments in twenty years.

The B.C. Co-operative Wholesale Society also publishes its own paper—the "B.C. CO-OPERATOR". This monthly periodical is subsidized by the Co-operative Wholesale Society in order to convey co-operative information to the individual members of co-operatives.

The B.C. Co-operative Wholesale Society is governed by a Board of twelve Directors, elected annually be delegates from the member associations at an annual general meeting.

The Board of Directors engage a General Manager who reports to them on the operations of the Society once every three months.

In order that your Committee will be better acquainted with the purpose and principles of our Co-operative Wholesale organization, we are appending hereto a "Statement of Purpose and Principles" which has been approved by our Board of Directors and member associations.

Co-Operative: Present and Future

As indicated earlier in this Report, consumers can only gain control over the cost of the goods they need when they, through ownership can control policies of wholesale purchasing, packaging, advertising, costs of occupancy and all the factors which enter into the price of the merchandise which they must purchase. Ownership of such facilities, in our view can only be attained through Co-operative means, using the well established and well proven Co-operative methods.

Consumers must through their Co-operatives, own their own retail stores, their own facilities for manufacturing, processing and wholesaling as well as all those facilities needed to convert raw materials into consumable goods as well as the facilities required to distribute these goods to the consumer.

Ownership by the users, whether this be through consumer co-operatives, marketing co-operatives or finance co-operatives, is the only effective means of control.

As is well known this method has proven successful throughout the world, including Canada. Co-operatives in Canada have made relatively good progress in the field of marketing primary products, co-operative financing through Credit Unions, and, where development has been undertaken through consumer co-operative stores.

We are certain that your Committee will question whether or not consumer co-operatives can be developed in numbers sufficient and time adequate to be a factor in deterring present undesirable trends in merchandising. Such a question is justified based on past performance. However, with some encouragement and assistance, and with the continued momentum of growth which consumer co-operatives have gained during the past few years, we feel that in the next decade considerable progress can be made.

The growth of the consumer co-operative movement in Canada in the past has largely been based on the financing of development as the resources were earned. Since the accumulation of financial resources from operations does not provide for rapid development, co-operatives have and are at all times seeking means to finance this development.

In British Columbia at this very moment there is a keen demand for the formation of consumer co-operatives. In many communities a co-operative store should be established and could be successful in financing of the development could be undertaken in suitable manner.

The established procedure in this province is that where the consumers in a community wish to establish their own co-operative store, one third of the investment necessary must be raised in shares and other equities from the people in the community. The other two-thirds has, until this recent period of tight money, been available from financial institutions through a first mortgage arrangement. Consumers interested in co-operatives are usually working people and their resources for investment in this type of program are usually limited. In this era of large, convenient facilities, several hundreds of thousands of dollars are needed to provide suitable and competitive premises in any large town or city.

If 90 per cent of the capital needed coud be provided through a first mortgage on the fixed assets, so that only 10 per cent be raised by the local members, the development of consumer co-operatives would be greatly accelerated. If such a program could be developed we would recommend that consumer co-operative development take place, first only in communities approved by the established Central Co-op wholesalers and second, only when the central organization agrees to accept some responsibility for operations and mortgage retirement.

We suggest that the Federal Government could render encouragement and assistance in providing for mortage financing for this type of development.

If this proposal was considered feasible, a suitable Committee from our organizations would be pleased to make itself available to discuss the matter in further detail with any officials your Committee wishes to designate.

Development of co-operatives has also been impeded because central co-operative organizations are provincially incorporated. This is largely so because the Federal Government has not recognized the urgent need for Federal Legislation to govern co-operatives.

In co-operatives are to compete sucessfully with the giants in the manufacturing, processing, wholesaling and retailing fields, co-operatives must be in a position to meet these competitors on an equal footing.

We are certain your Committee will appreciate that the greatest profit in the supplying of foodstuffs and other family needs lies in the fields of processing and manufacturing and not in the area of wholesaling and retailing. As a provincially oriented business cannot muster the necessary market volume within a province to economically establish canneries, factories and processing plants, it becomes too precarious for us to enter these fields of activity. It is also well known that processing plants and other manufacturing operations must be established in areas where the raw materials are most readily available. For example, flour mills must be established where the grain is grown; fertilizer plants must be established near the supply of potash, phosphate rock, nitrogen, etc; lumber mills and plywood plants in areas where the timber is falling. These resources may not always be within the province in which the Co-operative is incorporated.

We feel certain that the well-meaning law makers in Ottawa have not been fully cognizant of the handicap imposed on co-operatives by a lack of Federal Legislation necessary to put us in a proper competitive position.

The economic realities of Canada are not controlled by provincial boundary and we must co-ordinate our activity on a broader regional basis if we are to be an effective factor in developing broader ownership by users of goods and services.

The reorganization of consumer co-operatives on a broader geographic basis is now being considered by Co-operative leaders throughout Canada. It is fully recognized that we must co-ordinate our activities on an intercommunity basis as well as on an inter-provincial basis if we are to survive and become the effective tool in the hands of consumers which we believe we should become. However, as indicated, we need the legislative machinery, mortgage financing and encouragement necessary in order to make progress.

For your information we are appending hereto:

(a) Our Directors' Report and Financial Statement for our fiscal year ending October 31, 1966;

(b) A brief which our organization together with the B.C. Co-op Union presented to the Government of British Columbia in 1960 in our campaign opposing the introduction of trading stamps into the Province. (The introduction of the trading stamp was subsequently denied by Provincial Legislation);

(c) A chart showing the extent of ownership and control by one of our major competitors in the field of food processing and merchandising;

(d) A chart showing varying soap costs per ounce prepared by one of our retail Co-operatives.

Summary

May we summarize the major points set forth in this brief as follows:

1. We firmly believe that the only way consumers can acquire control of prices and credit is by becoming owners of the enterprises which supply the goods and services they require.
2. We are categorically opposed to the present day methods of promotion and advertising, using such methods as trading stamps; fractional weights and deceptive sizes in packaging; deceptive means of pricing—e.g. cents off an unknown price; 'specials' where there is in fact no price reduction, etc.
3. We believe that the Co-operative formula of providing goods and services at fair prices and returning any surpluses accumulated by the means of patronage refunds, is the only workable means by which consumers can properly be protected.
4. We urge the enactment of a Federal Co-operative Act and the establishment of a Federal Department of Consumer Affairs with which all co-operatives would be anxious to work.
5. We request assistance in planning and providing for long term financing for land and store facilities in areas where co-operative development is desirable.

In conclusion, we wish to quote Dr. J. J. Deutsch, Chairman of the Economic Council of Canada, speaking to a Co-operative group in Port Arthur some two years ago. Dr. Deutsch said:

Co-operatives are a most important part of the Canadian economy and it is most urgent that their identity be retained, but they must recognize that change, change and continous change is inevitable. Organizations which will adapt to change will survive while those that resist change will be destroyed by it."

Submitted on behalf of

The Consumber Co-operatives of B.C.

By

B.C. CO-OPERATIVE WHOLESALE SOCIETY.

Submission to

COMMITTEE ON TRADING STAMPS AND SALES PROMOTION DEVICES

Submitted

by

B.C. CO-OPERATIVE UNION, BRITISH COLUMBIA CO-OPERATIVE WHOLESALE SOCIETY and CO-OPERATIVE WOMEN'S GUILDS OF BRITISH COLUMBIA.

There are in British Columbia two major types of Co-operatives. Producer co-operatives whose object is to make savings to their members by the marketing of their products on a non-profit basis. These co-operatives undertake to pay to their members the gross proceeds of the sale of their products less the costs of operation and reasonable reserves. The other major type are Consumer Co-operatives whose purpose is to provide the service of a retail store to consumers so that as nearly as possible the consumers may receive their products at cost and at the same time be assured of quality. There is in the province also a Co-operative Wholesale Society known as British Columbia Co-operative Wholesale Society which is owned by both producer and consumer co-operatives. The object of the Wholesale is to assist the producers and the consumers co-operating together to eliminate waste, profiteering and exploitation. A very large proportion of the co-operatives in the province, both consumer and producer as well as other types, are members of the B.C. Co-operative Union. The Co-operative Union, both provincial and as represented by the Co-operative Union of Canada have declared opposition to the use of trading stamps, bonus cards and other similar promotion devices which they regard as wasteful gimmicks.

The Co-operative Union has had an opportunity to peruse the briefs presented to this Committee by the B.C. Federation of Labour, the Canadian Association of Consumers, the Retail Merchants Association and some other organizations opposing and do not wish to repeat but rather to support the opposition expressed therein.

The Co-perative Union, however, feels that the following statements of fact and opinion should be brought to the attention of the Committee and may be useful to it in their deliberations:

1. The co-operatives hold the view that the claims of the promoters of trading stamps that additional sales volume will set-off the cost of the stamp program is patently incorrect. We submit that as soon as trading stamps are legalized the promoters would employ high pressure salesmen to contact all retailers in an effort to presuade them to participate. The pressure of competition would compel a large number of retailers to take part until ultimately those who would stay in competition would all find themselves burdened with this additional cost. In our view this was well expressed in a statement made by David A. Gilbert the General Manager of the Retail Merchants Association of Canada as quoted in the Wall Street Journal. He is reported to have said—

> "Since Loblaw launched its stamp plan Toronto has been flooded with salesmen seeking to sign up small merchants in stamp programs."

2. We submit that very shortly after the legal introduction of trading stamps or like gimmicks all retailers will find that they have to have them in order to retain the part of the market which they had previously served. Patronage would then level off and a cost of from 2 per cent to 4 per cent would be added to

consumer prices or, alternatively, would come out of the pocket of the primary producer. As the Co-operative Union represents both the consumer and the producer it is very seriously concerned with this likely result. The Co-operative Union does not consider that it can be reasonably expected that this additional cost will come out of the profits of the middle man and retailers.

3. To the Co-operatives it seems illogical for a Government of this country to pay deficiency payments to primary producers and social assistance or compensation in one form or another to consumers and at the same time to permit stamp promoters (and certainly foreign stamp promoters) to extract a 2 per cent to 4 per cent profit out of retail transactions which comes from the very pockets of the people to whom the Government is making payments. The addition of this cost in merchandising in our opinion must result either in a decrease in the standard of living of the primary producers or an increase in the cost of living of consumers and in demands upon Government for greater deficiency payments and/or social assistance.

4. It undoubtedly has been alleged to this Committee that the retail trade can absord the cost of this type of promotion in their advertising and other cost budgets. The Co-operative Union submits that these statements are not valid for the following reasons:

(a) Retailers will be obliged to carry on extensive advertising programs so as to let the public know that they are in on the stamp swing and are giving away gimmicks in addition to any other advertising which they are doing so as to save the loss of trade.

(b) The extensive and costly retail facilities established during the past five to ten years to serve consumers is creating an exceedingly high capital and depreciation cost for retailers which many of them now find hard to meet and which would put many of them in a position where even if they wished to do so they could not absorb a further 2 per cent to 4 per cent cost factor.

(c) We are satisfied the ultimate result will be that this cost will be passed, as are other like costs, to the producer or consumer. In the meantime, however, thousands of small and independent merchants may be broken by either their trade being taken away by those who can afford temporarily to absorb this additional cost, or by trying to absorb it, even if temporarily themselves. We respectfully submit that already there is a high fatality among smaller and independent merchants.

(d) In urging that stamp costs can be absorbed in advertising budgets stamp companies have, we are informed, inaccurately suggested, in some places in any event, if not before this Committee, that food stores spend from 4 per cent to 5 per cent in advertising. They suggest that stamp costs could be paid out of this amount. In fact the average cost of advertising foods in Canada according to D.B.S. is from 1 per cent to 1¼ per cent of sales.

5. Thousands of lower income citizens in this country can ill afford to have 2 per cent or any amount added to the costs of procuring the essentials of life for the sake of permitting some persons to acquire merchandise by trading stamps or similar sales promotion devices. We believe that it has been estimated reasonably accurately that from 20 per cent to 30 per cent of the stamps issued are never redeemed. It would therefore appear that the consumer pays the additional costs for these stamps in purchasing goods and the stamp company on this portion reaps 100 per cent of the profit. It is a purely fictitious gimmick to try to persuade merchants that they can get and keep custom on a basis other than good products and good service.

6. We submit that it is reasonable to assume that not only do the stamp companies make a substantial profit from the unredeemed stamps but also that they supply the prizes at a substantial profit also. The Moosejaw Times Herald on October 14, 1959 quoted the number of stamps required for specific prizes and the value of prizes offered by one of the chain stores:

To receive a Westclox Baby Ben clock, a patron must have 2¾ books of stamps representing $412.50 worth of purchases.

Manufacturer's list for this item (stamp companies, it is assumed, buy in sufficient volume to buy from manufacturers)	$ 4.46
2¾ books (value $3.00 per book, to be traded for prizes)	8.25
PROFIT ON PRIZE	$ 3.79 or 84% on cost

Bissel Shampoo Master—require 4 books—$600.00 worth of purchases.

Manufacturer's list	$ 7.00
4 books at $3.00 to be traded for prizes only	12.00
PROFIT ON PRIZE	$ 5.00 or 71% on cost.

From the foregoing and the contents of the other briefs presented we submit that the Committee should conclude that the people who profit from trading stamps are the promoters and that the profits which they anticipate are so great that it is worth their while expending the sums of money involved in trying to force this program upon the public.

We respectfully submit that this Government ought not to assist any such promotion scheme and should be concerned that retailers in this province dealing in the essentials of life should direct their efforts to quality merchandise and providing service at reasonable cost. We understand that the Government of Alberta has enacted legislation which will outlaw this type of practice and we suggest this Government follow the same policy so that no more time or money need be spent in opposing this profit making scheme or similar schemes directed to exploit the gullibility of the public and designed ultimately to reduce the standard of living of producers and/or add to the cost of living of consumers.

The Co-operative Women's Guild of British Columbia, who represent some 75,000 women in the province, wish to join in this representation. They feel very strongly that women should be able to buy goods at a fair price without a third party being introduced between the retailer and the purchaser; a third party who will derive a continuous and large income from purchases while contributing nothing of value in exchange. They are of the opinion that where trading stamps have been introduced higher prices have resulted. Undoubtedly evidence of this will have been laid before the Committee as a result of independent surveys in Ontario using shoppers buying the same amount of goods at stores which use trading stamps and stores which do not use them. Reports of these surveys were contained in the Toronto Daily Star on September 4, 1959.

The women point out that the introduction of trading stamps does not increase overall trade; it only gives a temporary advantage to the stores first introducing them. Once the trading stamps are used universally trade will again level off but the women believe the cost of the stamp gimmick will remain and prices will not reduce accordingly. In the view of these co-operative women already the bombardment of advertising has made it extremely difficult for women to use common sense in the purchase of merchandise and the adding to that bombardment of the claims of trading stamps or other gimmicks, is not in the public interest. The women suggest, before accepting statistics supposedly proving that trading stamps do not add to the costs of products, this Committee ought to look to the background and the connections of those persons who carried out the surveys to establish their independence.

Respectfully Submitted on behalf
of the organizations named,
R. McMaster, Counsel.

January, 1960.

STATEMENT OF PURPOSE AND PRINCIPLES
BRITISH COLUMBIA CO-OPERATIVE WHOLESALE SOCIETY

The broad objectives of the Society shall be to, in conjunction with other co-operative organizations, bring about a better social and economic order through the promotion of Co-operative Philosophy, and through the procurement, production and distribution at cost (via the patronage refund formula) of goods and services which will adequately meet the needs of those whom it serves.

Specifically these objectives are:

(1) To establish in British Columbia a strong efficient Co-operative Wholesale organization, which is to be owned and controlled by incorporated B.C. co-operative organizations.

(2) To supply member associations with merchandise and merchandising services of a type, kind and quality needed by them and which can be supplied to the member associations on a basis which will be competitive, economically sound and beneficial to the combined retail and wholesale operations.

(3) To build in the Province of British Columbia a strong, healthy and vigorous Consumer Co-operative Movement which will become an effective economic factor in controlling costs of living to all consumers as well as cost of supplies needed by farmers, fishermen, loggers, and other primary producers.

(4) To recognize that a strong and effective Co-operative Movement can only be built and maintained if control and ownership is vested in the grass root consumer membership. Which provides for all benefits gained being directed from the Wholesale to members through their own Co-operative Association.

(5) To utilize all the resources at our disposal in helping local communities towards building strong, efficient and well financed local Co-operative Associations, as well as giving what assistance is necessary in having these wisely directed and efficiently managed.

(6) To assist member associations in the field of acquiring suitable and efficient management, establish uniform accounting procedures, and make available a suitable Co-op Auditing service. To support staff training and management development programs so that future managerial staff can be recruited from Co-operative selected and trained personnel.

(7) To conduct research and make long range planning so that preparations can be made, to not only conduct current operations efficiently, but also make preparations for future growth and development in order that the Co-operatives can keep abreast of our rapidly expanding Canadian economy.

(8) To exert all efforts at our disposal towards developing a well informed and highly conscientious community membership by encouraging membership compaigns in order to increase the membership and by all means possible support the growth of the retail member associations. Recognize at all times that a well informed membership and financially strong co-operative associations are the pillars and foundation on which our Movement is built.

(9) To develop the most satisfactory relationship not only with the co-operatives but also with Governments, Institutions of Learning, Labour, Suppliers and Competitors in order that the best co-operative image possible can be developed so that a better economic and social atmosphere may prevail.

(10) To be constantly aware of the need of co-operative education amongst all people and encourage programs which will foster the broadening of co-operative thinking and understanding amongst all consumers.

(11) To work diligently with Canadian co-operative wholesale organizations in developing national co-operative programs which will improve the co-operative procurement position and hasten the day of possible co-operative production.

(12) To singularly, or in conjunction with other co-operative organizations, develop co-operatively owned production, processing, or manufacturing plants for the purpose of manufacturing or processing raw products into consumable goods.

(13) To seek energetically amalgamation with other co-operative wholesale organizations in Western Canada in order that these basic fundamental objectives can be more readily attained.

(14) To continually be cognizant of the fact that as we build bigger and stronger co-operatives by widening the kinds of merchandise and types of services offered, we must deepen the co-operative procurement position by enlarging Wholesale operations, entering field of processing, manufacturing and/or production, thus finally transforming the nation's raw materials into consumer goods and funneling the savings earned to the consumer members. This will challenge the ever increasing control that huge monopolies are rapidly gaining over the economic lives of our people.

As co-operative organizations grow in numbers, size and prestige, they must as business enterprises, be encouraged to accept the full responsibility of citizenship and contribute to the building of better people, better communities, a better province, a better nation and finally a better democratic society within our community of nations. Co-operatives throughout the world need to give leadership to our civilization so that man may move in unison towards a saner world which will utilize the blessings bestowed upon us for the betterment of man rather than for the economic control and exploitation of man, if we are to avoid hatred, bloodshed and wars, which in this era of mass destruction is sure to lead to the complete annihilation of the human race.

SUBMISSION

OF THE

B. C. FEDERATION OF LABOUR

TO THE

SPECIAL JOINT COMMITTEE

OF THE

SENATE AND HOUSE OF COMMONS

ON CONSUMER CREDIT (PRICES)

Vancouver, B. C.

February 24th, 1967

Mr. Chairman, Honourable Senators, Ladies and Gentlemen:

We wish to express our appreciation to you for this opportunity to appear before your Committee with our views on the issue of prices and the cost of living in Canada.

We would first like to associate ourselves with the brief presented to your committee by the Canadian Labour Congress to which we are affiliated. We would like to review the main conclusions of the submission before expanding on other areas of concern.

The first part of the CLC's submission summarized the evidence indicating that rising wages are not a significant factor in price increases, and pointing out the problems of an income policy. It is interesting to note that, since this brief was presented, the United States has scrapped its "guidelines" as unworkable.

The second part of the brief pointed to the fact that price increases over the last year were neither so large nor so general as to constitute a major inflation situation. In fact, since September, there has been some moderation in food prices which were central to the consumer price increases in the earlier part of the year. To what extent this has been due to consumer protests we do not know. Rising unemployment, however, reflects the fact that the time has come when an expansionary economic policy should be implemented.

The foregoing is not to indicate that we believe a rise in the consumer price index of approximately four per cent should be considered satisfactory. Indeed, we feel that such increases in prices are a burden on working families and on those dependent upon pensions and fixed incomes. However, the problem of unemployment can be far more serious to the general welfare than a low rate of price increase. In its discussion of "trade-offs" the CLC brief, quoting Professor G. L. Reuber, pointed to an annual price rise of three per cent to achieve a goal of 3 per cent unemployment which we feel should be a policy maximum.

The Economic Council of Canada's Third Annual Report in its section on "trade-offs" suggests a zone of annual price increase compatible with a three per cent level of unemployment that lies between 3 per cent and 6 per cent annually (pp. 143-4).

Therefore, policy should be directed toward decreasing the inflexibility of markets so that lower levels of unemployment are compatible with relative price stability.

Your committee has already received evidence on the lack of price competition in many staple industries. We do not have anything further to add except to

express our concern at the degree of concentration in the food industry and at the widespread use of misleading and cost-increasing advertising, packaging and sales "gimmicks" in both the food and the pharmaceutical industries.

Given the fact that we believe that Canada is not suffering a general inflation, but rather selective areas of price increases, we feel more attention should be paid to specific industries in an attempt to isolate the causes of price increases and therefore be in a better position to propose specific remedies. In particular, we are concerned about the rise in the cost of housing. Between September and December of 1966, the housing component of the Consumer Price Index rose from 145.5 to 147.2, an increase of almost 1¼ per cent.

If the present rate of increase continues, the cost of housing would rise about 5 per cent in a year. The rate of increase of the housing component in the Vancouver area is slighly less at a rate of approximately 4 per cent per year.

The rising cost of housing appears to reflect two main pressures: (a) the increase in demand relative to the supply of housing and (b) the cost of mortgage money for the purchase and/or construction of new housing. Some new measures must be advocated if we wish to dampen down the price increases in this sector. It should be noted that the housing component has a weight of 32 in the total index, greater even that food (at 27 per cent).

Dealing first with the shortage of housing, the Economic Council of Canada's 3rd Annual Report says:

> "New housing starts have declined very considerably in 1966 and new residential construction outlays in 1966 will be lower than in 1965, not only in volume, but also in value. This development is primarily attributable to tight credit conditions leading to reduced mortgage lending by institutional lenders. Moreover, the decline in new residential construction, which has been heavily concentrated in multiple dwelling units, has occurred at a time of extremely rapidly expanding family formation and probably also of strongly rising nonfamily households. The rate of new family formation has, in fact, moved swiftly to a new post-war peak and will continue to rise over the medium-term future at an exceptionally rapid pace, in line with the surging advance in the numbers of young people in their late teens and early twenties. Substantially increased immigration, greater internal population and labour shifts, rapid urbanization and a stepped-up decline in the farm labour force are all factors tending to accentuate expanding housing needs. In these circumstances, housing vacancies have been reduced and growing housing shortages have developed and may be on the threshold of becoming acute in various metropolitan centres. In addition, the developments in this field have begun to produce an accentuated rise in rents. In these circumstances, the question of how to accommodate a return to higher levels of new housing construction within the near future is one which needs very close attention. In the absence of an early upturn in new residential construction, a severe housing shortage could emerge very quickly in Canada and rent increases could become a powerful new factor accentuating the rise in living costs in wage demands."[1]

The Economic Council also forecast a need for 170,000 dwellings a year to meet this need.

It would appear that the shortage has already had an impact on the cost of housing and that the Council's prediction is proving correct. Yet the Central Mortgage and Housing Corporation is predicting only 150,000 starts in 1967, well below the Economic Council of Canada's target. Residential construction starts in

[1] Economic Council of Canada 3rd Annual Report, pp. 215-6.

Canada in January 1967 were 16.7 per cent below the corresponding rate in 1966.[2] Therefore, the housing shortage may be expected to continue with the result that rents and house prices will continue to rise.

The housing shortage falls particularly heavily on lower and moderate income families and on those with families who are unable to raise the down payment to purchase a house. A recent study "The Housing Situation in Vancouver" by M. J. Audain for the United Community Services (August 1966) documents the acute shortage of rental accommodation for families with children, for the aged, and for the handicapped, all groups who are most surely deprived by rising prices. The welfare agencies replying to a questionnaire listed high rent as the most frequent housing problem "a 93 per cent agency indication".[3] These, also are the people who will not be helped by commercial multiple unit housing. All but a few of those apartments surveyed in Vancouver's high density "West End" refused to accept children.

In a study "The Adequacy of Social Assistance Allowances in Greater Vancouver", compiled for the United Community Services, the average monthly rent for a two bedroom apartment in Vancouver and District was found to be $126.00.[4] The industrial composite of average weekly wages and salaries in B.C. in January of 1966 (latest date published) was $104.64 or approximately $454.00 per month. For Vancouver the relevant figures were $101.50 per week or approximately $440.00 per month. Guided by the principle that no more than twenty-five per cent of monthly income should be paid in rent, such housing is out of the reach of the average wage or salary earner. In fact, only the Pulp and Paper and Construction industries in Vancouver had average income levels compatible with rent levels in the city.

The causes of the shortage of housing appear to be the "tight money" situation and also the growing scarcity of urban land for building. Your committee has already heard testimony from Toronto home builders to the effect that land costs have risen more than 25 per cent per year over the last few years. We suspect the situation is similar in most urban areas across Canada.

The high cost of mortgage money also tends to increase the housing costs for those who are able to raise the necessary down payment by increasing the monthly payments necessary for a given length mortgage. For a 20-year mortgage of $10,000, the increased monthly payment corresponding to a rise in the mortgage rate from 7 per cent to 8 per cent is $5.90 or 7.7 per cent.

"Tight money", of course, is an instrument of monetary policy to control inflation. As it relates to housing, however, its net effect is to cause a housing shortage and to raise the consumer price index with resultant social and economic problems for those least able to pay, the lower income, the aged and handicapped and the young family. In addition, there is little evidence that raising housing costs has a substantial effect on a possible overall inflation situation. As the Economic Council points out: ". . .in the short run, higher financing costs and restraints on the dwellings tend to exact an upward pressure on rents; and to the extent that this results in increases in consumer prices, there may be indirect pressures exerted on wages and costs in other parts of the country."[5]

Availability of credit appears to be more important than cost. Also, residential construction generally represents only a quarter of total construction expenditures in Canada. In any case, we believe that, since housing is a basic human need, its supply should be as far as possible isolated from stabilization policy.

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[2] Toronto Globe & Mail, January 31st, 1967.

[3] p. 34.

[4] Research Department, United Community Services, "The Adequacy of Social Assistance Allowances in Greater Vancouver", November 24, 1966, Appendix II.

[5] Third Annual Report, p. 114.

There are a number of suggestions we have for attacking the problem of rising housing costs. It is not sufficient merely to make more money available at high interest rates since those most affected cannot afford the down payments or the inflated monthly payments. The CMHC should be prepared to loan directly at lower interest rates for the construction of new homes using the federal government's ability to borrow at less than the private interest rate.

Private builders appear to be unwilling or unable to provide the necessary rental accommodation for families at moderate rentals. To some extent this reflects the overall housing shortage. Mortgage money for multiple dwellings should be made available at preferential rates for the construction of residences which accept families and conform to a controlled scale of rents. If private builders are not willing to meet this need, the three levels of government should enter the market themselves.

We realize that the major delay in providing low and subsidized rental housing, in British Columbia at least, has been the procrastination of the provincial government in processing applications. Similarly, action to curtail the rising cost of land appears to lie in the domain of the provinces.

We are also concerned with the rising costs of health services. Across Canada in 1966 the Health and Personal Care Index rose 6.6 points or about 3.7 per cent. Between September and December, the increase was at the rate of 7 per cent per year. The weighting of Health and Personal Service in the overall Consumer Price Index is only 7 per cent, yet the magnitude of the rise is such as to make a significant contribution to increasing consumer costs. Over the last 10 years, this index has risen about 39 per cent or approximately 4 per cent per year.

We feel that the cost of health services could be kept down by the implementation of a comprehensive medical care programme. According to a recent report, the total cost of the Saskatchewan Plan actually declined in 1965 (the most recent year available) over the previous year and administrative costs and costs per doctor's service have declined steadily since the introduction of the plan.[6]

We have been told by one insurer that prepaid dental care can reduce significantly the cost of dental services by encouraging people to take treatment before a condition becomes serious.

We would ask this committee to study the evidence recently presented to the Commons Committee on drug prices. According to testimony by Prof. H. B. Steele delivered on February 14th, 1967, drug prices could be reduced by approximately half if the massive walls of protection were broken down. We are not in a position to verify Prof. Steele's figures, but we again point out that the cost of medical, dental and drug services bears most heavily on the low income, on families and on the aged and infirm.

The federal Minister of Finance in trying to justify the one year delay in the introduction of national medical insurance based his argument that the delay was necessary to prevent inflation. It is our belief that the effect will prove to be the opposite. The delay in medicare promises increased costs, for the reasons mentioned above, particularly for those least able to pay. In any case, as the CLC has argued in its brief, the threat of inflation, if it even existed, has passed. Therefore, there can be little argument against the introduction of medicare at an earlier date than presently planned.

In conclusion, we would like to summarize. The poor competitive performance of the food industry has been well documented before your committee. While in basic agreement with the interim recommendations of the committee,

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[6] Financial Post, September 17th, 1966.

we also support more far-reaching reform in the form of a Prices Review Board and the encouragement of co-operatives.

A basic factor in recent price movements has been increases in housing costs as prophesied by the Economic Council of Canada. Immediate action should be taken to reduce mortgage rates for family dwellings including the direct entry of CMHC into the market to provide up to 100 per cent mortgages for lower income earners to eliminate the barrier of high down and monthly payments. Moderate rental housing for families should be undertaken by the government if private builders are unable or unwilling to provide it.

The rapid and sustained increase in health cost we believe could be partially attacked by the immediate enactment of national medical and dental and optical insurance. Combined with measures to decrease drug prices, we feel that price pressures in the health and personal care sector could be significantly moderated particularly for those least able to pay.

We appreciate this opportunity of putting our views before your Committee.

Respectfully submitted by the

B.C. FEDERATION OF LABOUR

E. T. Staley, President

R. C. Haynes, Secretary-Treasurer

SUMMARY OF BRIEF

1. The B.C. Federation of Labour associates itself with the presentation of the Canadian Labour Congress, December 8th, 1966.

2. Price increases over the last year or two, while not so large or so pervasive as to constitute a serious inflation situation, were a significant burden on lower income families, the aged and the infirm.

3. A major contributor to higher living costs has been and, in the near future, will continue to be housing. This has resulted from a shortage of housing and high interest rates.

4. The Federal Government through Central Mortgage and Housing Corporation should make available additional money at less than the private market rates for direct loans of up to 100 per cent to families purchasing or building homes.

5. Either through preferential lending rates or direct government involvement, provision should be made for family rental units at controlled rates.

6. A persistent element in rising consumer living costs over ten years has been health and personal care which is a particularly onerous problem for those least able to pay. The early implementation of a comprehensive medical, dental, drug and optical insurance programme would be expected to moderate such increases. Drug prices, we believe, must and can be radically reduced.

7. Some action should be taken to improve the price competition performance of the food and consumer goods industries and reduce misleading and cost increasing advertising, packaging and sales "gimmicks".

8. We recommend the implementation of a Price Review Board and the promotion of co-operatives in order to moderate price increases in the food and consumer goods industries.

To

THE MEMBERS OF

JOINT COMMITTEE ON CONSUMER PRICES

A Presentation from

MAINLAND DAIRYMEN'S ASSOCIATION

dealing with factors affecting the
cost of production of farm commodities.

February 24, 1967.

Gentlemen:

We, the Mainland Dairymen's Association feel we should open this presentation by identifying ourselves.

We are an association of independent milk producers, organized to work in the primary producers' interest and in so far as possible, act as bargaining agents for our members, to try to ensure a price for our product at the farm which will provide a reasonable standard of living from economic milk production, consistant with trying to maintain the rightful position of our product in the consumer weekly food basket.

We would clarify the latter statement by saying that until a cheaper product can be found to replace milk in providing protein, mineral and vitamin requirements necessary for an adequately nutritious diet, particularly for children, we must be concerned with consumer resistance to price. Added to this is the conviction that the high cost of production in this area, dictates that B.C. should be regarded as a fluid milk shed and that except for a reasonable amount to ensure the fluid supply, we should leave the production of manufactured milk products to areas of lower production cost. However, we are a member organization of the B.C. Federation of Agriculture, which represents all commodity groups, the intent of this submission is not to deal with one commodity, but to seek clarification of what determines, or what predetermines the ability of an acre of land in B.C. to compete in production, with an acre of land elsewhere, whether it be situated in another Province of Canada, in U.S.A. or U.K.

We would state that we are not economists, nor do we have special training or qualifications in the fields which your inquiry covers, therefore we feel our approach should be to pose questions which we feel the report of your inquiry should provide the answers to.

The views that prompt these questions are based on the knowledge and experience acquired in the business of farming.

We feel the factors affecting cost of production of primary products, must be basic to the purpose of your inquiry, because they must affect consumer prices of food.

We also feel that your report would be the best possible medium of providing enlightenment on government agricultural policy and commodity pricing, to the consumer public and the primary producer.

Policy Statement to the House of Commons—by Agriculture Minister J. J. Greene, March 23, 1966.

"Mr. Speaker:

I wish to announce a new policy for the dairy year beginning April 1st which is intended to raise producers' incomes, stabilize the industry and prevent

uncontrollable consumer price increases caused by shortages." Is it not true to say that this statement shows a continuation of the historical philosophy governing policy on farm prices—to ensure low consumer prices through manipulation of supply by the use of subsidies or supplementary payments and that market prices for farm commodities have not been allowed to reach a level that would provide a comparable return for economic production, with similar sized operations in manufacturing and service industries.

In other words is it true to say these subsidies are consumer subsidies and were not designed to provide, nor have they provided, adequate primary producer prices.

This so called government assistance to agriculture, is standard practice thoughout the world, but at a much greater cost to government than is the case in Canada.

A report compiled by Economics Div., Canada Department of Agriculture, on request, based on 1961 (copy attached) shows the cost of this financial assistance varies from 5 per cent of net returns, or net income of farmers. In Canada, in 1964 less than 6 per cent of total net income to farmers was derived from subsidies or supplementary payments. In B.C., in 1964 slightly over 2 per cent of total not returns to farmers was derived from supplementary payments. Canadian family food expenditure is reported as the second lowest in the world at 21-22 per cent of personal income.

These facts pose the question—are Canadian farmers the most efficient in the world, or are their prices completely inadequate?

Does a comparison of producer commodity prices between countries, or areas have any value, and is it indicative of producer income?

It appears to us, that assurance of future agricultural production must be a concern of this committee, because if supply of any commodity falls below domestic demand either price or subsidy must be increased to encourage increased production and it follows that you will wish to examine the prospects of ensuring future production and if necessary express opinions or cause opinions to be expressed, as guide lines to future pricing policy if it is established that future supplies will be dependent on changes in pricing policy.

We hope an opinion will be expressed on the philosophy of low food prices, if this policy should be continued in the continuing increased affluence of Canadian society and the reasons why this policy be followed in preference to a policy based on adequate market prices and adequate incomes to enable consumers to pay those prices. We would also hope that explanation on why and how adequate returns to primary producers must come from the market price and/or government subsidies. We hope for these things because we feel this report will be read by large numbers of consumers and producers and therefore a greater number of people will have a better understanding of both government policy and agricultural commodity pricing.

We would hope for recognition that our obligations to the world pantry and to the Canadian economy have long since determined that no part of our primary production can come from land used as a way of life, but must come from economic productive units operated by producers who have a desire for this type of business life. The time has come to dissociate the problems of economic primary production from the social or welfare problem of rehabilitating the unadaptable small farmer who is trying to retain an uneconomic way of life.

The problem is not shall we produce, because Canadian agricultural production is almost entirely staples, but what standard of living does any given commodity price spell for Canadians in general and the commodity producer in particular.

We must have a moral obligation to contribute the maximum possible to the world pantry. However, it is obvious that low world food prices are reflected in

domestic prices and it should be made apparent to Canadian consumers that these low prices can not and should not be borne by producers. The cost must be diffused throughout the whole economy.

We would put the question—Does the variation in percentage of net returns derived from supplementary payments or subsidies, by producers in different areas and the variation in supplementary payments received by those producing the same commodity, show the inadequacy of this system of primary product pricing, because there is no conceivable way that payments can be equalized between countries, or even between commodity producers in Canada in relation to costs.

We feel policies now and in the future, must be related to the high capital investment needed for economic production of all farm commodities. It is apparent to us that manipulation of subsidies to regulate production could be disastrous under modern conditions, because capital investment in operational changes to adopt technological advances, are dependant on the commodity price being maintained for the period over which the improvement is to be amortized.

We feel rapid changes in technological advances, or need for expansion in order to benefit from these advances, may call for further capital expenditure every 3-5 years. In order to make further changes after a similar period, the improvement loan must be amortized over a 3-5 year period.

Therefore pricing policies for any or all farm commodities should be guaranteed for a five year period, otherwise only the gamblers will keep pace with technological progress.

There is a need to establish indicators, which will allow more rapid adjustment of farm commodity prices. The need is pointed up by the substantial increase in the price of manufacturing milk and its slow effect in bringing back production to a required or safe level.

We feel there is a need to look to the future, to recognize that changes in the immediate future in primary production, will move forward with much greater impetus than in any period in the past. Farms will get larger and fewer, the average producer will be a better business man and recognize the need for strong producer organization. Government should recognize that inevitably the primary producer must be able to earn a comparable living and interest on investment with similar sized operations in manufacturing and service industries.

British Columbia

There are high costs in B.C. that can not be allowed for in a national pricing policy.

Although the Fraser Valley has adopted a plan of zoned land use, there is no indication as yet, that the value of farm land will decline.

We believe that agricultural land values in B.C. are up to 140% of values in other areas.

Municipal taxes, the greater portion of which is school tax, are as high as $18-$20 per acre.

We feel the Royal Commission on Farm Machinery & Parts, will show we occupy a similar position in that field.

B.C. Farm Wages are 158% of Farm Wages in the Maritimes and 111% of Farm Wages in Ontario.

We feel these in total, increase our costs by $30 per acre.

We feel there is a need for a national policy of land zoning and economic land use and efforts should be made to remove all charges against agricultural land other than a fair charge for municipal services provided to farm land.

In conclusion, in the interest of showing where the consumer dollar really went, we would draw your attention to Table 1, Page 24. Canadian Farm Economics Vol. 1 No. 4.

This shows that Farm Value as a Per Cent of Retail Value, for Domestic Produced foods declined from 58% in 1949 to 41% in 1964.

Respectfully submitted,

MAINLAND DAIRYMEN'S ASSOCIATION

2205 Marine Drive,
New Westminster, B.C.
(526-7971)

BRIEF

WOMEN AGAINST SOARING PRICES
TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

Vancouver, B.C.

February 24, 1967.

Mr. Chairman and Members of the Committee:

We wish to thank you for the opportunity of presenting a brief to this committee. We represent the consumers in the Vancouver area, including all out-lying districts. We hope that our recommendations and suggestions will prove helpful in your study of increasing food prices.

Our group has maintained its independence of political or union affiliation. We have felt that this will insure us of greater support among the consumers of Vancouver. We are presently publishing a newsletter which we hope will serve to inform Vancouver's shoppers of our findings and the complaints of other consumers.

Following are the recommendations we feel are relevant. An effort has been made to keep the brief as short as possible, since a number of the topics have been mentioned in your interim report recommendations, and we realize that the committee is pressed for time.

Consumer Information.

Much more effort needs to be expended in the field of consumer information. Presently there is little printed matter available to inform homemakers on the quality of the products she buys. The Consumer's Association does a good job as far as they go, but this is not far enough. Their circulation and membership is too small to reach many people. Our suggestion is that the government promote consumer information through the school system. We realize that this is a Provincial area, but the recommendation of this committee could help to provide more adequate training for the high school girls who will be the consumers of the near future. The Canadian Association for Adult Education could consider a *short* course for homemakers such as the North Shore Credit Union and the North Vancouver School Board are presently sponsoring.

Standard Packaging

We are aware of the practice of manufacturers of packaging their products in varying sizes with the intent to confuse the shopper. We suggest, as does your committee, that standard packaging be compulsory to enable the correct comparison of sizes and prices.

Honest Labelling.

Along with standard packaging goes honest, clear and correct labelling. We recommend that the complete contents of a product be printed on the label, with the amounts of each. We strongly recommend that, in the case of poisons, the label be conspicuously marked and that the antidote also be printed, in case of an emergency.

Product Dates.

Yet another aspect of labelling must include the dating of perishable goods. Eggs, butter, milk and milk products and all pre-cooked and pre-packaged meats should be dated at the time of packaging. We would very much like to see every item dated so as to ensure that we are not sold old stock.

Prizes, Coupons, Games and Contests.

We recommend that the government legislate to ban prizes, games, coupons and contests, on the grounds that it has been repeatedly shown that these add to the cost of the product. It has been estimated that 2 per cent is added to the over all cost to the consumer, as much as the supermarkets are claiming as a profit. A consumer survey we conducted showed that 88 per cent of the ladies disliked contests, and 97 per cent disliked prizes in their purchases.

Misleading Pricing.

One of the basic ideas of merchandising is that buying in bulk, buying the largest size constitutes a saving. Shoppers take this concept for granted and it would seem that the manufacturers and retailers are using this belief to their advantage. We recommend that the government look into the practice of suggesting that a saving is made, by the use of such terms as "economy size" or "family size", when the saving may really be made on a smaller size. Whether this constitutes fraud we do not know, but we feel the practice should be brought to the attention of the public.

Combines Legislation

As you have partially investigated this question, and plan to continue doing so we will reserve our recommendations until further information is available.

Department of Consumer Affairs

This is an admirable suggestion, and has our active support. We would recommend that such a department be publicized sufficiently to assure public accessibility.

Okanagan Apples

It has been brought to our attention that apples which are grown in the Okanagan area of British Columbia are priced much higher than the farmers' profit would indicate. The farmer receives about two cents per pound and we pay anywhere from ten to fifteen cents per pound. Our apples sell for less in Winnipeg than they do in Vancouver. We suggest that if the farmers were allowed to transport their apples, and other fruit, to a farmers' market in the Vancouver area the public would be better served, and possibly the farmers would make enough to enable them to pay income tax and relieve the government of the need to subsidize the depressed Okanagan area. Presently the producer may transport his crop no more than twenty miles. See Appendix B for more information.

APPENDIX A

Misleading Pricing

Comet Cleanser:	14 oz.	.24	1.7	per ounce
	1# 5½ oz.	.37	1.8	per ounce

The larger size actually costs .1 more per ounce.

Fruit Loops (Breakfast Cereal):	8 oz.	.36	4.5	per ounce
	11 oz.	.52	4.7	per ounce

Larger size again costs more per ounce.

Shreddies (Breakfast Cereal):	12 oz.	.33	2.7	per ounce
	18 oz.	.41	2.3	per ounce
	24 oz.	.57	2.4	per ounce

The larger size is marked "new family size" and costs more than the middle size. Very often the middle size, which is likely to be the most popular, is most expensive.

Heinz Catsup:	11 oz.	.26	2.5	per ounce
	15 oz.	.39	2.6	per ounce

Larger size is .1 more per ounce.

Kraft Salad Dressing:	8 oz.	.29	3.6	per ounce
	16 oz.	.37	2.3	per ounce
	32 oz.	.53	1.7	per ounce
	48 oz.	1.05	2.2	per ounce

The largest size is more expensive than one 16 oz. and one 32 oz., which would be 90 cents as compared with $1.05.

Quaker Oats:	20 oz.	.29	1.45	per ounce box
	3#.	.46	.95	per ounce box
	3#.	.85	1.75	per ounce box with mug
	36 oz.	.43	1.2	per ounce bag
	5#.	.79	1.0	per ounce bag

This is obviously very complicated. The 48 oz. box is less expensive than the 5# bag, which reason would suggest to be the best buy as a bag costs less than a box to manufacture. The mug adds .39 cents to the 3# box which is more than this type of mug would cost separately. In addition, there are at least two other types of porridge which each have several sizes, containers and prices. This is only one brand and the store surveyed carried two brands.

Squirrel Peanut Butter:—	16 oz.	.48	3.0	(3¢ off)
	24 oz.	.67	2.7	(6¢ off)
	2#.	.95	3.032	(Economy size)
	48 oz.	1.29	2.7	

The "economy size" is more than the smallest size. The 24 oz. size is the same price as the large tin, which is likely to dry up before it is used. The question is: Do you buy the small size with its 3¢ off or the 24 oz. size for 6¢ off, or the economy size because it says "economy" or the tin which you may mistakenly think is four pounds? This product is a perfect example of the difficulty in choosing the best buy. Bear in mind also that this is just one of three brands of peanut butter this store carries.

Omo (Laundry Detergent):	1# 4 oz.	.50	2.5
	2# 10 oz.	1.07	2.6
	5#.	1.61	2.0

Here is another example of pricing the most popular size higher than the smaller size. Many shoppers would be likely to choose the medium size since it is easier to store and handle.

APPENDIX B

We are greatly concerned over the price and distribution of Okanagan apples. This is the information we have been able to gather on the subject. The "cull charge" mentioned refers to the percentage of the crop which is found to be unsuitable for "human consumption", as the expression goes.

The farmer receives on the average of one dollar for a forty pound box, or about two cents per pound after the cull charge. If he hasn't a truck or the time, it costs him 4½ cents per box to have the fruit hauled to the packing house.

The farmer's expenses include:

> $15 to $20 per acre for irrigation, $20 per acre for fertilization, $9 per acre for spraying, which must be done four times during the growing season. A farm must contain at least 10 acres to be recognized by the Farm Loan Board.

The freight rate for apples is .56 per 100 pounds or just over one half a cent a pound.

The Tree Fruit Board sets the price on the fruit and acts as a central selling agency. The farmer is not allowed to sell the apples which are culled. He is not allowed to transport his apples more than twenty miles to sell them. He may not sell more than four boxes of any one kind of fruit to a customer and not over twenty boxes of all fruits for one year. This makes it impossible for the fruit to reach areas where it is needed at a reasonable price, and prevents the producer from making a decent living from his crops.

SUBMISSION BY "WOMEN AGAINST HIGH PRICES COMMITTEE"

1035 E. 29th Street,
North Vancouver, B.C.,
FEBRUARY 24th, 1967.

Mr. R. Basford, Chairman,
& Members of the Senate-
Commons Committee on
Consumer Credit.

Gentlemen:

We would first like to introduce ourselves. We are called the "Women Against High Prices Committee", and we have worked together for the past three years or more. We represent not only individuals, but have delegates from some of the Women's Auxiliaries of the trade unions in Vancouver. We have the endorsation of the Vancouver and District Labour Council, and many of the local unions support us with financial donations, and also help with the various campaigns we initiate.

Although we are concerned with the cost of living in general, our main concern is the cost of food. Between the months of March and November 1966, the cost of living has risen 3.1 and the cost of food index has risen by 3.3. These figures are from the Dominion Bureau of Statistics, and the specific breakdown is—Cost of Living Index, March 1966, 142.4—November 1966, 145.5. The Cost of Food Index for March 1966, was 143.4 and in November it was 144.7. We feel that these figures are significant; the overall cost of living has continued to rise, and the cost of food has rised also, but in comparison a little more slowly since the consumer protest have been vocal.

Between March and September 1966, the cost of food index rose by a little better than 2 points per month. The high point was reached by the late summer of 1966.

Then the housewives of this country reached the boiling point, and the food index began to level off. We believe this is due to a temporary embarrassment of the food chains. We cannot depend on embarrassment however, so we will offer our proposals for a definite course of action by Parliament.

We have added an exhibit behind the last page of this brief. It compares the advertised prices (sale) of the Safeway stores in Prince Rupert and Vancouver. The brand names, quality and quantity are identical in all cases. The difference in prices range from 4 cents to one dollar and fifty cents. There is no item on the list that is cheaper in Prince Rupert than in Vancouver. To take the most obvious—to charge $1.50 more for B.C. potatoes is a little too much.

We tried to find the reason for these differences. Transportation costs and difficulties were suggested to us. We are not sure this is valid. Many of these costs and difficulties have been overcome by the communities of the Yukon and the Northwest Territories. It seems more facts are needed and we therefore request this Committee to use its powers to find out the reasons for these differences. There are consumers in Prince Rupert who would be delighted to help. Prince Rupert is not the only community in British Columbia to be affected by extra high prices. Most of our northern communities are—Ocean Falls for instance, has only one store, (The Hudson's Bay Co.)—no chance for comparative shopping there! Time spent on these sharp differences will be of great help in this investigation.

Before passing on to the packaging game, we would like to say a few words about the quality of produce offered at high prices. We are going to use the lowly potato as an example. Four of five years ago a better quality of potato could be

bought at a slightly higher price. Today, the price is high, but the quality has fallen off considerably. Potatoes are cracked, bruised, green, hollow and rotten. We have been searching for the answer to this problem for months. We are informed that new harvesting and packaging machines cause some of the damage; these machines were installed to speed operations and lower prices at the retail level. We don't know about the speed, but the price has gone up and the quality has gone down.

One of our most constant complaints is the packaging of food. We would like to show you two plastic bags. Please note (1) they are both for Idaho potatoes, and (2) that one is completely plastic, while the other is half plastic and half string. We are not complaining here about weights nor the price, (although the price of potatoes is shocking). Our annoyance is directed at what happens to the potatoes packaged in these bags. The one with the string back allows air circulation, the wholly plastic bag does not. Potatoes, in common with most fresh vegetables have a moisture content. When taken from one temperature to another, they will sweat. In the plastic bag this moisture collects and causes rot. The half string bag is a much superior container for this type of product. We have tried to draw this to the attention of the wholesalers and packagers of these vegetables but have received no answer. For this reason we brought the exhibit here in the hope that this committee may be more successful than we, the consumer.

Here is another example of packaging, but not of the same type. It is a package that held back bacon. Please note the size. It has been customary when buying bacon in the package, to expect the half-pound or the one lb. size. This package is marked 6 ounces. With this little misleader, I conducted a short survey. For a space of time I watched the counter where it was displayed, and spoke to each person who put it in their shopping cart. Out of 19 people, 17 had assumed it was half a pound. Eleven people returned the package and took a half pound size instead. All 17 admitted they should have looked more closely, but at the same time, they felt this company was trying to cheat them.

That was an easy illustration. On the grocery shelves today the bewildering array of pounds, ounces, grams, fluid ounces, and small print give us eyestrain, and the need for a course in higher mathematics. In our opinion, the worst offenders in the odd weight and size, are the soap and detergent displays. No one company has a monopoly on misleading—they all do it!

In liquid detergents for instance, there are 24 ounce sizes products which range in price from 47 cents to 83 cents; 64 ounce size, that range from 99 cents to $1.93. One liquid detergent is a real dilly—it is ¾ of a gallon, packaged in the U.S.A., costing $3.39. Short of buying it, and taking it home and measuring it ounce by ounce, we could not find out if this was an imperial gallon or not.

Packaging can be of comparable size, but the weight may range from 1 pound 2 ounces to 1 pound 9 ounces. That size is not too bad yet, but the next one is really outrageous. Boxes, almost identical in size may contain anything from 2 lbs. 10 ounces to 4 lbs. 4 ounces. The first for 85 cents and the latter for 89 cents. Packaging can certainly be used against the consumer!

There are also gross weights and net weights. Here I would like to give this committee details of a personal experience. I went to purchase a roast of beef, where the store advertised net weight. The store advertisement read "extra savings to our customers. You pay only for the meat—no waste, no wrapping". The roast I chose was wrapped and then weighed. I pointed to the advertisement and was assured that the wrapping would make no difference. Upon my insistence, the meat was unwrapped and weighed again—the difference in price was 6 cents in my favor. This was a shell bone cut of beef, 3 lbs. 4.6 ozs, @ $1.29 per lb. On a cheaper cut the difference would not have been so sharp, but even on a small amount, the total extra profit must come to quite a packet!

According to some of the testimony given to this committee, advertising is one of the fixed items in the budgets of processing, production and retail distribution of food. We could write a book about misleading advertising! Instead let us be very naive and ask, do we need to be told to eat? If all advertisement on food stopped today and never started again, would we starve to death because no one told us Brand X is better than Brand Y?

The number of firms making up the million dollar advertising club make up almost the entire grocery shelf. Much has been written about interlocking of food distributors and processors—not much about many of the processors who are merely labels. They merely contract to a cannery, or freezing processor, blow a whistle and change a label for a while. That is all that is necessary—its the same can, same product only a different label, and we may add here, a different price. This practice runs from roofing shingles to tomato juice. It is particularly true about canned fish and canned vegetables. Any label marked "packaged for" is using this trick to keep from having to put up a processing unit. Surely, when they come from the same place, there is no need to advertise against each other!

We have been pre-occupied with food, but there is one more really pressing need of people in this province. This is Housing! Here in Vancouver, and the Lower Mainland area, rentals have been getting out of hand. It is practically an impossibility for a family to find a place to rent. Childless couples find it easier if they can stand the tariff—but what of the family with children? If the child is an infant or a teenager, landlords will accept them, (if one can manage to find something to rent), but the child from one year to eleven years is not acceptable. Almost any type of pet is shown more consideration than the growing child.

What is needed in this province is a large scale project to build family units for rent. We realize this is not the entire responsibility of the Federal Government—the Provincial Government must also participate. Next week our committee is presenting a brief to the Provincial Government of B.C., and this point will be one of the things we are going to press for. If units of publicly-owned rental types could be started we feel that many of the privately-owned apartment blocks will have to compete and this could very well bring rentals down to a much more reasonable amount. Some rentals in this town have gone up $25.00 and $30.00 per month, and there are the usual holding funds and cleaning charges that range from $40.00 to $70.00 per unit.

Very briefly, we would like to look at clothing. Always with us, is the size problem. Standardized sizes just don't happen. To use a personal example again. I buy from the racks in the stores, anything from size 13 to 18, depending on the maker of the garment, or the particular cut of the garment. Children's sizes are even worse. We have with us an example of men's work clothing. These are two shirts, both made by the same manufacturer. The first one is not being made any more, the second is the new model.

Here there are two points to illustrate a lowering of quality and wearing expectancy. The first will help the shirt wear out faster—the pocket flap with the pencil holder, is sewn down just once; in the first shirt this is sewn down then turned and reinforced. The second point will also ensure a more rapid turnover—the buttonhole side of the front of the garment is not reinforced with an extra piece of material, it is just like a sports shirt. These little things will steal from our pocketbook as surely as if this manufacturer used a gun and held us up. Carpenters overalls, reinforcements in trousers could also be cited, but the time element does not allow giving more illustrations.

We have spent many months finding out some of these things, and have discussed what positive recommendations we could make. We have three to place before you.

(1) We think a Prices Review Board should be set up on a permanent basis. If necessary, several of these boards, perhaps on an area basis. It must have strong powers and a strong deterrent to any evasions of these powers. Any price increase must be approved by these boards. It should, in our opinion, be composed of Members of Parliament from all Parties, the business community must be involved, economists, consumers (perhaps from an organized consumer group), and the organized labour movement. Most of these choices are self-evident, but we have been asked, Why Labour? Very often, labour costs are cited as a reason for increased prices, without taking into account other factors in production. Labour will have the specialized knowledge to help weigh these other factors and give a more balanced picture for a Prices Review Board.

(2) There is some small control of advertising, aimed at limiting the more fanciful claims. To our knowledge however, there is no limit to the amount spent on advertising. Could some formula be worked out to limit the percentage of advertising costs which can be listed as expenses on income tax returns? We know that some companies budget for a loss on coupons and other forms of advertising, and we feel this is being passed on the consumer and that we are paying for it in one way or another. If these losses are being used to lower income tax payments, then we feel the country is being cheated, and our government should tighten up its laws in this respect.

(3) Packaging is the most subtle form of cheating we have come across so far. We therefore ask you to recommend a strong packaging law. The bulk products such as rice, cereal, soap, packaged meats such as bacon, or lunch meats should be set out in one-quarter, one-half and one pound sizes and so on upwards. Frozen foods should be included here. Also on canned goods, round figures are much easier to calculate—there are some small cans on the market now which hold 3¾ ounces, and others 3⅔ and 3½ ounces. We feel sure these could be standardized.

In conclusion, we wish to thank you for the opportunity of speaking to you. However, we are sorry that your stay in our province is to be so brief. There are many areas who could benefit your investigation if they had the opportunity of appearing before your Committee.

All of which is respectfully submitted, on behalf of The Women Against High Prices Cttee.,

Mrs. Elaine Podovinnikoff, Chairman.

Vancouver, B.C.
February 24, 1966

PRICE COMPARISONS OF THE SAFEWAY FLYERS—VANCOUVER AND PRINCE RUPERT

Item	Vancouver	Prince Rupert	Difference
Turkey	.49	.55	.06
Salmon—fresh	.59	.65	.06
Side Bacon	.75	.79	.04
Cauliflower	.29	.33	.04
Onions (3 lbs.)	.39	.49	.10
Potatoes 20 lbs.	.79	1.29	.50
Potatoes (B.C.) 50 lbs.	1.89	3.39	1.50
Potatoes (Alberta) 10 lbs.	.69	.95	.26
Grapefruit (10)	.70	1.00	.30
Oranges (12 lbs.)	1.47	2.00	.53
Bananas (12 lbs.)	1.47	2.00	.53
Lettuce (2)	.29	.34	.05
Tomatoes (2 lbs.)	.49	.66	.17
Pork and Beans (3 cans)	.69	.79	.10
Plum Jam	.69	.75	.06
Tomatoes (2 cans)	.45	.53	.08
Tomato Juice (2 cans)	.69	.79	.10
Peaches (4 cans)	.79	.89	.10
Toilet Tissue (8 rolls)	.85	.89	.04
Green Beans (2)	.45	.49	.04
Peas (12 cans)	1.99	2.19	.20
Peas (2 frozen)	.89	.99	.10
Light Bulbs (4)	.85	.95	.10

NOTE—The same brand and quality on all comparisons.

TO THE MEMBERS OF JOINT COMMITTEE
ON CONSUMER PRICES

A Presentation from
THE BRITISH COLUMBIA FEDERATION OF AGRICULTURE
DAIRY COMMITTEE

dealing with the multiplicity of packaging of fluid milk products.

February 24, 1967

Gentlemen:

On May 19, 1966, the British Columbia Federation of Agriculture Dairy Committee meeting at the Skyline Hotel, Richmond, discussed the problem of multiplicity of packaging of fluid milk products.

It was the feeling of the meeting that multiplicity of packaging must affect returns to producers through increasing the cost of sales, which decreases the spread between the price paid to the producer and the resale price. If the distributor's margin is reduced, he increases the consumer price which eventually meets consumer resistance and reduces consumption, which is reflected in the producer price through reducing the percentage of production sold as Class 1.

A motion was carried at the above meeting that the Committee set up a "round-table" discussion with Vancouver distributors, to discuss the possibility of finding ways and means to eliminate excessive package changes, or establish some form or system of standardization of packaging.

The meeting was held on November 3, 1966, when representatives of Dairyland, Palm Dairies Ltd., and Jersey Farms Ltd., met with the Committee.

From the Committee's point of view, the discussion at that meeting was constructive and enlightening, but did not produce even a possible basis of solution of the problem of excessive packaging. Primarily, two things emerged from the meeting:

(a) That packaging is being used as a means of competition between Vancouver distributors.
(b) The possibility of agreement to regulate packaging was remote to say the least.

There is no apparent feasible way that milk producers can obtain a comparable return to capital, management and labour, to that of similar sized operations in manufacturing or service industries. Therefore, we must think in terms of obtaining the maximum return to milk producers, consistent with the recognition that milk producers' returns are determined by price, utilization, and competitive position of the fluid product on the consumer market.

The latter is governed to a great extent by the federal policy of subsidies, which restricts the increase in consumer price of manufactured milk products, some of which are in direct competition with the fluid product.

It follows that the producer considers it desirable to get the fluid product into the hands of the consumer at the lowest possible cost, but at the highest possible return to the producer, and, therefore, no cost of the distributor which is avoidable should be allowed to intervene.

It is desirable to aim at maximum consumption, consistent with adequate returns to producers and distributors.

It is desirable to recognize the principle of quality discounts and allow reasonable consumer preference, but it is felt that both are being carried to extremes and that there is a need to restrict the present variety of packages and base future changes on proved need for distributor or consumer convenience or necessity.

Excerpt from The Dairy Industry in British Columbia, September, 1966 Packaging—Page 63

In today's market, the argument can be advanced that the economics of scale are partly counteracted by the apparent need of large firms to provide a full line of products to all customers, to pack distributor brands, and to stand ready to supply every customer with every product in every size and shape of package desired. Such policy can result in more than one hundred fluid milk and cream products supplied to a market and is cost increasing to processing and administration. To the extent that a small dairy firm can be more restrictive in product, mix, type of packages, and customer services, while operating under the same price structure, it is not necessarily in an unfavourable position to compete.

The proliferation of packages that is a part of our food distribution system applies increasingly to dairy products. It stems from the desire of food distributors to provide a better package in terms of consumer convenience and storage life; to obtain the convenience of non-returnable containers, and to use the package as one form of non-price competition.

As an example of the multiplicity of dairy products, containers and labels, the following table was prepared from a list of dairy products offered for sale by a Vancouver distributor in November 1965. This includes the three quart size containers of glass, paper and plastic that were introduced to the Vancouver market in 1965.

Product Category	Variation of Product	[1]No. of Containers	No. of Labels	Total Variations
Milks	11	13	2	60
Creams	5	4	2	22
Fluid mixes	6	3	—	8
Cottage cheese	8	6	6	35
Specialties:				
Yogurt	3	1	1	3
Dips	4	1	1	4
Juices	2	2	2	4
Drinks	2	3	1	4
Total				140+

[1]Excluded are the 2, 3, 4, 5, and 10 gallon containers used for fluid milks, creams and mixes.

There is no evidence to suggest that packages will not continue to change nor that processing plants will not be faced with an increasing variety of packages in use at one time. It is difficult at the present time for a processing plant that offers a full line of products to obtain maximum utilization of processing, filling and handling facilities.

It was reported by some officials in the industry that it was difficult, even under favourable conditions, to operate filling equipment near rated capacity due to stoppage for change-over of product and packages. Continuation of the trend towards a greater variety of products, packages and labels will certainly increase processing, handling and administrative costs of dairy firms.

Multiplicity of packaging is reducing returns to producers and processors and increasing costs to consumers.

Costs are affected in many ways:

(1) Higher investment in machinery.

(2) Higher investment in packaging supplies.

(3) Higher investment in warehouse and refrigeration space.

(4) The efficiency of all packaging machinery is lowered through low volume sales of new packaging and reduced volume of sales of existing packages.

(5) Increase in transportation and handling costs.

The principle governing consumer purchasing of fluid milk products is that of, "Let the buyer beware", because price is not related directly to quantity and/or butterfat content, which is the basis of payment to the producer.

We feel that some regulation should govern the introduction of new packages without restricting the benefit to the consumer of improved or less expensive packaging.

As fluid milk control is under provincial jurisdiction, there is probably a question of whether or not fluid milk packaging should be included in your inquiry. However, as a similar situation exists in every province, we feel this matter should be brought to your attention.

Respectfully submitted,

B.C. FEDERATION OF AGRICULTURE DAIRY COMMITTEE.

DOCUMENT SUBMITTED BY MR. W. E. GRAHAM, DIRECTOR OF PLANNING, CITY OF VANCOUVER.

FEBRUARY 1, 1967.

HOUSING CONFERENCE

The Honourable John R. Nicholson,
Minister of Labour,

on behalf of the Government of Canada

and

The Honourable Daniel R. J. Campbell,
Minister of Municipal Affairs,

on behalf of the Government of the
Province of British Columbia

FEBRUARY 3, 1967.

HOUSING IN VANCOUVER

Notes from the Director of Planning to Assist City Council.

Public Housing	Units		People	
	Number	Cumulative Totals	Number	Cumulative Totals
Existing				
FP1—Little Mountain 33rd and Ontario Low Income Families	224		862	
FP2—Orchard Park 41st and Nanaimo Low Income Families and Senior Citizens	169	393	598	1,460
FP3—MacLean Park Georgia and Jackson General and Urban Renewal	159	552	348	1,808
FP4—Skeena Terrace Lougheed and Skeena General and Urban Renewal	234	786	884	2,692
FP5—Killarney Gardens 49th and Elliott Senior citizens	188	974	189	2,881
Under Construction				
FP6—Raymur Place Raymur and Hastings General and Urban Renewal	376	1,350	1,271	4,152

This table shows that public housing, at the request of the City, has been provided under Section 35A of the National Housing Act for nearly *4200* people in *1350* units, including the Raymur Avenue project under construction.

B.C. COST SHARING

	Capital	Operating Losses
Federal	75%	75
Provincial	25%	12½%
City	—	12½%

In 1965, 786 units existed and the City paid 12½ per cent of operating losses of $48,300 but received $127,833 in taxes.

	Units		People	
	Number	Cumulative Totals	Number	Cumulative Totals
Proposed: Sketch Plans Prepared				
FP7—Grant and MacLean	154	1,504	377	4,529
FP8—45th and Knight	132	1,636	466	4,995
FP9—MacLean Park Phase II Union and Gore	304	1,940	881	5,876

Sketch plans have been prepared by the Central Mortgage & Housing Corporation for an additional 590 units to house about 1,700 people. These plans have been approved by City Council but the schemes are awaiting approval by the Provincial Government.

The sketch plans were submitted to Public Hearing for rezoning and from the reaction it is obvious that residents in adjacent areas appear to be increasingly opposed to public housing. The smaller projects now being proposed, however, should make it possible to blend public housing more easily into existing development.

Further Requests by City				
Additional Senior Citizens' Housing.....	400	2,340	470	6,346
Hostel for Single Persons.....	100	2,440	100	6,446
West End Senior Citizens' Nelson and Thurlow.....	210	2,650	250	6,696

The City has asked for an additional 400 units of senior citizens' housing to be provided by developer proposals in which a developer will be invited to submit schemes for development of projects containing from 50-200 units on his own land. This request, however, is in the hands of the Provincial Government.

The City has also requested a 100-unit hostel for single persons beside the Raymur Avenue Housing Project. Provincial officials have countered with an alternative suggestion that the hostel should be run by a selected private agency and the City will reply shortly.

The City has also bought a large site in the West End for a 210-unit senior citizens' project and has suggested this be constructed by a developer proposal. The request is in the hands of the Provincial Government.

	Units		People	
	Number	Cumulative	Number	Cumulative
Additional Target				
(Council Resolution November 8, 1966)....	500	3,150	1,900	8,596

Council has already set an additional target of 500 units. A first report suggesting that some be provided by "developer proposals" is on its way to Council. The second report recommending the remainder be provided on City land is almost complete. There is no reason why the City should not request further units above the 500 mentioned. However, the following important fact should be considered:

> There is practically no city land left for further public housing. Future projects will therefore have to be produced on land bought and cleared in urban renewal schemes, or , as it is unlikely that any more urban renewal land will be available until 1968, built up land bought directly.
>
> To consider purchasing private built up land outside urban renewal schemes however would mean a substantial increase in the capital cost and subsidies. The only solution may be to seek an arrangement where housing can be built outside Vancouver.

This is to be considered by council shortly when they discuss a submission from the United Community Services suggesting a regional housing arrangement.

	Units		People	
	Number	Cumulative	Number	Cumulative
Limited-Dividend Housing				
6th and Carolina	45	3,195	120	8,716

Housing for low income families under "Limited Dividend" or Section 16 of the National Housing Act has not attracted developers, possible because of the high land costs in Vancouver and only 45 units exist in the City. It is not expected that this situation will change.

Senior Citizens' Housing by Private Agencies				
18 Projects	1,000	4,195	1,200	9,716

The City has made land available to private organizations for 15 of these projects providing 741 units. The total effort has provided over 1,000 units of senior citizens' accommodation, housing about 1,200 people.

A report is being prepared for Council which summarizes their own actions last year and recent submissions from the United Community Services, who set up a housing committee under the chairmanship of Mr. Arthur J. Block.

Council on November 29, 1966, passed a resolution empowering the Mayor to discuss with the Provincial Secretary the possibility of a provincial housing agency to provide public housing and a renewed impetus for this discussion it is hoped will result from the consideration of the current report by Council.

Summary

The city's completed and proposed Public Housing Programme, including the part played by private agencies, represents almost 4200 units of accommodation providing housing for 10,000 people. This is unequalled elsewhere in Canada except in Ontario, where housing has been provided by a provincial agency. This does not mean it cannot be improved. (The dates of submission of all current housing and urban renewal requests are attached to this memorandum.)

Problems With Public Housing

There has been a consistent request, by the City that additional recreational facilities should be provided. While in later projects, lounges for the elderly, and play areas and equipment were provided for pre-school children, it has been claimed that more recreational facilities should be provided. Last year the City offered to pay one-third of the cost of additional recreational facilities if the senior governments would do likewise. The Honourable J. R. Nicholson stated that Central Mortgage & Housing Corporation was unable to do so, but later suggested they *may* contribute to bring the earlier projects up to the present standard. The Province has not commented.

Private Housing

Single Family Sites

The public housing programme is a minor element in the nation's housing (about 1 per cent at present). The City of Vancouver, however, has been of assistance to the private house builder. Since 1961, the City has sold over 1,800 lots for private houses. We will provide about 1,300 in the next five years and about 700 thereafter. This is considered the limit of those that can be serviced or absorbed by the market during the period. Despite the development of both City and private sites, one-and-two family dwellings in Vancouver increased by only 4,180 from 89,205 in 1961 to 93,385 in 1966, a 5 per cent increase.

When the remaining 2000 sites are marketed, then this means that the City will be fully built up and additional sites will only be found outside Vancouver, other than those in urban renewal areas.

Loans for Existing House Purchase

There are some inquiries under the new Central Mortgage & Housing Corporation insured loan programme for purchase and improvement of existing homes, but the effect of this change is unknown at present and it does not increase the housing stock.

Rehabilitation

It is hoped that the housing stock can be improved by rehabilitation in urban renewal areas through insured loans under Section 23 D National Housing Act. Because of the type of housing in Vancouver, however, where houses are predominantly wood frame, it may be difficult to devise a satisfactory technique, unlike Cities where masonry dwellings predominate. This is, however, to be reported as part of Urban Renewal Scheme 3.

Apartment Construction

Because Vancouver is a central City, the most dominant trend in housing in the past five years has been the increase in purpose-designed apartments from 21,800 in 1961 to 38,000 in 1966, a 74 per cent increase.

The greatest gains were in 1963, 1964 and 1965. Apartment building is carried out by private developers, and there are over 800 acres zoned for apartment building in Vancouver. It is, therefore, expected that apartment building will continue. As an example, the population of the West End is anticipated to increase from its present 35,000 up to 60,000 when fully built up, which is the usual trend in "core" cities.

As the urban renewal programme increases it is likely that a new source of sites for private apartment building will be found. Shortly, an invitation to submit proposals for the development of Area A-6, (next to the MacLean Park Housing Project), will be publicized in which private developers will be asked to submit proposals on seven sites for a variety of uses, including town houses, apartments and a senior citizens' project. The land price will be fixed and the quality of development will be the governing factor.

Housing Study

Much has been written about housing needs in Vancouver and elsewhere, yet no major Canadian city appears to have made a comprehensive survey of such needs. The City of Vancouver in 1960 and 1961 budgeted for its share of a $36,000 metropolitan housing survey to be financed 75 per cent by Central Mortgage and Housing Corporation under Part V of the National Housing Act, and 25 per cent by Lower Mainland Municipalities. Central Mortgage and Housing Corporation, however, declined to participate.

Because the City needs to know more about its own housing programme and future urban renewal action, the specification for a proposed new urban renewal

study (to update that carried out in 1957) will include a general survey of housing needs.

This study which is to cost $96,000 was approved by Council some time ago, was endorsed by the Province and referred to Central Mortgage and Housing Corporation, whose approval is now awaited. The study will take two years to complete but at the end of that time much more will be known about the housing need in Vancouver city than is the case in most other communities.

Government Action

Almost daily the federal government is announced as having taken action to stimulate housing activity somewhat comparable to the actions' taken recently in the U.S.A. Views on the great need were set out in a brief presented to the government by the Canadian Federation of Mayors and Municipalities. Despite recent government action, the greatest need still appears to be for:

1. More money for private housing.
2. Aid to the approximately 20 per cent of families with incomes too high for public housing and too low for private N.H.A. housing.
3. Techniques for *speeding up* public housing programmes. Merely buying existing structures, as suggested as one method, does nothing to increase the housing stock.

There is much to be learned from U.S.A. programmes. Some provide for insurance of mortgages for housing for low and moderate income families at low interest rates with terms up to 40 years.

As these are insured loans rather than direct loans, they depend on competing demands for private money and do not seem to have produced many units. Where this has been possible, however, town houses in one American city sold in 1961 for $63—$77 per month, including taxes and insurance. It may be worthwhile for Central Mortgage and Housing Corporation to examine carefully both the benefits and defects of this American Legislation.

As far as the 20% mid-income families are concerned, suggestions were made for housing in the Ontario Housing Study of 1963 and 1964 and also by the Vancouver Housing Association. The February 1st, announcement that the federal government is contemplating raising rent ceilings in public housing to accommodate families with up to $10,000 per year should be welcomed as a desirable diversification of the income groups in such housing. However, providing housing for ownership or rental in private housing, as suggested by the Ontario Housing Study, would seem to be more in accord with Canadian desires than raising public housing rent ceilings.

Accompanying this Memorandum are:

Summary Showing Status of Projects on Which Further Action is Required (as at January 31, 1967).

Urban Renewal in Vancouver: Progress Report No. 7.

(Note: Appendix 'B' to this report is superceded by the more recent coverage of the housing programme contained in the memorandum.)

SUBMISSION BY WEST COAST LAND DEVELOPMENT LIMITED

FEBRUARY 24, 1967.

The Cost of Housing and How It can Be Reduced

Submitted to: Joint Committee on Consumer Prices.

Gentlemen:

Most of the suggestions made in this brief have been proposed by others and this writer on previous occasions.

Exhibit "A" is an excerpt from a brief prepared in August, 1963 and forwarded to various Ministers of the government. You will find most of the points covered in Exhibit "A" in today's submission.

The purpose of this brief then is to put down some figures that will demonstrate the potential of what can be accomplished in reducing the cost of housing if the suggestions made are in fact implemented.

I trust that I will be able to do this to your satisfaction.

James Houston
Vice-President
West Coast Land Developmend Ltd.

JH/me
Encl.

COST COMPONENTS

Typical House:
Single Family Dwelling—3 Bedrooms, 1 Bathroom.
Basement—Carport underneath—1177 sq. ft. Main Floor.

TYPICAL SMALL BUILDER CONDITIONS

Lot Cost:	
Raw Land—4 to 5 lots per acre at $4,000 to $5,000 per acre	$ 1,000.00
Clearing	100.00
Sewer, Water, Roads, Pavement, Curbs	1,800.00
Legal, Survey and Engineering	200.00
Profit	500.00
Total	3,600.00
Real Estate Commission	400.00
Total Lot Price	$ 4,000.00
House Cost:	
Basic Construction Cost at $11.00 per sq. ft.	$ 12,847.00
Overhead and Supervision	500.00
Profit	1,500.00
Total Direct Cost	$ 14,847.00

Intangible Costs:

N.H.A. Application Fee	$ 35.00
Plans	35.00
Mortgage Legals	150.00
Real Estate Commission	900.00
Interim Financing	125.00
Interim Insurance	20.00
N.H.A. Insurance Fee	300.00
Total	1,565.00
Grand Total	$ 20,412.00

Selling Price—$20,400,00

Financial Structure:

N.H.A. 1st Mortgage—$15,350.00—6¾% interest.
Ordinary Term—25 years—P.I.T.—$136.00 per month.
Maximum Term—35 years—Monthly Principal and Interest—$94.41.

Estimated Monthly Taxes—$30.00—Total P.I.T.—$124.41.

Purchaser Profile

Assuming cash down-payment of $5,050.00.
Assuming no other contract obligations.
Using Gross Debt Service Ratio of 27 per cent.
Minimum Income to qualify—$5,500 per year.
This approximately $460.00 per month.
This is the problem:
The average IWA worker earns $490.00/M.

If he has $5,050.00 in cash and wants to spend 27 per cent of his gross pay on house payments, not to mention the cost of keeping a home properly he can buy this house.

Secondary Financing

In our building program we have available a Second Mortgage supplied by Imperial Oil Limited in the amount of $1,200.00 at 8 per cent interest. It is repayable at $18.63 per month. This reduces the cash requirement to $3850.00 but increases the minimum income required by another $69.00 per month, bringing the annual income required to $6,200.00 per year. This is $516.00 per month and the average IWA worker no longer qualifies.

This is the typical situation. The question is... what can be done about it?

SUGGESTIONS THAT COULD HELP

The most important single factor that would help create an efficient housing industry is the continuous availability of mortgage money.

(1) It will allow the influences of the market to hold prices in line and help create stable fair market values.

(2) It would allow builders to engage in longer term economic planning.

(3) It would cut down waste and inefficiency which contribute to the high cost of a dwelling.

(a) How can this be done?

There are many possibilities, all of which have pros and cons. In any event, this matter is so vital that no stone should be left unturned nor any possibility rejected out of hand.

1. Create a division of CMHC that is basically a mortgage bank.

(a) Let this Mortgage Bank keep some portion of the funds that they now manage, to be relent as it is collected.

(b) Let the Mortgage Bank sell blocks of Mortgages to lending institutions and relend the money received.

(c) Let the Mortgage Bank act as agents for institutions who wish to place funds but don't want to administer them.

(d) Let the Mortgage Bank accept time deposits from individuals or corporations as a source of funds. A lower tax-exempt interest rate might be considered.

2. Consider allowing insured lenders the right to discount an N.H.A. mortgage in order to get the yield they require.

3. The Bank Act Revisions—

1. Mortgages
2. Lending Policy

4. Revise the appraisal techniques of Central Mortgage and Housing Corporation so that the down-payment will be an actual 5 per cent of the first $15,000 of the selling price or fair market value and 10 per cent of the balance up to a maximum loan of $25,000. This is almost as important as a continuous supply of money. To work properly, with a minimum of risk, they go hand in hand. There will possibly be an increase in foreclosures but this must be accepted in the broader view as part of the problem of providing housing and any losses, if in fact there are losses, budgeted for.

5. Federal and Provincial Sales Taxes.

This is an obvious saving if the taxes are removed. However, the governments must have revenue; the question is whether the housing problem is important enough and the solutions difficult enough that the senior governments will feel it necessary to find alternate sources of revenue.

In any event, in the short time available to work on the matter, our accountant came up with a total federal provincial tax bill on our sample house of approximately $1,000.00.

A POINT ON THE MATTER OF 11 PER CENT TAX ON MANUFACTURED ITEMS

Our Company at one time contracted the interior finishing of a home, including the construction of the kitchen cabinets.

The materials were supplied by the company. The resulting kitchen was workman-like but rather plain. It was decided that we could provide a better looking product more efficiently on production level better suited to our needs by making them and finishing them in a shop. Then the tax collector came along —and this is what happened—

Kitchen Cabinets—		
Material	$ 132.67	
Labor	102.00	
Total	$ 234.67	
Government Collectors say Add—		
Overhead		$ 40.80
Administration		41.32
Total		$ 316.79
Tax thereon		34.85
Tax rebate		9.95
Total penalty for improving product or approximately a 10% penalty for trying to increase our efficiency		24.90

We still don't do finishing in the shop because this would become taxable too, not at cost but at cost plus 40 per cent.

We are faced with the same tax penalty situation on any form of prefabrication we attempt. It's hardly an incentive to improve methods.

6. Allowance of interest and taxes on a dwelling as deductible items for income tax purposes. Again the question of revenue is involved. This will contribute $22.00 per month towards mortgage payment qualifications for a married man with two children, earning $490.00 a month gross, and taking normal deduction using a $15,000 mortgage at 6¾ per cent and a $360.00 annual tax bill. The actual saving was $268.50.

RESULTS—ASSUMING MAXIMUM BENEFITS AND TAX REDUCTIONS

Savings that could be achieved by builder-developer because of increased efficiency, greater stability and longer term economic planning. Fifty houses per year and up—

Lot:		
Reduce servicing costs	$ 200.00	
Eliminate real estate commission	400.00	
House Cost:		
Reduce construction cost $.60 per sq. ft.	610.00	
Reduce profit and overhead	800.00	
Intangibles:		
Reduce sales cost	400.00	
Total Saving	$ 2,410.00	
Elimination of taxes	1,000.00	
Total Reduction	$ 3,410.00	
Typical house now sells for $20,400—$3,410		$ 16,990.00
Price could be further reduced by making house smaller—Minimum 1,000 sq. ft.—Saving—180 sq. ft. at $7.00		1,260.00
Now have a 3 bedroom, basement home, 1 bathroom—1,000 sq. ft. Selling Price		$ 15,730.00

Down payment—$823.00
First mortgage—$14,807.00—35 year term at 6¾%.
Principal and interest—$91.50 per month—Taxes $24.00 per month.
Total P.I.T. = $115.50 per month.

Income tax saving will reduce effective payment by $20.00.
Net monthly payment = $95.50.

Purchaser Profile

Cash down-payment $823.00
Using gross dept service ratio—27%.
Minimum income required $350.00 per month which is $4,200.00 per year. This covers most of the productive workers in all walks of life.

Other Possibilities

Recognizing that we have stretched everything to the limit to qualify the individual earning $4,200.00 per year, let's look at some other alternatives.

(a) Row housing and condominiums—

These two offer a further saving on construction and particularly in land and servicing costs. However, there is tremendous resistance to this type of development at the municipal government level. This is inspired

by the increased school costs of the higher density versus the lower tax base, and a general psychological block over the term rowhouse. However, the condominium with the potential of guaranteed upkeep may help overcome this.

(b) Privately-owned rental accommodation—

Again, the resistance at the municipal level is fierce. Public opposition by residents in a proposed development area is usually hysterical.

Random Comments and Observations

A. Land Costs—

1. Land Banking
2. Sewer Extensions

B. Minister of Housing—

1. Without Portfolio
2. Regional Adjustments

C. More housing for the dollar in direct lending for rental accommodations.

D. Solution to problem of low income or subsidized housing lies in dealing directly with builders and developers.

(a) Government-owned site:

1. Set of basic requirements for a site.
2. Developers present individual schemes with cost estimates.
3. Construction profit—fixed fee—bonus for savings.

(b) Privately-owned land:

1. Submit design and costs according to requirements.
2. Agree to buy land at fair market value.
3. Construction profit—fixed fee—bonus for savings.

EXHIBIT "A"

The following are some excerpts from a short brief which was prepared by the writer August 30, 1963. The general context was in opposition to the winter works bonus because of its disruptive effects on the home building industry. It was sent to Prime Minister Pearson and various Ministers of the government. The quotations were offered as suggestions that could help stabilize the industry. It is interesting to note that since that time the government has taken steps affecting items (b), (e), (f), and (i), and that the brief presented today elaborates further on several of the points made at that time. The point being—a lot of the industry's problems haven't changed the last three years—

"May I say at the outset that these thoughts and suggestions are directed at conditions peculiar to Greater Vancouver and may not be apropos to other climatic or financial regions. This points up the first suggestion that governmental controls and legislation involving the housing industry should have built into them the flexibility to adjust to regional problems."—

"(2) The following are some suggestions that I feel would help stabilize and encourage the building industry with a minimum of cost.

(a) Continuous availability of mortgage money is a key factor in having a stable housing industry: Announce as a matter of government policy that NHA mortgage money will be available to a qualified home buyer on a continuing basis and that no change will be made without giving six months prior notice.

(b) Make available to qualified builders through CMHC a speculative loan for display purposes but specify that it must be held for ninety days after completion before it is sold or until the builder starts a pre-sold NHA home. This should be done on a continuing basis, with a maximum of four loans per year. Needless to say, this would not be necessary if speculative loans were available from other lenders.

(c) Change approved lender regulations so that smaller investors could place money under NHA mortgages, possibly through the local CMHC offices.

(d) Create an active department in CMHC to find and develop private sources of mortgage funds.

(e) Announce reductions in the interest rate to the approved lenders prior to the effective date. This will allow them time to consider their positions so that the flow of mortgage money will not be temporarily interrupted.

(f) Tie the NHA interest rate more closely to the money market so that if the approved lenders have money to lend it is available under NHA.

(g) Revise CMHC appraisal techniques so that they reflect actual value. The book says that a house selling for $15,000 in a competitive market should sell for $1,250 down, cash to the first mortgage. In fact, this figure is closer to $2,000 in this area.

(h) Raise the guarantee figures to 95% of the first $15,000, and 70% of the next $5,000, and forbid the use of second mortgages on new sales.

(i) Extend NHA financing to existing housing. If there are legitimate reasons for not doing this, and I know of none, then there are several good reasons for doing so.

The last three suggestions made will have interlocking as well as independent effects on the industry. They would open up a new market of new home buyers. They would release the equities many people have in older homes which normally they have to take a beating on in the form of a second mortgage if they sell. This would instill greater buyer confidence, knowing that you can properly recover your equity when you want to sell. This would stabilize the residential real estate market as the NHA appraisal would be the last word in value. This would provide suitable older housing for young couples starting out at proper payment terms. This would cut down the foreclosure problems. This would release locked-in capital, some of which will be channelled into economic development.

(j) Eliminate the requirements for 1/2 acre lots for V.L.A. homes. This only encourages sprawl and/or forces V.L.A. buyers onto property with minimum or substandard services."...

"(4) Finally, if the government is going to continue to use the construction industry as an instrument of economic policy, please get outside consultation from professional builders and construction men before doing so. It is a complex industry, subject to all the problems of any manufacturing process. The government wouldn't consider meddling with the internal affairs of the automobile industry without first consulting with them. Why is the house building industry any different?"

Council Chamber,
City Hall,
London, Ontario.

MONDAY, Feb. 27, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators Carter, Croll (Joint Chairman), and McGrand—3.

For the House of Commons: Messrs. Boulanger, Irvine, Macdonald, McCutcheon, Morison, Saltsman and Whelan.—7.

The following were heard and questioned by members of the sub-committee:

Mrs. H. S. Tennant,
Consumers' Association of Canada (London)
871 Riverside Drive,
London, Ontario.
(Brief)

In attendance: Mrs. W. A. Shepherd, Mrs. A. Vogelsang, Mrs. J. Askew, Mrs. R. E. K. Pemberton.

Mr. F. P. Martin,
Catholic Family Centre,
United Community Services of Greater London,
London, Ontario.
(Brief)

In attendance: Mr. A. McEchearn, Director Family Services Bureau, London, Ontario.

Mrs. B. M. Jackson, President,
Kitchener—Waterloo C.A.C.,
145 Forest Hill Drive,
Kitchener, Ontario.
(Brief)

In attendance: Mrs. K. E. MacIntosh.

Mrs. G. E. Ball,
Mrs. Irma Reid,
Consumer Protest Shoppers Assoc. of London, and District,
1168 Portland Street,
London, Ontario.
(Brief)

In attendance: Mr. Andrew A. Chisholm,

Mrs. Eleanor Haddow,
Windsor C.A.C.,
12703 Riverside Drive,
Tecumseh, Ontario.
(Brief)

In attendance: Mrs. John Durrent, Mrs. W. H. McDowell, Mrs. W. P. Augustine.

At 12.30 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Mrs. Nelson Dearing,
Consumer-Producer Association of Windsor,
1870 Cadillac Street,
Windsor, Ontario.
(Brief)

In attendance: Mrs. Mary McCallum, Mrs. Rose Marie Warren, Mrs. Barbara Ellis, Mrs. Bernice Lasorda.

Mrs. L. J. Archibald,
Sarnia C.A.C.,
655, Thorncrest Road,
Sarnia, Ontario.
(Brief)

In attendance: Mr. Vern Crawford, Mr. R. Sexsmith.

Mr. Roland Parris,
London and District Labour Council,
133 Kent Street,
London, Ontario.
(Brief)

In attendance: Mr. Vern Crawford, Mr. R. Sexsmith.

Mrs. Susan Hammond,
Hamilton and District Consumers Protest Assoc.,
80 King Street East,
Dundas, Ontario.
(Brief)

In attendance: Mrs. Betty Bridgewood, Mrs. Peggy Roberson, Mrs. Alice Pow.

At 5.30 p.m. the sub-committee adjourned until tomorrow, Tuesday, February 28, 1967, in Toronto, Ontario.

Attest.

Marcel Boudreault,
Clerk of the Committee.

Submission by

LONDON ASSOCIATION, THE CONSUMERS' ASSOCIATION OF CANADA

We represent the London Association of the Consumers' Association of Canada. We are part of the National Association with objectives as described in their brief of December 6th, 1966. Our local organization consists of just under six hundred paid-up members, with representation on our executive of many participating organizations who support our objectives. Participating organizations include the Home Economics Association, the Women's Institute, the IODE, the United Christian Women, the Business and Professional Women, the University Women's Club, the Catholic Women's League, etc.

A. We support the findings and recommendations of the National Consumers' Association of Canada as contained in the aforementioned brief, and will comment on a few. We deplore merchandising practices which may be misleading such as too-elaborate packaging, too great a variety of package sizes, cents-off deals which tend to obscure a rise in price, reductions of package weight without a decrease in size. We ask that this committee consider censuring industries that employ questionable methods of merchandising.

B. We approve of the formation of a Department of Consumr Affairs such as has been recommended by CAC both at the Federal and Provincial levels, and by this committee. This Department might deal with the following matters:

1. The duty of the government to insure free competition (a degree of monopoly in the food industry has been revealed by this committee's investigations).

2. The formation of a complaints investigation service to look into consumer problems and reply to them, which would be of assistance to consumers and a source of information to the department itself. e.g. The London Association of CAC has received many complaints about appliance repairs. In one case a repair to a thermostat in an oven cost fifteen cents for a part plus two dollars labour charge. When it broke again the cost was thirty dollars for a new unit, plus labour, as the company no longer made the fifteen cent part. In another case, a small gear in a clock oven control could not be obtained; cost for a new unit would have been twenty-one dollars plus labour. A third case involved a solenoid switch in a clothes dryer; vibration damaged a small part; the first repair man charged only for labour to replace it, subsequent repairmen charged fourteeen dollars and eighteen dollars to replace the whole switch, as parts were not available. Other complaints have been about the high cost of car repairs. This affects car insurance rates. Since many complaints involve services, and this is an area where the consumer price index shows a great rise, some useful statistics might be compiled, and made available to the public.

3. The formation and/or support of regional debt counselling services such as that sponsored by the London CAC with the aim not only to help those in financial distress but also to be centres of general consumer information.

4. The review and amendment of existing consumer legislation; e.g., The Sale of Goods Act, the Food and Drug Act, various criminal code provisions such as those regarding advertising, the Combines Investigations Act, etc.

5. The protection of citizens from fraud and from health hazards by dealing with labelling and advertising regulations, pesticides, fraudulent claims such as those made in regard to "Deep Massage" machines and some hearing aids.

6. Education and prodding of the buying public to be good consumers.

C. We wish to enlarge on some of our views in this regard, as education of the consumer has been a continuing project of the London Association. Since 1951 we have arranged public meetings dealing with Meat Inspection, Poison Control, Medical Services, Water Pollution, Textiles, Credit Buying, Car Insurance, Advertising, Packaging, Children's Gifts, Toys, Consumer Economics, and a wide range of food and household products. The attendance at these extremely interesting and informative meetings has been disappointing; in line with the experience of nearly all similar organizations it is a case of preaching to the converted. We are not reaching the young householders. That there is a desperate necessity for information on consumer matters at all levels is evidenced by the experience of our members who speak to local groups. Questions from the floor invariably indicate an avid desire for information and a vast fund of misinformation. To listen to the "open line" type of radio program is to underline this conclusion. Considerable interest has also been expressed in the few radio and TV programs our group has had an opportunity to provide.

A course of twenty lectures launched by the local Board of Education's Continuing Education Department, covering money management, credit buying, food, clothing, cars, appliances, various services, etc., was a failure because of lack of registrants. We feel that the cost of $40.00 per couple was the main factor, as we know that with many the $3.00 fee to join CAC is a deterrent.

It is recognized that not only must a consumer have adequate information to help in his own buying, but also that if he learns basic economics so that he understands his role in the free enterprise system he is an asset to the country.

We are not going to discuss here the well-publicized lack of consumer education in the schools, as that is now receiving a great deal of attention across the country, but rather we will give our suggestions on how to reach the general consuming public.

We propose (1) a dramatic TV series presented regularly at a time when most husbands are home to watch, based on actual difficulties encountered by the uninformed in obtaining value for his inflated dollar. (2) a regular daytime radio program especially directed to women such as freely provided for the the farming community, dealing with problems relative to food preparation, household management, child welfare, sewing, and information as to where the many pertinent publications may be obtained. (3) A series of lectures on economics and legislation relevant to the cost of living broadcast on FM radio, again, *regularly*, so that interested people may hear the whole series.

These programs should be given wide publicity by professional means and by enlisting the help of organizations such as CAC, the Women's Institutes, Local Councils of Women, and farm and church groups, sending them advance literature and a schedule of events, so that people would not hear about the programs only after they are over, as is often the case with the excellent but sporadic consumer programs now produced.

Conclusion

We welcome the decision that this Joint Committee should investigate prices, and we are anxious to see their final report in order to get a true picture of the cost of living in Canada. We are aware of the possibility that they may find that the price of food is not out of line with the total cost of living, and that relief in cases of hardship must be provided by some other means than the control of food prices.

We are grateful for the opportunity to put before you our very decided opinions that the education of consumers will not only help each one individually but will also strengthen the economy, and that since a fully educated body of consumers will never be achieved, it is the duty of the government to protect them.

Thank you, Mr. Chairman.

Respectfully submitted,

London Association of the
Consumers' Association of Canada

Submission by

UNITED COMMUNITY SERVICES OF GREATER LONDON

A BRIEF

To: Joint Committee on Consumer Prices.

Date: February 27, 1967

Subject: Impact of increases in living costs on low income families—as seen by several London social agencies dealing with family problems.

Time did not permit this brief to be prepared as a formal submission of United Community Services.

Although specific, local statistical proof is lacking, experience in counselling families on a wide variety of problems indicates it is reasonable to assume that the families most affected by increases in living costs are those in low and marginal income groups viz. families with a low wage income and families dependent upon social assistance of one form or another. There is also considerable evidence that wages in marginal employment categories and rates of social assistance move upward in relation to increases in living costs more slowly than do wages and salaries in the higher brackets.

Rising costs having the greatest impact on the marginal and low income families are those related to shelter, food, clothing, education and health. While to date housing costs in the London area have not risen as sharply as those in many other Ontario communities there are many indications that the housing situation is getting worse and that the shelter cost curve is beginning to steepen rapidly. And whether a family is buying its own home, rents a house or an apartment from a commercial landlord, or occupies public housing the monthly bill for shelter—including heat, light and water—usually must be treated as top priority. The low income family, therefore, is impaled on the horns of a serious dilemma, the seriousness of which increases directly with the size of family and in an inverse ratio to the amount of income. To obtain anything approaching decent living accommodation means that insufficient funds will be left for other necessities such as food, clothing, school supplies and other incidental education costs, and for those items relating to health not covered by any form of insurance or public assistance—which to-day include many essential aspects of dental care. The alternative, and it is usually not a complete alternative, is for the family to occupy substandard housing.

As already indicated above some of the results of inadequate income, which steadily is becoming more inadequate due to increased costs of living, are very direct and easily observed. Among these results are:

1. Sub-standard housing with all its implication for lowering of family morale, lack of privacy for family members, poorer health, etc.;
2. Less food and/or food of poorer quality and variety, resulting often in an inadequate diet;
3. Less clothing, clothing of poorer quality and clothing which must be worn longer, often to dilapidation;
4. Difficulty in providing children with adequate school supplies and with money for the many incidentals, particularly at the secondary school level;
5. The almost insurmountable obstacles to any university education;

6. Inability to provide adequate preventive health measures, particularly preventive dental care for adults. Experience indicates that such measures are usually the first to be neglected as a result of the income price squeeze. In this connection it might be noted that for a low income family it costs approximately 3 per cent of a week's useable income just to take a child for treatment at a free clinic;
7. Inability to participate in almost any recreational activity when cost is a factor.

In addition these, and other, direct and easily observed results of increased costs there are other results, less direct and not so easily observed but none the less serious. Among these are:-

1. Whether a family is on a low wage income or on social assistance the father's traditional role as provider for his family is threatened and can be a destructive factor in his relations with his wife and children.

2. The inability of low income families (often aggravated by frequent evictions), the children's appearance due to poor clothing, the inability to participate in recreational activities can mean that:

(a) parents and children do not develop a strong feeling of being rooted somewhere where they belong or where other people care about them;

(b) any continuity of relationships between the children and neighbouring children becomes impossible;

(c) a feeling by the children of isolation at school;

(d) neighbourhood institutions and activities have little meaning for, or effect on, the family;

(e) the children may be acceptable only to other non-conforming groups in the area such as delinquent or pre-delinquent gangs.

3. Under financial stress parents are less able to be "giving", or generous, to their children. Things for children considered to be everyday needs in higher income families become, under these circumstances, unreasonable demands resulting, over a period, in family stress rather than in normal sympathetic parental response.

4. With increased costs low income families are more and more forced to look after only the most immediate and pressing needs and under such continued stress, any planning for long-range family goals such as education, or even limited size of the family, becomes an impossibility.

5. In spite of every effort low income families can very easily fall into serious debt through pressures to purchase no more frivolous items than food, clothing and basic household equipment or through unavoidable medical expense.

Prepared and presented by J. M. Anguish
Executive Director, United Community
Services with assistance from staff of
the Children's Aid Society, Family
Service Bureau and Catholic Family
Center.

A BRIEF

by the

KITCHENER-WATERLOO CONSUMERS' ASSOCIATION OF CANADA

to the

SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT. (Prices).

1. We appreciate the opportunity to appear before this committee. We are pleased with the committee's Interim Report dated December 20, 1966, and especially do we welcome the recommendation for a Federal Department of Consumer Affairs.

2. Kitchener-Waterloo Association has 300 members who receive the Canadian Consumer magazine, the Ontario Newsletter, and local communications. We implement policies of the National Consumers' Association of Canada, providing for consumers, information and counsel on consumer goods and services.

3. The purpose of this brief is to illustrate the fact that a Department of Consumer Affairs is needed to give a more powerful representation to the voice and work of local consumer groups. Additional ways and means of educating consumers are needed. e.g. TV, Press, and Radio consumer education programmes; increased aid to teachers; which are impossible because of CAC's lack of funds. More adequate research and advice is needed in order to answer consumer problems presented to local CAC.

4. The items listed in this brief are an example of the work that a local CAC organization can do to supplement and complement provincial and national levels of consumer affairs.

5. K-W CAC has been able to make a valuable contribution towards providing all consumers in the area with reliable information. We have enjoyed excellent public service co-operation with press, radio and television. e.g. for seven years, Mrs. K. E. MacIntosh, Ontario CAC President, has given a daily consumer information talk on Radio Station CKKW, Kitchener, Ont.

6. In November and December 1966, several members of our executive co-operated with Mr. Dan Fisher on his radio program "Opinion" to present a Housewives' Clinic, one day a week for six weeks. When other groups in other centres were out boycotting, we were preparing accurate information on nutrition and wise shopping practices which we hope helped our listeners to be better consumers. About 300 wrote for pamphlets we collected from the Departments of Health, Agriculture and Food, and from the Milk Foundation which station CKKW kindly sent out.

7. We hold open meetings about twice a year when we try to arrange a programme consumers will find interesting and educational. Topics for these meetings range from Consumer Credit, seat belts in cars, furniture design and construction to spices and Food Pricing. On March 2, 1967, Mr. John Lockwood, President of Lever Bros. Ltd. will discuss advertising and promotion for detergents. He will also comment on the margarine situation in Canada.

8. We receive many requests and speak to local groups, to tell them about the work of CAC. We take examples of packaging to show how to read labels—where the weight or size is, where the list of ingredients is, why it may not be there and what it means if it is. We have spoken to some Grade 12 Home Economics classes, to Women's Institute groups, to Church groups of many

denominations, and to Service Clubs. We co-operate with local agricultural groups, sometimes speaking to them, sometimes listening and learning from them. We have also talked to manufacturers and sales executives, when we have been able to have a frank and useful exchange of ideas. In co-operation with the Y.W.C.A. we have held discussions about drugs, funerals, teen-age spending etc.

9. We have sponsored tours to local industries and to the Canada Standards Association Laboratories.

10. We form the first link of a chain set up to deal with consumer problems. A consumer phoned to tell us about a $20.00 bathing suit which lost all its colour after one dip in a pool. Consultation with the retailer resulted in talks with the manufacturer about dyes and materials of bathing suits. We are aware that many bathing suits are still dyed with materials unsuitable to use in pools but some improvements have been made.

11. Since November, we have been pricing food stores every two weeks. We believe Kitchener and Waterloo have a unique situation regarding grocery retailing.

12. Within the past twenty years, Zehr's, Highway Market, Central Meat Market and Dutch Boy have developed, orginally as private family businesses. They thrived for a variety of socio-economic reasons. Some of these include the thrift of the local population, a rather strong "home-town" feeling, the "know-how" of the men who started the businesses, the co-operation of suppliers and wholesalers, and the size of the community which enables many people to shop wherever they wish if the incentive is strong enough. These stores have not all remained private businesses. In your earlier hearings it was established that Zehr's, now operating 11 stores, is part of the Weston-Loblaw empire. It is possible that some of the other stores may be involved financially in some way with other chains. It would be unfortunate if all successful private food retailers were eventually incorporated in one or two large empires, thus reducing effective competition.

13. We believe that these local stores give us good value for our money. Of the stores mentioned in paragraph 12, only Zehr's give trading stamps and we believe they are successful in spite of, rather than because of the stamps. We are told our food prices are 2-3% lower than in other areas. Our shopping conditions are reasonably good, though not perfect.

14. In most stores, it is not possible to see the price being rung up by the cashier while we unload our carts and there is not room to pile an average grocery order before the cash register. Store managers, have not been co-operative in changing this although a directive has gone out to A & P stores to remedy this situation. With part time help both marking prices and acting as cashiers it is unavoidable that mistakes will be made with to-day's rapidly changing prices, and the consumer should be given some chance of discovering these.

15. Many products come packaged in an unnecessary variety of sizes which must add to the merchandising cost, (consumers are not organized to resist any one size.) Processors and packagers could more easily agree on limiting these and cutting expenses. An exception to this would be, for example, the store-packaged meats which many stores think must be wrapped containing a uniform number of pork chops instead of some packages wrapped with varied numbers so that we could buy the number and weight we really want without having to wait for them to be repackaged.

16. We deplore the packaging practice of creating a larger package than necessary to capture more shelf space. Since this prevents a retailer from operating as efficiently as possible, he is in a strong position to refuse these products and prevent this.

17. The trend toward expensive packaging leaves householders and eventually municipalities with mammoth amounts of cardboard and glass as well as cans to be disposed of. It has been argued that this method is cheaper than the handling costs of reusable containers, but should we perhaps examine how long we can afford this prodigal use of our limited resources?

18. You have been told by some processors (e.g. Mr. G. D. Robinson, of Kellogg Co.) that the consumers' demands for more expensive products, using costlier ingredients, account for much of the increased cost of grocery products. It appears to us that a processor will often develop a new product, conduct some market research as to whether or not it will be marketable, and then spend large sums of money to advertise and create a superficial demand. If consumers were demanding a product, a simple statement of its availability would be all the advertising necessary.

19. Many good new products have been developed in recent years and we are grateful for the improvements they have made in our standard of living. We would, however, urge all manufacturers to develop a responsible attitude toward the development of new products so that they will serve a useful purpose. An example of the indiscriminate development of new products is, we believe, to be found in the proliferation of new cleaning compounds which have been put on the market in the last 5 years.

20. Much of the current consumer unrest and uncertainty appears to come from lack of information or misinformation about consumer rights and responsibilities. Federal, Provincial and Municipal legislation is administered under so many jurisdictions that consumers do not know what protective regulations are available or how to use them. A Department of Consumer Affairs could help maintain a better understanding between business, industry, and consumer.

21. Local consumers are dealing with forces in the economy that have powerful influence and resources. e.g. Voluntary CAC members are attempting to make formal and reasonable representations to have Trading Stamps abolished in Ontario. It remains to be seen how powerful our voice is, compared to the means and methods that are used to promote the fallacy of "something for nothing" gimmicks. Local consumer groups need help from a Department of Consumer Affairs.

BRIEF

Presented to

THE SPECIAL JOINT COMMITTEE OF
THE SENATE AND HOUSE OF COMMONS
ON CONSUMER CREDIT (Prices)

by the

CONSUMERS PROTEST SHOPPERS ASSOCIATION
OF LONDON AND DISTRICT

to

PROTEST AND FIGHT THE HIGH INCREASE
IN THE PRICE OF FOOD WITHIN
THE CITY OF LONDON AND DISTRICT

on

27 February 1967

THE
CONSUMERS PROTEST SHOPPERS
ASSOCIATION
LONDON AND DISTRICT
(CPAS L AND D)

Objective

To *Protest* and *Fight* the *High* Increase in the Price of Food in the City of London and District

Slogan

"GET MAD AND STAY MAD."

President

Mrs. Irma Reid
50 Susan Avenue
London, Ontario.

Secretary Treasurer

Mrs. Elaine Ball
1168 Portland Avenue,
London, Ontario

Vice-President

Mr. Andrew A. Chisholm
1520 North Vernon Avenue
London, Ontario

27 February 1967

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THE CONSUMERS PROTEST SHOPPERS ASSOCIATION LONDON AND DISTRICT

POPULATION ENCOMPASSED BY OUR ASSOCIATION

1. This brief represents the conclusions and recommendations of the more than 15,000 members of the CPSA L and D. It also includes a consensus of opinion of the remaining 50,000 Homeowners and Householders in the Federal Electoral Districts of London, Middlesex East, Middlesex West and Oxford, who buy the groceries for approximately 200,000 people. We have the endorsement of Mr. James G. Lind, M.P. Middlesex East and Mr. F. G. Stronach, The Mayor of London, and many other well known personages. A few of the Associations who have given us support are listed in Annex E.

2. There was a healthy participation by the CPSA L and D using the Association correspondence and telephone network system; "Open Line" Radio, The London Free Press (Editions, 3 and 4th of Feb. 1967 refer).

ORGANIZATION PARTICULARS OF OUR ASSOCIATION

3. Association particulars are further outlined in Annex "A" attached. Very briefly, our Association was organized on 13 Oct. 1966 as a result of highly incensed public opinion, brought about by the exorbitant increase in the price of food. It was decided to concentrate on food prices initially.

4. Mrs. Irma Reid was elected President and Mrs. Elaine Ball was elected Secretary Treasurer. Mr. Andrew Chisholm was appointed Vice President.

5. Two general and four executive meetings were held during October, November and December 1966. Policy was determined and the association members were informed of plans through the highly organized correspondence and telephone network. We were given fine assistance by John Dickens and the "Open Line" facilities of London Radio Station CFPL.

6. Passive boycotts were conducted. Circulars were prepared and distributed. Multitudinous telephone conversations took place between association members. Price comparison pro formae were distributed to our members with the understanding that current and past price comparisons would be inserted. The Pro Formae was then to be forwarded to respective Members of Parliament, that the Senate House Committee would be supplied with price comparison facts to aid them in their investigations. We were given encouragement from countless shoppers throughout our areas.

7. Examples of our circulars are attached as Annexes "B" and "C".

PREFACE

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

8. We can contribute little, to the fine accumulation of constructive information in the possession of the Committee now. We do however, officially submit recommendations, on behalf of the CPSA (L and D). We sincerely appreciate the opportunity to present them personally.

9. Conclusions, recommendations and our resolutions are recorded in detail in the chapters that follow.

CONCLUSION

1. There was an exorbitant increase in food prices during the first nine months of 1966. (Para 10)

2. Monopolistic and/or collusionary domination of the grocery supply chain. This is the main contributor to high costs, in our opinion. Question: Has "Crime" permeatted the food supply chain?? (Para 15)

3. Need for the establishment of a Department of Consumer Affairs. (Para 29)

4. Trading Stamps and like Premium Sales add to Grocery Costs. (Para 34)

5. There is misleading and/or downright dishonest advertising. Overexposure adds to exorbitant costs. (Para 36)

6. Overpacking—Confusing Labelling adds to exorbitants costs. (Para 42)

7. Continuation of the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices). (Para 46)

8. Institution of National Co-operative Groceterias could be the answer to the exorbitant increases in food prices. (Para 49)

9. Price Controls considered for implementation. (Para 51)

RECOMMENDATION

Food costs must remain at minimum, and there must be no more exorbitant increases.

Enforcement of present legislation as necessary by Director of Investigation and Research.

Department or Sub-Department must be set up in Ottawa with "Grass Roots" Agencies in larger cities/areas, who would co-ordinate voluntary associations such as ours, accept, sort information and give it the widest publicity.

Legislation to abolish.

Legislation to limit advertising expenditures, and enforcement against dishonest advertising.

Legislative guidelines to curtail unreasonable packaging.

The Committee must continue to function until a replacement forum is operating capably.

Legislation now to provide groundwork for financial and organizational aid to National Co-operative Chains, in case of lack of success with previous recommendations.

Origination of a Prices Review Board, in case of lack of success with previous recommendations.

CONCLUSIONS—RECOMMENDATIONS

THERE WAS AN EXORBITANT INCREASE IN FOOD PRICES IN 1966

10. During the period August 1965 to August 1966, the consumer price index rose 3.9 per cent. The food index itself however rose 7.5 per cent, or twice as much as the index itself. Food prices have generally stabilized since October 1966, but are on the increase again, notwithstanding what the price index shows.

11. The Canadian Chain Supermarket profit margin is between 80 per cent and 100 per cent higher than that of the U.S.A. Canadian Big Five Chains operate with a profit margin between 1.88 per cent and 2.56 per cent. U.S.A. Chains operate with a profit margin between 1 per cent and 1.5 per cent.

12. Our Association recommends that Canadian Chains must operate with a lower profit margin.

13. Voluntary Associations such as ours must continue to function locally and nationally, to protest and fight against higher increases in food prices. We must be organized and ready to provide assistance to the Consumer when assistance is needed.

14. The 1966 increase in costs, and the certainty that another round of price increases is being contemplated for the future, compels our association to recommend immediate action on the recommendations that follow.

MONOPOLISTIC AND/OR COLLUSIONARY DOMINATION OF THE FOOD SUPPLY CHAIN, FROM MANUFACTURER/FARMER TO THE RETAILER TO THE CONSUMER

15. Five great corporate food chains (A & P, Loblaws, Dominion Stores, Steinberg's, Safeway) control more than 70-75 per cent of the outlets in urban areas and completely monopolize the business. Such a powerful group give the smaller retailer little chance of survival.

16. The detergent and soap industry is controlled by three giants (Colgate-Palmolive, Lever Brothers, Procter and Gamble) which supply 85-90 per cent of the concerned products.

17. The colossal Weston Empire which has had its gigantic concentration of market power publicized *so recently and so suddenly,* is pronouncedly suspect.

18. Domination of the food supply chain is clearly evident.

19. Our Association concludes that this ever-narrowing control by the big monopolies, from Farmer/Manufacturer to Retailer to Consumer *is the main cause of the high food costs.*

20. The Director of the Combines Investigation Act, Registrar General of Canada, has the responsibility for:

(a) Maintaining free and open competition in a system of free enterprise and seeking to eliminate certain practices in restraint of trade that would serve to prevent the nations economic resources from being used most effectively *for the advantage of all citizens.*

(b) Dissolution of combinations that would prevent or lessen, unduly, competition in the production, manufacturer, purchase, barter, sale, storage, rental, transportation, or supply of an article.

(c) Making it an offence for participation in a monopoly or merger, that has, or is likely to have, the effect of lessening competition to the detriment or against the interest of the public.

21. The courts, in addition to imposing punishment for a contravention of legislation, may make an order directing dissolution of a merger or monopoly.

22. The increasing significance of the big food chains in retail distribution is illustrated by the fact that food chains sales rose from 6 per cent of total retail sales in 1952, or $697 million, to about 10 per cent in 1965, or $2064 million, reflecting the progressive displacement of other retail food outlets by the chain organizations.

23. Such Big Chains benefit in that construction of new stores can be facilitated by lease-back arrangements. These allow the chains to build new units to their own specifications, while permitting them to contract out the burden of long-term investments in real estate by selling the premises to a financial institution and then leasing them back. It is a certainty that the smaller retailer has no chance of participation in such an arrangement.

24. In 1965 a total of 1780 Food Chain Stores did $2064 million's worth of business. The gross national product for 1965 totalled $51,996 millions. Big Chains food sales amounted to 4 per cent of the gross national product.

25. We quote a paragraph from a James Richardson and Sons circular, dated 15 Nov 1966, on The Food Chain Industry. Quote "It should be noted that in the short space of time June 1954 to 1965, food chains increased their market share from about 8 per cent of total grocery and combination sales to 47 per cent, while the relative share in total retail food sales rose from 27 per cent to 34 per cent. The progressive and efficient *capture* of an increasing share of the retail food trade by the industry is well illustrated by the fact that whenever a super market is opened, existing small grocery stores are either forced out of operation or continue to operate at a greatly reduced sales volume." End of quote.

26. We, the CPSA L and D. conclude that the Grocery Supply and Food Chain is completely monopolized by merger, or a series of mergers, that has strangled the corner grocer completely out of existence. It will also strangle the small drug stores, hardware stores and other stores completely out of existence if allowed to expand. It is not an impossiblity that the complete Canadian retail market could be *captured* and controlled by a Big Five Chain, or equivalent. This is bound to cost us, the consumer, more and more money.

27. In order to abolish this possibility, we recommend that the Director of the Combines Investigation Bureau, Registrar General of Canada, present statistics to expose this monopolistic tendency, with recommendations to eliminate/restrict expansion. We recommend that the penalties of the Act be greatly increased in order that the act cannot be abused to the detriment of the consumer.

CONCLUSIONS—RECOMMENDATIONS

NEED FOR THE ESTABLISHMENT OF A DEPARTMENT OF CONSUMER AFFAIRS

29. The average consumer, exposed to the sophisticated, organized, high-pressure, merchandising tactics of the million dollar chain establishments, has no chance to keep his basic food costs down, unless he gets sound advice and aid, from an agency *who has only the interests of the consumer at heart.* Prices are manipulated to suit the Big Five and this is invariably an overall increase in the price of groceries.

30. Voluntary organizations such as the CPSA L and D, and the Consumers Association of Canada, are woefully inadequate *financially* and otherwise to *continually* withstand the tremendous resources of big business.

31. A department, other than a voluntary department, must be set up to protect the consumer.

32. It is recommended that a Department of Consumer Affairs be originated, either as a new department, or a sub-department within an existing government branch. There would be a National Headquarters in Ottawa with a network of "grass roots" branches in outlying cities/areas. This Agency would "Advertise" on behalf of the consumer, to offset the advertising of the Big Chains.

33. Such a Department would work with our voluntary associations, accept our complaints/comments/suggestions/recommendations and have the financial backing to publicize them, where applicable. To repeat, the widest publicity through the use of the press, radio and television, informing of abuse or violation, would be of invaluable help in the protection of the consumer, and stabilization of costs.

TRADING STAMPS AND LIKE PREMIUM SALES

34. Trading Stamps, "gimmicks," and like premium sales by the big retail food outlets add substantially to the cost of groceries. To think otherwise would be to think naive. Costs would be reduced at least 2 per cent to 4 per cent with the national abolishment of such merchandising.

35. It is recommended that legislation be originated immediately to abolish such merchandising. This would enable the smaller grocetaria to compete. It cannot compete with the Big Chain particularly, if it cannot participate in trading stamps and like sells.

THERE IS MISLEADING AND/OR DISHONEST ADVERTISING-OVER EXPOSURE TO ADVERTISING

36. A total of $800 million is spent on advertising in Canada. A total of $200 million of this is spent on grocery advertising and promotion. Kelloggs Limited state that advertising promotion and incentives make up more than .17c of every dollar.

37. Good common sense will dictate that advertising costs add substantially to the costs of groceries. Our association knows that your committee has in its possession, or will have, sufficient evidence to prove this.

38. Present laws permit advertising expenditures as a deduction, before the calculation of profits, for taxation purposes. The result is that for many companies, and certainly the Big Chains, excessive advertising costs assist in avoidance of Corporation Income Tax.

39. The small groceterias cannot compete with the advertising of the Big Chains.

40. We conclude that we are completely inundated and overexposed to radio, television and press advertising, and it is costing us food money.

41. We recommend that there must be strengthened legislation to compel truth in advertising and that advertising must be reduced to a sensible level. The law must be changed in order that advertising costs will not be income tax deductible.

OVER PACKAGING-CONFUSING LABELLINGS

42. We conclude that manufacturers and food retailers purposely introduce confusion into packaging and labelling in order to make it difficult, or impossible, for the average consumer to compare prices.

43. Labellings such as Jumbo, Giant, King-size, Super, Regular, Family Size, Economy Size add to the confusion. Consumers cannot compare. There is no need for the container to be manufactured to a fractional quantity size. This is done purposely to confuse the average consumer.

44. We recommend that packaging guidelines must be set and that standards and grades be extended to cover all commonly purchased foods. Manufacturers of consumer products must be required to modify packaging techniques so that weights or contents will be exposed in terms which will eliminate the difficulty of calculating and comparing prices.

45. We have attached some suggested standards as Annex "D".

CONTINUATION OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

46. We conclude that your Committee has rendered invaluable assistance to the consumer, and his representative associations for which we are thankful. We could not have survived but for the encouragement emanating from your "Hearings".

47. Discontinuance will cause food prices to soar indiscriminately again, which is the certain road to starvation for the lower income groups.

48. We recommend that you continue to act indefinitely, or until a suitable department is operating efficiently.

NATIONAL CO-OPERATIVE GROCETERIAS

49. We conclude that origination/expansion of a chain of National Co-operative Groceterias would help in combatting the Big Five, providing such a chain were given financial aid, and organizational assistance.

50. We recommend that the Government be prepared to offer such financial, and organizational support, to enable origination of a National Co-operative Groceteria, but only as a last resort and if other recommendations fail. Legislation should however, be prepared.

PRICE CONTROLS

51. Price controls in existence during world War II, and their "Black Market" abuses are well remembered. The bureaucracy necessary to implement and administer such price controls would be costly and burdensome.

52. There is no doubt that Price Control Boards, which would force the public review of price increases would be beneficial. A company desiring to raise its prices would have to appear before such a Board, to prove that the increases were justified.

53. We recommend that institution of Price Controls and Prices Review Boards would be practical only as a last resort, and if other recommendations are unsuccessful. Suitable legislation should, however, be prepared.

ANALOGUE

54. One must eat to live. Food is the prime necessity of good health. Big companies must NOT be permitted to continue to make super profits out of its food processings and distribution, and to literally "take food out of the mouths of babes".

55. Hunger is a reality *now* with the lower income groups. Hunger is a reality *now* with certain old age pensioners.

56. Expedient action on our recommendations will permit our tremendous food resources to be economically and fairly sold to benefit *all* Canadians.

THE RESOLUTION OF OUR ASSOCIATION

57. We, the Consumers Protest Shoppers Association of London and District present our recommendations to the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices).

58. We demand that there be implementation *now* in order that the people in this wonderful country of ours, both rich, *and poor*, can live honourably and respectably.

59. We ask for your full cooperation.

Footnote

60. Statistics used were from the Dominion Bureau of Statistics, in majority of cases. A number were extracted from a James Richardson & Sons Circular dated 15 Nov. 1966, titled The Food Chain Industry.

APPENDIX A

CONSUMERS PROTEST SHOPPERS ASSOCIATION LONDON AND DISTRICT

ORGANIZATION PARTICULARS

Our association had the first general meeting on October 13, 1966. At this meeting we adopted the name—Consumers Protest Shoppers Association—London and District and our slogan to "Get Mad and Stay Mad".

From the open discussion at this meeting many questions were asked such as "How can the retailers afford to "drop" prices so radically on "specials" if their "normal" charges are legitimately so high and on the increase. "Standardization" of weights and measures and the possibility of "Combines" being in control of marketing practices and the seeming lack of Government interest and intervention were all topics of warm discussion.

The general consensus of opinion was that shoppers were "being taken for a ride". It was decided to begin the protest by boycotting for 12 shopping days (1) All perishable goods at Produce Counters (2) Bacon (3) Name Brand Tea, and to support in every way possible the Senate Investigation Committee presently convening in Ottawa to study Consumer Prices.

An Executive was elected:

President, Mrs. Irma Reid

Vice-Pres., Mr. A. A. Chisholm

Secretary, Mrs. W. Coppinger (since resigned)

Treasurer, Mrs. Elaine Ball

This general meeting was followed by a number of executive meetings.

We met again November 10, 1966. In the interim another boycott went into effect against wrapped meats (members were urged to shop at the local 'butcher shop'. There was a boycott set up against sugar containing desserts such as pudding powders, gelatine and cake mixes. These were too expensive. The members were most vigorous in protesting "gimmicks" and "give-aways". These were to be boycotted.

During the interim, letters were written to Manufacturing Companies regarding the increase in price paid by the Consumer. Many telephone calls were made to Wholesalers, Food-Brokers, Bottling Companies, and Food Manufacturers i.e. Kelloggs.

The picture emerged that none of these parties claimed responsibility for the increasing costs in food and household commodities.

Form Letters were distributed to our members for furtherance to our Members of Parliament in Ottawa to acquaint them with our food price findings and the price increase at the Consumer level.

A number of executive meetings were subsequently arranged including those concerned with the preparation of a brief for a visiting Joint House Senate Committee.

APPENDIX B

FOR THE WOMEN AND MEN OF THE CONSUMER PROTEST SHOPPERS OF LONDON AND DISTRICT

1. Address and mail this completed letter to your Member of Parliament in Ottawa. It is not necessary to place a stamp on your envelope while Parliament is in Session. Just collect the information, address an envelope and mail it *NOW*.

2. Your letter, along with our boycott will help to bring your food costs down.

3. You must DO IT *NOW*.

.....

Print Name and Address

Oct/Nov 1966

TO: Mr. James G. Lind, M.P.
Middlesex East
House of Commons
Ottawa, Ont.

Mr. William H. A. Thomas, M.P.
Middlesex West
House of Commons
Ottawa, Ont.

Mr. Jack A. Irvine, M.P.
London
House of Commons
Ottawa, Ont.

Mr. W. B. Nesbitt, M.P.
Oxford
House of Commons
Ottawa, Ont.

DEAR MR.

As a member of the Consumer Protest Shoppers Group of London and District, I am mad at the exhorbitant increase in the cost of groceries and commodities. In my opinion large supermarkets, or wholesalers, are raising their prices beyond the point of r eason. I give you two examples of such price increases with an earlier and a current cost. There are many other similar examples.

I purchased_____ for_____
Brand, Item and ounces — Cost

from_____ on_____
Groceteria and Address — Date

The price has now risen to_____
Cost

I purchased_____ for_____
Brand, Item and ounces — Cost

from_____ on_____
Groceteria and Address — Date

The price has now risen to_____
Cost

This is very important to me. The prices of food and commodities are *too high*. Our motto is "TO GET MAD AND STAY MAD" until prices stabilize. As our representative in Ottawa kindly sponsor our worthy cause and inform the Parliamentary Committee on Food Costs, or help us otherwise.

Yours very truly,

_____
Signature

APPENDIX C

CONSUMERS PROTEST SHOPPERS ASSOCIATION

NOVEMBER 1966

WHY BOYCOTT??

Why it's mostly because of the MEAT!

SHOPPERS OF LONDON AND DISTRICT

Your help in continuing to fight for FAIR FOOD PRICES is effective. PRICES HAVE DROPPED—But not enough!

To be really effective, YOUR continued support is needed. WE'RE MOVING FORWARD WITH FURTHER **BOYCOTTS**

WILL YOU JOIN US?

ON RECEIPT OF THIS COMMUNICATION THE BOYCOTT WILL BE ON—

BOYCOTT NUMBER ONE

PRODUCE COUNTERS
NAME BRAND TEAS
BACON
PACKAGED MEATS

BOYCOTT NUMBER TWO

ALL SUGAR CONTAINING GELATIN DESSERTS
PUDDING POWDERS AND CAKE MIXES

BOYCOTT NUMBER THREE

ALL PACKAGES CONTAINING GIFTS GIMMICKS
OR GIVE-AWAYS

Many soaps and detergents, and packaged cereals are using these

---

MAY WE SUGGEST—Patronize your INDEPENDENT grocer or butcher, as much as possible. Look in the Yellow pages of your phone book (pages 61-62)

WE BELIEVE THE FOLLOWING TO BE FAIR PRICES

Turkey 39-42¢ — Butter 59¢ — Bacon 59¢ and Sugar 7¢

Why not join the over 15,000 Boycotters in London and District. Lend your weight to their efforts and our combined efforts will assist the Government in their current Investigations into High Food Prices.

Your efforts will be rewarded in the Christmas Shopping you do. Ask your butcher about the price of that turkey and all the trimmings. Make it known that you will not be a Target for "Whatever the Traffic will Bear".

BE A CAREFUL SHOPPER
BE A PROTEST SHOPPER

THE PROTEST SHOPPERS ASSOCIATION OF LONDON AND DISTRICT.

APPENDIX D

SUGGESTED PACKAGING AND LABELLING STANDARDS/REQUIREMENTS

1. The sizes of laundry soap and detergents be standardized, at 1 lb. 3 lb., & 5 lb.

2. The sizes of canned fruit and vegetables, be standardized at 10 oz., 15 oz., and 20 oz.

3. The quality of canned fruits and vegetables be limited to Standard and Choice.

4. The sizes of all cookies, crackers and biscuits (plain & fancy) be standardized, at ½ lb., 1 lb. and 2 lb.

5. The sizes of breakfast cereals be standardized at ½ lb., and 1 lb., and ¾ lb.

6. Sizes of toothpaste be standardized, at 2 oz., 4 oz., and 6 oz. and that the practice of sizing them by grams be forbidden.

7. Meat be packaged without cardboard so that it is easily discernible if there really is 100 per cent "meat in the meat" and not 20 per cent fat, bone and gristle hidden on the bottom.

8. Headspace on all packages be eliminated especially boxed packages and candy bars so that the size of the package truly represents the size of its contents.

9. All products be limited to 3 standardized sizes corresponding to small, medium and large.

10. When and if Canada adopts the metric system of weights and measures, equivalent standardized sizes be adopted.

11. Weights and measures be printed on the front label of all products in letters one half inch high.

12. Head office address of the manufacturer or processor be printed on the front label.

APPENDIX E

London Labor Council
National Brewery Workers Union Loc No. 1
International Chemical Workers Union
U.A.W. Local 27
United Steelworkers of America Loc 4133
Bookbinders Union (Loc 226) and Bindery Women
International Molders and Allied Workers Union Loc 49
United Electrical Workers Union National Level
Labourers International Union of North America Loc 1059
Additional Like Associations

SUBMISSION

to the

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT AND FOOD PRICES

prepared by the

WINDSOR ASSOCIATION
CONSUMERS' ASSOCIATION OF CANADA

February 27, 1967

TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT AND FOOD PRICES.

1. The organization and purposes of the Consumers' Association of Canada have been fully set forth in the submission made by the National Association to this Committee, date December 6, 1966.

2. The Windsor Association of CAC wishes to add to this the fact that there are in Windsor twenty-three participating women's organizations, each of which has appointed a Liaison representative to the Windsor Association. These Liaison representatives thus disseminate consumer information to a number of women in the Windsor area far in excess of the actual membership figures of the Windsor Association (175).

3. The Windsor Association has taken direct action to deal with local problems. (A) The Windsor Association pressed for adequate meat inspection, which resulted in the enactment by the City of Windsor in September 1958 of an excellent By-law governing the inspection and storage of meat. A similar By-law has since been enacted by most of the municipalities in the County of Essex. (B) In the fall of 1958 the Windsor Association worked with the Board of Health in the preparation of a new By-law to license, regulate and govern milk vendors. The recommendations made by the Windsor Association were incorporated in the By-law as enacted.

4. As long ago as 1957 the Windsor Association presented a panel discussion on instalment buying and consumer credit, and has since that time supported legislation designed to correct abuses in those areas. As a part of its program to bring these matters to the attention of the public it invited Senator Croll to speak at an open meeting in 1965, an invitation which unfortunately he was not able to accept.

5. The Windsor Association has presented many other programs and assisted in other local matters, but has selected the above instances as being pertinent to the work of this Committee. CAC prefers discriminating buying to mass boycotts, and endeavours to assist consumers in becoming more discriminating. To this end on October 22, 1966, a Fabrics Fair was held by Windsor CAC, stressing the fibre content, care and handling of the various fabrics available today. This was attended by approximately 6,000 persons on that one day.

6. The Windsor Association fully endorses the submission of the National Association of CAC to this Committee and strongly supports the recommendations made therein which, very briefly, are as follows. (a) that the Government act to ensure that the burden of inflation is not permitted to fall in a highly discriminatory fashion on particular groups in the economy, and that the benefits

of prosperity which normally accompany pressures on prices should be enjoyed by all Canadians; (b) that a Federal Department of Consumer Affairs be established.

7. Reference is made to the recent submission of the Ontario Association of CAC and nineteen other Provincial organization to the Minister of Justice and the Attorney General of Ontario, at which time the Ontario Association acted as spokesman for the consumers of Ontario. This submission requested that the use of trading stamps and similar promotional schemes be discontinued throughout the Province; it presented substantial evidence that trading stamps and other merchandising gimmicks have contributed to the rise in food costs; it also incorporated a suggestion that the time is now ripe for the formation of a Department of Consumer Affairs in the Ontario Government. The Windsor Association supports this submission.

8. The Ontario Association of CAC also made a submission, endorsed by seven other Provincial organizations, on broadening the powers and scope of Ontario Bill 100, an Act to establish a Consumer Protective Bureau, which will be responsible for the administration of the associated Bill 101, The Consumer Protection Act, 1966. The submission requested a consumer office, responsible for all consumer problems, to be constituted under the present legislation, and suggested that eventually the need for a Provincial Department of Consumer Affairs will naturally evolve. The Windsor Association supports this submission.

9. The Windsor Association does not wish to simply reiterate the detailed listing of merchandising and advertising abuses that have been dealt with exhaustively in other submissions, but will endeavour to present a limited number of abuses and to make specific recommendations or suggestions with regard thereto.

10. The Windsor Association feels that there is discrimination against the low income groups in the imposition of a Federal tax in the amount of 12 per cent on margarine, which is the only staple food so taxed, and that this tax which has served as a measure of protection for the dairy industry is no longer warranted, and recommends that it be removed.

11. The Windsor Association protests the distribution of unsolicited credit cards through the mails, and urges that it be made mandatory that credit cards be issued only when proper application has been made therefor.

12. The Windsor Association recommends that labels be required to give complete information with regard to contents of all packaged and canned foods, and further recommends that the label have clearly imprinted thereon the name and address of the manufacturer and/or processor.

13. The Windsor Association complains specifically of packaging, in that packages are frequently too elaborate, hence expensive, of all shapes and sizes; contents come in a number of fractions of standard weights; often they contain premiums or bonuses. The Windsor Association further complains of advertising and promotional practices which are expensive and frequently misleading; and further complains of promotional devices, such as contests, coupons, give-aways, and so on, which add to costs and lead to increased prices; and further complains of confusion in naming, labelling and grading of products. It is felt that these matters can only be dealt with through legislation, and the Windsor Association recommends that in order to solve the complications arising out of conflict of jurisdiction duplicate or concurrent legislation dealing with these matters be enacted by the Federal and the Provincial Governments.

14. The Windsor Association feels that there surely is no one answer to the problems of harried consumers. Mention has been made briefly of some ways in which they could be helped, and it is recognized that a great many suggestions

have been placed before this Committee. These have already borne some good results in the attitudes of shoppers. However, part of the answer is an "informed consumer" and this is an area of particular concern to CAC. Its concern goes beyond the field of food prices to costs of housing, credit, furnishings, textiles and clothing, drugs, services, automobiles and taxes.

It has been said that more attention is being paid to *How to make money* than to *how to spend money*, and more education on proper spending would seem to be of paramount importance. CAC realizes that here it is stepping into what is primarily a Provincial field, but in this day and age, there are few areas of exclusive concern. More emphasis on economics in the schools at all levels and more and better continuing education for adults in proper nutrition, budgeting, values, and careful consumer buying in all areas would play an important part in ensuring that the family income is wisely spent. We strongly recommend that such education be provided.

15. The Windsor Association of CAC is most grateful for the opportunity to appear before this Committee, and wishes to assure the Committee of its support of the very fine recommendations that have been made to date.

All of which is respectfully submitted.

Windsor Association,
Consumers' Association of Canada.

February 27, 1967.

BRIEF

Presented to

The Sub-Committee of the

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

submitted by

CONSUMER-PRODUCER ASSOCIATION

and

WOMEN'S AUXILIARY 345 to LOCAL 444

UNITED AUTO WORKERS, WINDSOR

February 27, 1967

LONDON

The Consumer-Producer Association represents a large cross section of our city. Our executive members are: Mrs. Jean Dearing, President, Mrs. Bernice LaSorda, Vice-President, Mrs. Lenora Desko, Secretary, Mrs. MaryLou Hamelin, Treasurer, Mrs. Mary McCallum, Mrs. Barbara Ellis and Mrs. Rose Marie Warren. We have been endorsed by many prominent citizens and organizations in our community. Our main concern is maintaining and improving the living standards of all Canadians. We are affiliated with the Canadian Consumer Protest Association.

We welcome this opportunity of expressing our views. We find the task rather difficult because of our own limitations and there have been so many fine briefs presented to you on behalf of the Canadian consumer.

Since we all must eat, we owe a great deal to our farmers for providing the necessary food for us. We will gain nothing as consumers if it is to be at their expense. Farmers tell us that they could receive more for their produce, we could pay less and the supermarkets could still receive a fair return for their investment. We concur with this.

At our first meeting last fall the farmers told us that in 1961 the agricultural population in Canada was only 480,000 and that since then 15,000 farmers a year have stopped farming. Our observation on this is that we have truly become the hewers of wood and drawers of water, if in this rich land of ours we can not make farming a more attractive profession than these figures would seem to indicate.

We were also shown in our meetings last fall the actual prices that the farmer gets for his produce. One example was a head of lettuce for which he received 5 cents and we were paying 35 cents and 40 cents in the supermarkets. We recommend a further analysis of the crisis in Canadian agriculture.

In the *Star Weekly* of December 10, 1966, Mr. Claude Jodoin, President of the Canadian Labour Congress said in part, "We want to see a reasonable, not a one-sided advance in the Canadian economy. In the period between 1961 and 1965 profits went up 65 per cent while wages went up only 16 per cent; the difference is just too big."

We feel very strongly that this quotation helps to explain the anger of the Canadian Consumer.

In our area we are constantly made aware of the difference in the cost of living in Detroit and Windsor through the advertising on the radio, television

and press. We were asked by many people to mention to this committee that there is such a big difference in the cost of food, drugs, cleaning materials such as soaps, toothpaste, appliances and other articles too numerous to mention here. This does not make us feel any better about the whole situation. Whenever these questions are raised the answers heard most often are that our rate of productivity isn't as high and that we don't have the technological 'know how'. Is this supposed to mean that we are not as smart as or lazier than our American cousins? We have never thought that we were. Now we may have some proof for this. In the *Windsor Star* of January 25, 1967, Dr. Rudolf Helling, Head of the University of Windsor's Department of Sociology and Anthropology, says that there are more Canadians living in the City of Detroit than all of Essex County. "There are," he said, "more than 270,000 Canadians residing in Detroit. You could say it is one of the largest Canadian cities."

Another subject we were asked to mention. Has it become a crime or a 'square' idea in Canada today to want to put aside some money for our old age, so that we may enjoy some of the refinements of life when we retire?

For the same reason is it wrong to be worried about how we are going to save for our children's higher education which is so necessary if Canada is going to keep up with the world today?

We suggest that this along with other factors are very good reasons for us to be concerned with the inroads being made on our dollars. Especially that portion that is spent on food, housing, taxes and medicine.

We note with interest that there has been a Royal Commission on Taxation. We are hopeful that there may be some relief for us as taxpayers. Again to compare with our American cousins, they can deduct interest paid on their mortgage, the interest paid on car payments, clothing, applicances or anything else bought on the installment plan. They can deduct real estate taxes (*Detroit Free Press,* February 19, 1967). It is shocking to read that Canada took 15 million dollars in taxes from sick Canadians. (*Windsor Star,* January 24, 1967).

We recommend some relief from taxation and removal of the 12 per cent sales tax on drugs.

So much as been printed and spoken about the deplorable housing situation in Canada today, that if words were bricks, the housing crisis would no longer exist.

The Ontario Housing Corporation Windsor survey, which found house prices had jumped by about 11 per cent since 1965, noted that almost 60 per cent of Windsor households had incomes under $6,000 a year and 72 per cent were below $7,000. And, Windsor, it commented has the third highest average manufacturing wage in Canada at $107.74 a week.

According to the OHC officials a family with two children earning a gross income of $7,500 a year can reasonably afford to buy a house costing in the $17,000 to $18,000 range. New housing adequate to accommodate such a family does not exist in places such as Toronto or Windsor. And the figures more often mentioned are $22,000 to $26,000. (*Windsor Star* October 18, 1966, Bill Prager).

Because of this situation and the growing problems that our cities face, such as air and water pollution, which affects everytning far beyond the city, and the money it will cost we recommend that there should be a Federal Department of Urban Affairs.

We were pleased to learn that your committee had recommended a department of Consumer Affairs in your interim report.

We recommend that there be a Price Review Board composed of a cross section of Canadians. When sugar went sky high about four years ago items that

contained sugar immediately increased with the price of sugar cited as being responsible. These articles never went down in price after the sugar prices lowered.

We welcome any help in consumer education that is or can be made available. But it must be stated that we receive a great deal of help in this line from our trade union, credit union, co-operative, and Canadian Association of Consumer's publications, etc.

On the question of advertising and its effectiveness. We feel that far too much of our money is being wasted. It is bad enough to be told on television all the time at a fantastic cost per minute, that we are not doing our job properly and efficiently if we don't give our husbands and children everything they may desire, cater to their tastes no matter what condition our budgets happen to be in. No that isn't enough, now we are supposed to get complexes if we don't do the same thing for dogs and cats! This has its humorous side but is not so laughable when we stop to think how many people go to bed hungry in the world every night. Or if we stop to wonder how our senior citizens, handicapped, pensioners, mothers supporting families on less than $60 a week or anyone on a fixed income meets these ever increasing costs.

If advertisers, especially those advertising products that have been well known for many years would spend some of this money in more constructive ways, they might regain some of our esteem.

We have over 300 signatures on copies of a letter sent to your committee.

In conclusion our main suggestions are:

1. A further analysis of the problem of Canadian Agriculture.
2. Some relief from taxation especially in the areas of duplication.
3. Removal of the 12 per cent sales tax on medicine.
4. A Federal Department of Urban Affairs.
5. Weights and sizes be standarized by law.
6. Trading stamps, promotional 'gimmicks' as cents off, bingo, and horse race games, or anything of this nature which adds to cost be prohibited by law.
7. Price Review Board composed of a cross section of Canadians.

The obligation is upon us as Canadian consumers to respectfully and gravely state that the first and constant duty of the Government of Canada must be in the *interests of the people* of Canada and not the few who control so much in the way of giant monopolies.

NOVEMBER 14, 1966.

Senate-Commons Committee
on living costs
House of Commons
Ottawa, Ontario

Dear Sirs:

Since it is generally agreed that a mathematician would need a slide rule to estimate the cost per pound of some articles for sale in the stores today, we would like to see sizes and weights standardized by law.

Since it has been suggested to your committee that shoppers like the stamps, bingos, horse races and other "gimmicks", we would like to point out that we have found that people don't like them, not only because they know they are paying for them but because of the time they waste. Many have raised the question as to how the stores can get away with the lotteries, since we understand they are against the law.

It has been suggested to your committee that packaging has increased the cost of food, yet basic food items such as milk, bread, butter and meat sold over the counter are not wrapped any differently than they were over 30 years ago. The farmers say they cost less to produce, yet these four food items have been increasing all the time.

We urge your committee to continue its investigation until we get some better answers than we have read in the press so far.

Yours truly

CONSUMER-PRODUCER ASSOCIATION

(Mrs.) Jean Dearing, President
1870 Cadillac St., Windsor
(Mrs.) Lenora Desko, Secretary
1468 François, Windsor

Submission

by the

CONSUMERS' ASSOCIATION OF CANADA (SARNIA)

to the

SPECIAL JOINT COMMITTEE OF THE SENATE
AND THE HOUSE OF COMMONS

on

CONSUMER CREDIT (Prices),

on February 27th 1967.

Mr. Chairman and members of the Committee.

On behalf of the members of the Consumers' Association of Canada (Sarnia) we wish to thank you for the opportunity to present this brief on behalf of our members. As a local association of the National Consumers' Association of Canada we subscribe to and support the aims and objectives of our National Association, and we support the brief, presented to your Committee on December 6th, by our Association.

We have followed with interest the proceedings of your Committee, as reported in the press, and we wish to extend to the members of your Committee our congratulations on your Interim Report, tabled in Parliament on December 20th. We hope that your recommendations, especially that for a Department of Consumer Affairs in the Federal Government will be implemented by the Federal Government without delay. We hope that, during our discussion, you will indicate to us any measures we might take to bring about this implementation.

Department of Consumer Affairs

We consider the establishment of a Department of Consumer Affairs to be essential for the protection of consumers. At the present time there is no Cabinet Minister whose responsibility is to speak for consumers in discussion of Government policy, in matters of great or small importance. In the former category we would place an item such as the imposition of tariffs on basic drugs, practically none of which are produced in Canada. We do not understand why consumers who are ill should be penalized by the higher prices resulting from these tariffs, when the tariffs are not even protecting Canadian industry. Who speaks for consumers on a matter such as this in cabinet discussions? Further, in a matter such as the Federal tax on margarine, there appears to be every indication that this tax was imposed to protect the dairy industry. We have now reached the point where the dairy industry cannot meet the demands for butter, and we are buying butter from New Zealand. Margarine is an important item in the budget of our low-income consumers. Why should consumers be penalized through this tax? And which member in the Cabinet is protesting this unusual tax on foods, on behalf of consumers? These are not isolated examples. We need to have the consumers' point of view expressed on all matters of Government policy affecting consumers, and we cannot feel confident that this will be done until there is a Minister of Consumer Affairs, with an adequately financed Department, as recommended by your Committee.

Consumer Information and Education

As a local association of the CAC, we are particularly aware of the need for more information for consumers so that they will be better equipped to secure the best value for their dollars. One of the chief objectives of our association is to bring more consumer information to the consumers living in our community. To do this we organize meetings with speakers and discussions on consumer problems. We send speakers to other organizations and participate in discussion panels on consumer matters whenever the opportunity occurs. We also arrange for dissemination of this type of information on radio and television. We consider that wider use of these media for the dissemination of consumer information would be greatly appreciated by consumers not only in our area, but across Canada.

We would like to see this Department of Consumer Affairs stress education in financing. In preparing this submission we talked to the head of a social service bureau and wish that time would permit the retelling of some of the stories as he told them. His point of view is that there is little value in seeing that people have more money or real income unless they have the ability to spend it reasonably wisely. He feels that uncontrolled credit buying creates social and economic disorder and that a Department of Consumers Affairs could have a stabilizing influence on the economy.

We are delighted to note that the curriculum of some courses in our high schools are now including more consumer information. We hope this will be expanded so that both boys and girls leaving school to go into the labour market will be better equipped to deal with problems of money and home management.

One of the chief responsibilities of a local association such as ours is to try and widen the membership in the Consumers' Association of Canada. We consider that it is unfortunate that the work of this association is only supported by some 20,000 families in Canada, and that only these families receive the information Canadian Consumer published by our Association. There can be little doubt that the rise in prices in recent years, especially food prices, has made consumers more aware that they should be better informed if they are to buy wisely, and we hope that this awareness will help us in our work to increase the support for our Association.

A strong consumer organization is necessary, not only to help consumers, but also to bring closer co-operation between consumers and industry. We are proud that our Association has always worked for better relations between industry and consumers. At the local level we do not have many opportunities for discussions with large industries, but we do work to foster good relations between those industries in our area, and also with retail merchants in our community.

Consumer Complaints

Besides working to bring more information to consumers and fostering good relations with producers and merchants, our Association tries to investigate complaints brought to us by our members and other consumers in our community. Sometimes it is possible for us to assist both the consumer and the seller in solving a problem. If it is a complaint requiring investigation at the Provincial or National level we send the complaint on to the appropriate branch of our Association. Often a matter raised at the local level will bring to the attention of our Association the need for action at the Provincial or National level, and we know that these Associations have often been able to accomplish results which have benefitted all consumers. However, there are often instances when investigation beyond the powers of a voluntary organization is required. It is then that Consumers must seek the help of government (e.g. the sale of the meat from

dead animals in 1962). We consider that it would be most helpful if the various government agencies now administering legislation for the protection of consumers were consolidated under one Department of Consumer Affairs. Then all consumers would know where to go for help and assistance. At present, consumers not informed in the intricacies of government often hesitate, on account of this ignorance, to ask for help.

The recent protests of the public against rising prices indicate strongly the need for more consideration of consumer matters. We live, and wish to continue to live in a free enterprise economy. But in this type of economy manufacturers should accept responsibility that the goods they put on the market are safe and will do the job for which they are sold. As consumers we must be well informed if we are to be able to exercise our right of free choice. In particular we want to know more about the causes of the rising prices. We do not think that enough consumers understand the significance of the Consumer Price Index, and we want more information on this. Does this index take into account changes by which the manufacturer takes some of the product out of the package but charges the same price. There have been many examples of this in recent months. (e.g. Crackers—39 cents for 16 oz, now 39 cents for 12 oz: tissues, package of 24 reduced to 20, no change in price: floor wax 40 oz 89 cents, now 32 oz for 93 cents etc). We realize that an alert shopper aware of such changes will not buy these products if she considers that they no longer give her good value. But not enough shoppers are aware of such price increases, and we wonder if they are included in the Consumer Price Index.

While we realize that manufacturers must promote their products, especially new products which are often of great advantage to consumers, we consider that there is too much uninformative advertising and too much wasteful promotion through gimmicks, trading stamps, games, etc, many of which pander to the worst instincts of consumers—that of hoping to get something for nothing, or at a cost to someone else. We would like to see such promotion schemes restricted. The merchandising device "cents off" if used honestly, mean a price reduction to consumers, but because it is not always used honestly and because consumers do not know the price off which the "cents" are taken, we support your recommendation that this practice be prohibited.

As an Association we have always worked to help consumers to be discriminating buyers—to refuse to buy those goods which do not give good value for the price paid. While we appreciate the interest which some angry consumers have recently aroused in consumer problems, we do not support the movement for large scale boycotts. But we hope that our efforts combined with those who also want more attention paid to consumer problems will bring more protection for consumers from the Federal Government, and also from industry, on whom we also rely for safe and useful goods and services. We appreciate very much the efforts of the members of your Committee in investigating the rise in food prices, and we hope that you will continue your investigations into the rise in prices of other items in the consumers' budget, especially housing and services, where prices have risen much more than food prices since 1949.

In conclusion, and although this is not directly under discussion today we wish to congratulate the committee on its report on consumer credit tabled in the House on February 16th. Through the implementation of this report we hope to see the disclosure of interest on consumer wares made mandatory, and better protection for consumers in door to door contracts and in all consumer instalment purchases.

Respectfully submitted,

Helen P. Archibald
President
Consumers' Association of Canada (Sarnia)

Submission of the London and District Labour Council

To the

JOINT COMMITTEE ON CONSUMER PRICES

Chairman: Senator David Croll

Sir:

We would like to say at the outset that we are pleased to have you as Chairman of this committee. Your interest over the years in the high rates of interest charged by finance companies and your fight to introduce legislation to curb this social problem has not escaped our attention. We hope that the legislation which your committee on consumer credit is recommending will soon be enacted in law.

The London and District Labour Council is, as is the vast majority of the citizens in this country concerned with the problems due to the rapidly rising cost of living, and hopes some of the suggestion we make will help you in your deliberations.

The first area we shall deal with are factors which we feel affect prices at a retail level.

1. We are led to believe that this is a competitive society and that manufacturers compete with each other for our dollar. We believe that it would put the consumer in a much better position to make realistic comparisons by *introducing legislation* which would oblige manufacturers to pack their *goods in standard weights and sizes.* These weights should also be printed on the package as clearly as the brand name.

2. We are puzzled by the method used in the changing of prices of items in supermarkets. It is a common occurrence to see a clerk altering the price of an item already on the shelves. We agree that the price can rise, but would think that existing stock was purchased by the retailer at the original lower price. Therefore, this stock should be sold at the original retail price until the stock is depleted.

3. Variations in the prices of brand name goods are another source of puzzlement to our Council. We have prepared a list of some products, the average price of which is 50 cents. These items were priced at three different supermarkets in London. A difference of one or two cents can be explained, but some of these items vary as much as 10 cents.

4. Some of the members of our Council are involved in the shipping and receiving of goods as a part of their work. Often the companies with which they deal are subsidiaries of corporations in the United States. It has been found, in many instances, that if an item is ordered from a subsidiary whose Canadian office is located, for example, in Montreal and is not available in Canada and subsequently must be ordered from the United States, the product is not shipped directly to the customer, but is shipped through the office of the subsidiary. This duplication of shipping with its additional handling must affect the cost of the item.

5. We would like to comment on a portion of a report to the House of Commons by Mr. Basford on December 20, 1966 in which he stated that up to 90 per cent of the soap and detergent industry is controlled by three great corporations, that five great corporate food chains control 75 per cent of the grocery industry and that one food processing firm controls 100 per cent of the market in the maritimes and western Canada and 80 per cent of the market in Ontario and Quebec. We view these figures with alarm. They contradict the concept that this is a free competitive economy.

We would like to take this opportunity to challenge a widely accepted view that organized labour's gains are responsible for the rising cost of living. The Dominion Bureau of Statistics release in October stated that taking 1961 as a base of 100, productivity has risen to 138.6, labour costs have risen to 135.3 or 1½ points below productivity. Profits have risen to 152.9 or 16 points above productivity. The Financial Post dated October 15, 1966 states that the average salary increase for executives in Canada in 1966 was 9.1 per cent. In the same period, manufacturing wage increases were 6.9 per cent. Over a five year period, from 1961 to 1966 executive salaries went up 27 per cent as opposed to 17 per cent for wage earning employees. These figures, of course do not reflect the 80 per cent increase our federal members of parliament granted themselves in 1963. The city fathers in London in recent years voted themselves an extra 33 per cent. Professional groups such as doctors will increase their fees by 25 per cent in April of this year. Thus these people are giving themselves salary increases at a fairly steady clip. We are the captive customers of some of these groups, for we cannot do without their services and yet their constant salary demands are contributing to our fighting of a losing battle to close the gap. All this indicates that labour is not leading the way in price increased but is actually lagging. If it is true that wage and salary increases are responsible for the rising cost of living, we would expect that these managerial and professional groups who are supposedly the better educated members of our society, would refrain from asking for more money and would reject offers of pay increases.

The final, and what we feel is the most important part of our brief, is the education dollar and how it should be spent.

Taking into consideration that it is public funds, including those of the labour force and consumers, which finance the education of our children, it would be deemed only fair that:

(a) the history of the labour force which helped create this country be well taught,

(b) the cost of labour in the creating of goods in this country be taught, and

(c) finally, that the art of buying intelligently and understanding methods of selling commodities to the consumer should be taught. This should include a basic understanding of the aims of motivational research as applied to selling.

On the surface it would seem naïve for us to advocate the very technique that would render the business world impotent, when it is dependent upon sales. But it is simply a question of how much should any one segment of our society expect from a public service financed by public funds. At present we all pay for the education of young people so that they may serve industry. They are also expected to serve the economy of our country and industry as consumers. However, returning to the concept of public funds financing this preparation of people for their role in society, these funds must also serve the public interest. At present, the situation amounts to the subsidization of industry through education with public funds.

It is not the desire of the people here to be a helpless part of a cycle. It is the desire of the people here to have some means to protect themselves from the constant spiral of costs. It is our opinion that a sound education of the young in the art of understanding those forces that affect them would be a beginning towards the control of the cost of living of the individual by the individual. It was recently stated by a representative of a large retail outlet that approximately 5,000 products in their particular line alone came on the market each year. They were selective, of course and only 3,000 would find their way to the shelves. Teaching the consumer to be selective, to eschew high priced, heavily

advertised status products of little value, would be a way of insuring that products of little value would eventually be withdrawn and that more worthwhile products might remain. Helping the consumer or potential consumer not to fall for gimmicks all the way from cents off to an appeal to his or her vanity would be an effective way of keeping at least some costs down.

The logical argument to all these suggestions is of course that if this method of dealing with the problem became effective, it might reduce the market and make business less profitable under its present structure, thus reducing the role of the labour force. Automation is already reducing this role with no appreciable benefit to the individual or the consumer; if it was, this whole inquiry would not be necessary. It was stated in an article in the *Saturday Review* in late 1966, that the world was not a civilized place in which to live. Much needed to be done to understand and deal with the nature of the world both environmentally and within the nature of man himself. It seems there is plenty of scope for work, and plenty of new areas for man's enterprise.

It is the opinion of the members presenting this brief that our government is made up of many good men who should be able to work out the eventual difficulties presented by this brief. The ultimate realization that it is the money of all of us which finances education, must make it imperative that the interests and needs of all large groups in this country be taken into consideration.

It will then follow that if methods of merchandizing which are costly and which use man's weakness against him, are no longer effective because man knows his weakness and is educated, then at least in part prices will be controlled by the people who do the buying generally rather than by legislation which only becomes obsolete and leaves room for the type of situation that arose from prohibition in the twenties.

Let legislation rather take the positive form of providing the be possible education which will help us to understand and know the world in which we live.

All of which is respectfully submitted,

LONDON AND DISTRICT LABOUR COUNCIL,
R. Parris,
Chairman-Special Committee on Consumers prices.

February 27, 1967
London, Ontario.

BRIEF

Presented to

Joint Senate Committee on Consumer Prices

at Hearing held at London, Ontario on February 27, 1967

by the

HAMILTON AND DISTRICT CONSUMERS' PROTEST ASSOCIATION

1. The Hamilton and District Consumers' Protest Association was organized because of the rising public opinion against the outrageous upward spiral of food and grocery prices in the Hamilton area.

2. It is quite apparent—costs are rising so rapidly that all people are finding that the food budget does not balance. The bare necessities such as milk, butter, eggs, meat and bread are now becoming luxuries.

3. There is no longer any economy meal. Even the good old standby "hamburg" is priced beyond the average family budget.

4. In Hamilton where the majority of people are in the labour force, life is becoming an existence instead of a pleasure because of the constant worry and pressure over stretching our weekly wage to make ends meet.

5. The Canadian Department of Health has laid down the Canada Food Rules. These rules were established as a guide to be used by housewives to guarantee that their families would have a healthy, nutritional, balanced diet. These rules are almost impossible to follow. People can no longer afford variety in their meals.

6. If food buying is becoming difficult for the working force, imagine the difficulties that must face old age pensioners. These people, who have given the best years of their lives to the country, must face a dismal existence. With the price of food, these people exist on a starvation diet. Doesn't the Government realize that even if you are old you still have to have a balanced diet? It is pitiful to watch these people doing their weekly shopping.

7. Then there is another group of people that are directly affected by high food prices. These are the widows and others living on fixed Government pensions. Are they to be punished because of death of a husband or sickness in the family?

8. Our Indians and Eskimos must find it impossible to feed themselves on a balanced diet.

9. It appears that there is something drastically wrong with the leadership given by Government in Canada. Here we are celebrating our 100th birthday, and amongst all the wonderful Centennial projects, the main one is missing. The Government must realize that the prime valuable asset a country has is its people, and may we emphasize healthy people. Without healthy people a country is lost. The main factor in health is a well balanced diet. The Government of Canada should take all possible steps to ensure that every person living in Canada is able to eat a well balanced diet. The only way this can be done is for the Government to take immediate action to curb exorbitant food prices.

10. Surely the Government of Canada knows what the people can afford to buy and surely the Government knows that it is an undisputable fact that food prices are too high.

11. The Government of Canada is elected for the people by the people to carry out the people's wishes and we maintain that a vast majority of the people think food prices are way too high.

12. Instead of protecting food monopolies, it must protect the peoples' wages from being robbed week after week by food monopolies.

13. There is another point to consider. Canada is a very rich country. It is rich in farms, in factories, in skilled workers, engineers, etc. There is an abundance of food grown and processed. It is time the wealth was passed to the people—the real producers.

14. We are also entering the era of automation. It takes less time and less money to produce food articles. Therefore prices should be going down not up.

15. Most Canadians are justified in believing that there is price rigging. This is the only conclusion that can be drawn when one considers that six large companies control over 75 per cent of the retail food sales of Canada. These companies control the whole food process from the growing to the distribution. A prime example of a food monopolist is Garfield Weston. (1) These food companies are powerful enough to dictate food prices to consumers and suppliers. To these companies costs do not determine prices, but the reverse. This makes it impossible for small businesses to compete. With the strong evidence of hidden control, there must be price rigging.

17. Consumers are constantly subjected to "deceptive packaging". This is a term applied to many things: for example the soap marked "cents off" (Exhibit No. 1). Then there are numerous containers which appear as one size but are actually another (Exhibit No. 2). This is deceptive packaging and is "high class cheating". This is done deliberately to confuse shoppers.

18. Gimmicks are another way of cheating the people. The shopper is led to believe that the glass in the cereal is free (Exhibit No. 3). Food manufacturers, instead of concentrating on improving food goods concentrate on thinking up gimmicks to lure the public.

19. The avoir du pois system of weights and measures has been destroyed (Exhibit No. 4). We are constantly confronted with the terms, Family, Jumbo, Regular, Super, Colossal, sizes. These have no meaning to the shoppers.

20. Advertising costs the consumer dearly. Why should the consumer have to pay for something about which he has no choice. We pay for it many times. We pay for it in our food costs, in our newspapers. We are constantly bombarded with commercials on our televisions and radios even on Government stations. The choice is not ours. Advertising is the ultimate in immoral business ethics.

21. Fancy packaging was never asked for by the consumer. It is just shoved on the shelves. We don't mind the fancy packages, but why do we have to pay for them (Exhibit No. 5).

22. The housewife is considered as a second class citizen. The minute we start complaining we are told we should consider ourselves lucky we are not living like our grandmothers. The housewife has the right to enjoy the benefits of a supermarket. We definitely don't want to do away with them, but we don't want to be punished because of them. In this modern day society of advanced technology, the housewife has the right to enjoy its benefits. Women want to have, not exist. We want to contribute to society, not to be chained to kitchen drudgery. A wage value is never put on the housewife's time. It is expected she will run all over getting the best bargains; and spend hours examining packages to ensure she is not being cheated.

23. In the Hamilton area there is a great concentration of industry and a large number of unions. We are fed up with being told that high wages cause high prices. In Government comparisons between rise in profits and rise in prices the main key is missing. This is the rate of productivity. Reliable productivity statistics are hard to get because the Government does not publish them. The

rate of productivity is constantly increasing. As long as productivity increases, wages can rise without causing higher prices. Unless workers' wages rise in relationship to productivity and higher prices their economic position in the community deteriorates and this harms our whole economic structure. (1)

Therefore, we as consumers are asking the Government of Canada, through this Committee, to act on behalf of the Canadian people. The points following should be put into effect immediately to protect us against this robbery in all forms by food monopolies. In 1959 the Royal Commission on Price Spreads of Food Products recommended a great many good actions. The Government claims they have been put into practice. If they have, then why have food prices continued to jump enormously (Exhibit No. 6).

WHAT WE WANT

1. *Prices Review Board*—to regulate and investigate prices. This board would be comprised of a cross-section of Canadians so that all levels of society will be represented. This board would have the power to investigate prices and recommend action to a Consumers' Department in the Government so that definite effective action could be carried out quickly. The Consumers' Department could provide educational information on food marketing and distribute it effectively to the people.

2. *Gimmicks*—All gimmicks such as trading stamps, bonus tapes, bingo, horse races, "cents off" are used as lures. The Government should take legal action to make these gimmicks illegal. But this is not enough. The money which will be saved by removal of these gimmicks must be passed on to the consumer.

3. *Avoir du pois system*—Deceptive packaging. The Government must set definite standards as to weight and size. This will eliminate the deliberate efforts of food companies to confuse the consumer. Ingredients, price and price per unit must be clearly stated and easily read. Do away with misleading terms such as Giant size, Family, Jumbo, etc., limit the variety of package sizes. All amounts and quantities must be marked clearly in conspicuous places.

4. *Advertising*—If companies are going to advertise, they must bear the cost, not the consumer. There must be stronger restrictions on advertising so that there is not deliberate brain washing of young children.

5. Stronger laws must be made to protect the consumer and much stronger punishments must be instilled against violaters. Prices instead of being related to means of production are geared to how much can be exploited from the consumer.

The food industry by its performance—not giving people what they want, making excess profits from starvation cannot be allowed to pursue this course. The food companies must be stopped in this action, now, for the good of all.

Respectfully submitted,

Hamilton and District Consumers'
Protest Association.

Source (1) U.E. Research Dept. Bulletin, November, 1966.
Canadian Labour Congress—Labour Costs in Canada

Council Chambers,
City Hall,
Toronto, Ontario.

TUESDAY, February 28, 1967.

Pursuant to adjournment and notice the sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators Croll (Joint Chairman) and McGrand.—2. *For the House of Commons*: Messrs. Code, Choquette, Macdonald, Saltsman and Whelan.—5.

The following were heard and questioned by members of the sub-committee:

Mr. P. E. H. Brady,
Ontario Housing Corporation,
188 University Avenue,
Toronto, Ontario.
(Brief)

In attendance: Mr. R. W. R. Riggs.
Mr. E. A. Diamond,
Cadillac Development Corp. Ltd.,
2171 Avenue Road,
Toronto 12, Ontario.
(Brief + Supplementary exhibit)
Mr. A. F. B. Taylor,
Bramalea Consolidated Development Ltd.,
70 Bramalea Road,
Toronto, Ontario.
(Brief + Supplementary exhibits)

In attendance: Mr. A. S. Armstrong, Mr. H. D. Smith, Mr. S. Edwards.
Toronto, Humber, Oakville and St. Catharines C.A.C., and C.A.C. (Ontario),
Mrs. Gordon B. Armstrong,
8 Dacre Crescent,
Toronto 3, Ontario.
(Brief)

In attendance: Mrs. W. Brechin, Mrs. S. B. Karim, Mrs. R. J. O'Donnell, Mrs. G. B. Barrick.
Mrs. Grace Hartman,
"Women Against Soaring Prices"
7 Kenton Drive,
Willowdale, Ontario.
(Brief)

In attendance: Mrs. M. Ruble, Mr. Peter Homenuck.

At 12.30 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by the members of the sub-committee:

Mr. David Archer,
Ontario Federation of Labour,
33 Cecil Street,
Toronto 2B, Ontario.
(Brief)

In attendance: Mr. D. F. Hamilton, Mr. Henry Weisbach, Mr. John Eleen, Mr. J. H. Craig.

Mr. George J. Rogers,
The Canadian Economic Foundation,
42 Charles Street East,
Toronto 5, Ontario.
(Brief)

In attendance: Mr. Walter Huebbischer.

Hamilton C.A.C.,
Mrs. V. J. Cousins,
6 Dorset Place,
Hamilton, Ontario.
(Brief)

In attendance: Mrs. L. G. McCaque.

Mr. T. S. Snowden,
Edible Oil Foods Institute,
121 Richmond West,
Toronto, Ontario.
(Brief)

In attendance: Mr. David Scott Atkinson, Mr. John Heggie.

Mr. Grant L. Duff,
Urban Development Institute,
Suite 30,
King Edward—Sheraton Hotel,
Toronto 1, Ontario.
(Brief—no questioning allowed of this witness.)

Mr. A. Kellerman,
Corporation of the Municipality of the
Borough of Scarborough,
City Hall,
Scarborough, Ontario.
(Brief)

In attendance: Mr. Allan Johnson, Director of Purchase, Mr. Karl Mallette, Controller.

At 6.00 p.m. the sub-committee adjourned to the call of the Joint Chairman.

Attest.

Marcel Boudreault,
Clerk of the Committee.

Submission by

ONTARIO HOUSING CORPORATION

Housing is admittedly a complicated business but not to the extent that it is incapable of solution or indeed resolution. To the task of housing Canadians many disciplines are attracted to form the integral part of the overall operation—the land owner and developer, the planner, the architect, the engineer, the surveyor, the builder, the politician, the public servant, the money lender, the sociologist, the customer, the educator—just to mention a few. None has the god-given right to make the final determination but all have an important part to play. The wide distribution of the participants is in itself a contributing factor to the high costs of housing today.

In some countries land is an asset belonging to the people. In North America land is essentially an asset for sale—seeking the highest return.

What are some of the basic factors in bringing about high costs?

(a) Land prices
(b) High levee of services and imposts required by municipalities
(c) Cost of building materials
(d) Techniques of production
(e) Formation of housing
(f) Cost of money
(g) Planning considerations
(h) Design—buildings and services
(i) Cost of time itself
    (1) Negotiations for land
    (2) Various planning approvals
    (3) Arranging capital—initial investment and mortgage loans
(j) Actual consructed costs
(k) Promotional expense—development and sale of real estate
(l) Profit on land, building and services.

For too long we have operated in narrow cells. We must consider housing in its broadest sense—housing for the young, the middle-aged and the old—for the poor, the middle income group and the rich.

The housing problem in Ontario cannot be resolved exclusively by:

1. Any one government—Federal, Provincial or Municipal
2. The house builders association
3. The mortgage lenders
4. The O.A.A.
5. The association of professional engineers
6. The social workers
7. The planners
8. The land owners

We could keep adding to the list. We must create an atmosphere in which the best talents of government and private enterprise can be assembled to combat this problem together. This is the fundamental philosophy adopted by O.H.C. from its inception. If we have had some measure of success it is probably because of a desire to try new methods and not simply to discard old techniques simply because they were old. Where old techniques did not work we had the courage to discard them even in the face of considerable opposition.

The late K. D. Soble, the first chairman of Ontario housing corporation, in the six months prior to his death, was actively engaged in reviewing ways and means to reduce housing costs. He met with builders, land developers, people in the prefabricating business, money lenders, planners, architects and others, seeking solutions. This work must continue as far too little research in this important industry has been conducted. At the recent housing conference in Toronto it was disheartening to see one group after another stand up and put the finger on some one else. It probably produced headlines but added little to house production at figures which would enlarge the house buying or rental market.

In this business we must work together—not apart. We must look at:

(a) The assembly of land
(b) The method of producing housing
(c) Financing
(d) The time it takes to produce a plan of subdivision and approval thereof
(e) Density of housing
(f) House formations
(g) Roles of various participants
(h) Marketing of housing

This is a big job in a vital century for Canada. There will be many heartaches and disappointments but we cannot settle for less—a decent home for every Canadian.

February 28, 1967

SUBMISSION TO

JOINT COMMITTEE ON CONSUMER PRICES

OF THE FEDERAL GOVERNMENT

by

A. E. DIAMOND, PRESIDENT

CADILLAC DEVELOPMENT CORPORATION LIMITED

Gentlemen:

We appreciate the opportunity of appearing before you on this very vital question—The Cost of Housing. We trust that you will find this submission of value in your assessment of the problem and assure you that our company is ready to answer any further questions you may have, and indeed, to be of continued service in seeking a possible solution.

A free flow of information between government bodies and the housing development industry is, we believe, vital in attempting to overcome the crisis in housing which looms before us. Co-operation between government and industry will do much to restrain the price increases which are presently developing and should ameliorate this situation from the standpoint of both the consumer and the industry.

There has been too little consultation between industry and government at all levels in a field where, for several years now, government has been the most active influence either aggressively in its taxation policies or passively in the requirement of approvals of various municipal and provincial bodies in land use and zoning bylaws, and in building codes.

Consider, gentlemen, that in the three essentials of life—food and clothing and shelter, we have the following situation:

— The production of food is taxed by no level of government.
— The production of clothing is taxed by one level of government and partially by the second level of government.
— However, in the production of shelter, housing accommodation of all kinds is taxed by three levels of government.

And to further aggravate the situation, the development industry is buffeted, battered and badgered by various government departments as is no other industry producing a useful commodity.

Let us now look at housing costs in this part of the country. We believe, and have felt for some eighteen months, that there is developing a very severe housing shortage and that the problem is not so much one of absolute supply as the steadily widening gap between the cost of the commodity and the ability of the consumer public to pay for this housing accommodation.

The tight money market of 1966 has not, as of this date, substantially affected the supply of available housing in the Metropolitan Toronto area. The shortage will be felt with increasing severity in the Spring and Summer of this year and will last at least to the balance of 1967. However, should a substantial amount of mortgage money be made available today, we will simply not be able to provide housing for those people whose needs are greatest due to all of the factors that affect housing costs.

In general terms, the cost of residential accommodation includes the following basic elements:

(1) The cost of land.

(2) The cost of labor, materials, equipment and services for the actual construction.
(3) The cost of taxation.
(4) The cost of money.

THE COST OF LAND

Vacant Land

In the years immediately following the war, municipal governments, unable to provide the necessary services to translate raw land into land suitable for building, permitted and, in fact, encouraged private interests to provide all types of services. Subsequently, there developed a new breed of business called land development and with it emerged the subdivider.

The subdivider or land developer would buy substantial pieces of land, apply to municipal and provincial governments for approval of its subdivision, following which approval he would proceed with the installation of services.

In the course of the past twenty years, more and more demands for increased services were made a requirement of the provincial and municipal governments and at the same time these governments imposed more and more planning and administrative controls on the processing of these plans.

The result has been a substantial increase in land prices for two basic reasons:

(1) The cost of these increased services and increased planning specifications in the form of wider roads, additional underground services, underground hydro and wider and larger lots, together with various school, sewer and park levies.
(2) The procedure for registering a plan of subdivision has become so time consuming and so complex and frustrating that the supply of serviced, registered, land has become increasingly scarce.

Let me give you an example of this in a particular area in which our company was involved and we assure you, gentlemen, that the case history that is outlined here is only one example and the same applies to many hundreds of parcels of land held by private developers in various parts of the metropolitan area.

In 1959, our company purchased, in a relatively good location of Metropolitan Toronto, 120 acres of land. As a preliminary investigation to the purchase, we had discussions with the municipal authorities and were given to understand that services would be available at the boundaries of the property within about two years. It also appeared that a planning study was in progress and that by late 1959 this planning study would be completed. In the normal course, with reasonable dispatch on the part of the developer, we would have expected that this land would be available for the construction of houses some time in 1962.

As of this year, approximately eight years after the purchase, this land is still not registered. In addition, the planning study which was presented to the municipality in February, 1959, and revised in September, 1959, still has not received all the approvals of the municipal, and provincial bodies. Indeed, it appears that registration of the entire parcel and the availability of this land as building lots will not be until at least the latter part of 1967 or early 1968.

The final disposition of these lands, if final approval takes place in 1968, will occur some time in late 1971. In other words, a total period of thirteen years will have elapsed from the date of purchase of the land until final use by the consumer. In the interval, what has been the effect on the cost of this particular parcel of land?

At the time of purchase, we paid approximately $6,000 per acre. This land now costs us, because of interest, taxes and non-productive planning and engineering, some $10,000 per acre. In the interval between 1959 and 1964, the market value of this land kept pace with the carrying costs and indeed, at any time between 1959 and about 1964, this land could have been sold for approximately $1,000 per acre more than our cost, after all carrying charges. In the years 1964 to 1966, because of the shortage of serviced land and the fact that it was finally nearing the time that it would become available for building lots, the land value increased substantially so that today the market value has risen to some $27,000 per acre. In other words, the delays in the planning process have increased the value of this land by some 270 per cent.

In addition, however, during the period that this land remained unproductive, the absolute cost of all of the services that would normally be going into these lands has increased, together with greater demands by the municipality for planning specifications such as the standards of lot sizes, etc. This "economy of shortage" and the other factors I have mentioned have increased land values dramatically in the metropolitan area.

In 1955, a semi-detached lot in a reasonably close-in location in Scarborough would have cost approximately $2,200 per dwelling unit. Today, this cost would be approximately $8,000 per dwelling unit, an increase of some 360 per cent.

In the terms of reference given me by your Mr. James in a letter dated February 14, he poses the question: "Does the market for serviced, urban building land have monopolistic features which might be a cause for public concern?"

Gentlemen, let me assure you that the lands that are undeveloped in Metropolitan Toronto and its environs are held by a very large number of people and corporations whose business policies, temperaments and whose financial organizations make a monopoly by them in this field impossible. We know of no case where a developer has had services available at the boundary of his land, has been in a position to register his land, and has refused to do so.

On the contrary, it has been the practice of the developer to strive, with all urgency, to process his plan through the jungle of the various committees and agencies and boards and officials at municipal and provincial levels. His business makes it mandatory to make his land marketable as soon as possible so that he may go on to other projects.

However, were it possible for private developers to ever get together to keep the price of finished land high, they could not begin to do the job that is being done for them by the municipal zoning and planning system.

Before leaving the subject of vacant land, I would like to discuss one more major factor which affects the cost of accommodation because it is tied into municipal taxation. I refer to the prevalent attitude—among governments and other influencing bodies, such as the press, towards land use. From 1945 until today, it has been the stated policy of government, endorsed by the press, to house people in single family dwellings and the demanded size for a single family lot has increased substantially in this period.

In our view, we are creating a hopeless, long-term problem for ourselves and future generations in trying to contain the growth of this metropolitan area in single family dwellings on 50 or 60 foot lots. The cost of the services to these lots is one factor; the cost of transportation in the future, when these single family lots have induced accompanying urban sprawl, can have far reaching effects which will remain for generations to come.

Instead of this expensive land use, consideration must be given to densifying the population and providing more community services which will be ade-

quate and suitable for family living. It is in this area that government action is needed to enable us not only to permit growth but also to bear its cost.

Land Obtained Through Renewal

In the past ten years or so there has been a marked increase in densification of the older portions of the metropolitan area, occasioned by a greater public acceptance of high density rental accommodation. Among the factors creating this trend has been the inconvenience and increased cost of transportation to outer areas where single family land is available; a substantial change in the makeup of our population, namely, a much larger older group of people now better able to afford self-contained accommodation; and very substantial younger age group without children or with small families.

The planning and zoning process which one experiences in making a piece of land ready for high-rise apartment building in the inner areas of Metropolitan Toronto today matches the inefficiency, the time lag and the frustration encountered by the developer in the processing for approval of vacant land.

Again let me give you an example of the planning process from the time land is acquired.

The apartment developer retains a real estate agent or agents to go into an area and assemble a substantial block of land. The number of dwelling units to be assembled can range from 20 to perhaps 100. In order to obtain this land, because we are dealing with a large number of individual home owners, each with his own idea of value and need, very often inflated prices must be paid. And, in addition, because these homes must be purchased on an option basis, or conditional on an approved zoning which can require anywhere from one-and-a-half to two-and-a-half years, some incentive must be given the home owner to tie up his land and dwelling for this long period of time.

Having obtained a substantial block of land, which the apartment developer considers suitable for use for high-rise apartment buildings, he then commences the planning and zoning process. He must, in the first instance, meet with the officials of the local municipality, the local planning board and the local council. At the planning board and council level, objections to the proposal are heard and the merits of the application for rezoning are weighed in the face of the objections. If approval is obtained from these two or three bodies and their various committees, the proposal for zoning change then comes to the Metropolitan Planning officials and, in most cases, to the Metropolitan Toronto Planning Board where once again the merits of the zoning application are considered in the face of the objections to the rezoning. If approval is obtained from a local municipality, the zoning proposal will be submitted by the municipality to the Ontario Municipal Board, an appointee of the provincial government and if there are objections to the zoning proposal, a hearing is held and the Board may reject, approve or approve with amendment, the proposed zoning change.

Appeal from the Ontario Municipal Board's decision may be obtained on a point of law to the courts or, on merits of the application, to the Lieutenant Governor in Council of the Province of Ontario.

It is our view, however, that at all levels of this planning process where objections to the proposed zoning change are heard—at the local municipal level in planning board and councils, at the Metropolitan Toronto Planning Board and at the Ontario Municipal Board—undue emphasis and weight are placed on the objections of the surrounding property owners. It is our belief that most of these objections are imagined or unreal and have resulted in the principle that surrounding property owners have a vested interest in the land use around their property.

Aside from the cost of the process itself, which involves loss of many thousands of dollars for each frustrated application (and the further the application is taken before refusal, the higher the cost), the result of the procedures has been an extreme shortage of land in our inner-core areas suitable for high-rise apartment buildings and a piece of such land today is considered a most prized possession.

In addition to the basic zoning system and process, the zoning bylaws by themselves require substantial reassessment and revision. Can the renting public, or for that matter, the entire community, afford the kind of luxuries and, in some cases, the unnecessary requirements built into our zoning bylaws? For example, in two of our apartment developments we have approximately $1,000,000 worth of garage space provided, as required by the zoning bylaw, which stands completely empty. Indeed, in our view, it will never be used. In addition, this space not only cost $1,000,000 but must be lighted, ventilated, cleaned and heated. The cost of this unnecessary capital expenditure and its upkeep must, of course, be borne by the renting public. This results in a subsidy being provided by the renting public for those people who drive cars. Not only is the principle wrong but, we believe, should be quite the reverse—that the person living close to public transportation should be penalized for car ownership rather than subsidized in car ownership. A realistic zoning bylaw would prohibit parking as a matter of good community planning if such developments are close to public transportation, especially if such public transportation is by rapid transit. This same attitude and approach to zoning by local and provincial governments extends to many, many other items in our zoning bylaws and have had a major influence on land costs in the metropolitan area.

An example of changes in land values for apartment building in the City of Toronto might be useful. In 1955 our Company purchased land on St. George Street for an apartment building at an average cost of $1,000 per apartment unit. Today, in 1967, our cost of acquiring a piece of apartment land in a similar reasonably good location would be approximately three-and-a-half to four times this cost.

In summary, no realistic stabilization of housing costs can occur without very substantial and significant changes to these factors mentioned above which have affected land costs so dramatically. There is a complete imbalance between the demand side of the equation and the supply side. The government must surely understand that if it is to regulate the use of land by its various laws and other controls, it surely must have the concomitant responsibility of making sufficient land available to keep the market stable.

THE COST OF CONSTRUCTION

It is most significant that of all of the ingredients that make up the cost of residential accommodation, the one which has changed the least in the past ten years and have had the effect of increasing costs approximately $1,000 ea $1,200, of labor, materials and equipment.

In this area, certainly costs have increased. Aside from the direct increases, due to federal and provincial sales taxes, which have been felt in the last five years and have had the effect of increasing costs approximately $1,000 to $1,200, per average dwelling unit, there have been certain increases in the cost of labor and materials. While there has been some savings, in terms of efficiency, resulting from the use of different materials and from mechanization in the industry, these efficiencies have not been sufficient to outweigh the cost increases. Between the year 1960 and today, costs of construction of the single-family dwelling unit have increased approximately 15 per cent and costs of construction of the apartment building about 20 per cent. These increases are in addition to the

imposition of federal and provincial sales taxes. The higher increase in the apartment building field has been caused primarily by the changes in the labor factor, mostly due to the changing pattern of union organizations.

The industry has been accused by persons not acquainted with our problems of not promoting greater efficiencies and mass production methods. We believe that the criticism is unwarranted and would not be made if the facts were more clearly known. New materials which have become available in the last twenty years, when investigated, were found in most cases to be not cheaper but more expensive. If they are of comparable price, not enough testing has been done of the completed commodity to justify its use. When one realizes that buildings today are being built, mortgaged for thirty years and intended to last at least forty to fifty years, one can understand the natural reluctance on the part of a reasonably competent developer to rush pell-mell into the use of materials which have not had the test of time and scientific study.

Notwithstanding this factor, there have been very substantial changes in the dwelling unit as built today compared with, say, 15 years ago. The house or apartment of today is much more comfortable to live in, more attractive and retains its attractiveness and comfort over extended periods of time less maintenance than before. This has been accomplished by the use of such materials as glazed brick, better windows, better mechanical systems and controls for heating and ventilating, new plastic finishes on walls and floors, and better fixtures and fittings of all types.

On other factor which mitigates against the mass production techniques of other industries is the attitude of the community toward the streetscape created by our architecture. For example, in the use of the automobile, the person who does not object to driving the same car as his neighbor, will not expect to live in the same house as his neighbor. This attitude is promoted by our community planners and other officials connected with the urban scene and while it may be undesirable to have a greater degree of standardization of architecture, it may become necessary as costs increase.

However, I will also say that to our knowledge there is not at the present time available any mass-produced building technique for high-rise apartments, or for the single family house, which would make the cost of producing a dwelling unit cheaper than our present approach to architectural demands.

THE COST OF MONEY

The extent to which money and the cost of money affects the cost of residential accomodation is not often realized. Virtually all single family dwellings and apartment buildings in the Metropolitan Toronto area are mortgaged in value ranging from 70 to 85 per cent. For every $10,000 of mortgage amortized over 30 years at the current National Housing Act rate of 71/4 per cent, the debtor pays back $24,300. In other words, he pays back almost two-and-a-half times as much in total as the original debt. While there has been a great deal said in the past six months about how tight money is and how more money should be made available, there is in my view, not enough being said about the cost of this money and its effect on the cost of residential accommodation.

A loan of $10,000 amortized at 71/4 per cent over 30 years carries exactly the same debt service as $11,100 over the same period amortized at 61/4 per cent. In other words, the one per cent increase in interest costs has had the same effect as an increase in building costs of eleven per cent. Bearing in mind that buildings available for rent or sale today had been, for the most part, mortgaged prior to the time of these higher interest rates, we can say that the present cost of housing accommodation does not yet reflect the higher cost of money which has occurred within the past eight to ten months. This added cost must be borne by the renting or buying public in the months ahead and must, of course, add to the

proposition presented in my brief earlier, that costs have not yet reached a peak but will continue to rise due to this pressure. The degree of the increased cost must depend, to a very large measure, not only on how high interest rates become but also on what period of time they remain at these levels. Adding to the pressure will be the increasing reluctance on the part of the apartment developer to saddle himself with long-term, high-interest loans because a drop in interest rates could leave him with property which will be at a competitive disadvantage with buildings mortgaged at a lower rate of interest.

In one area, the federal government, we believe, can assist the mortgage market to a very marked degree. The present policy of Central Mortgage and Housing Corporation is to tie the National Housing Act rate to the long-term yield of Dominion of Canada bonds. To the extent that this policy, recently adopted, induces a greater flow of mortgage money to the residential mortgage market, it is a good policy. We cannot, however, accept the principle that a 1½ per cent differential between the National Housing Act rate and Dominion of Canada bonds is reasonable, bearing in mind that the security of both is identical. The major difference between a government-guaranteed National Housing Act mortgage and a Dominion of Canada bond lies in the liquidity of the investment and in its cost of administration. We believe that the federal government can, through Central Mortgage and Housing Corporation, or its subsidiary, incorporate and operate a mortgage bank for the trading of mortgages. While it may be too much to expect that the future would see a National Housing Act mortgage being traded over the counter with the same kind of movement and price that exists today with a Dominion of Canada bond, we believe that substantial narrowing of this differential can be obtained with reasonable market conditions. If such liquidity can be reached, then it is likely that the conventional mortgage market will also be affected, either in helping to stabilize its rate at a lower point or in helping to provide additional conventional funds.

Unquestionably the cyclical movement of the mortgage market has had a major effect on long-term planning on the part of the residential industry, so that in addition to land problems, the developer is forced to do planning on a day-to-day basis not knowing what his financial market will be. When one looks at the past and sees that the fluctuations have occurred very quickly and without warning one can realize the tremendous discouragement to long-term planning caused by this cyclical fluctuation.

MUNICIPAL TAXATION

Real estate assessment is the only field of taxation open to municipalities and, with growth, comes financial responsibility and financial burden. One has only to look at the galloping mill rate in our local municipalities to see that the rentals have not as yet reflected the same rate of increase over the past ten years as has occurred in municipal taxation. In the course of time, there will be a catching-up in this portion of property costs. Therefore, this aspect of cost will continue to plague the rental public, and the home buyer, and cause increases in cost of residential accommodation.

Another little known aspect of municipal taxation is the practice of assessing various types of real estate at different rates. The Bureau of Municipal Research has established, and assessment officials will candidly admit, that the single family dwelling is assessed at a lower rate than apartment buildings. This practice is illegal and against the intent of the Assessment Act, as advised by the Minister of Municipal Affairs and established in a court judgment handed down some two years ago. It points to the subsidizing of the homeowner, via taxation, at the expense of the apartment dweller. If it is a correct assumption that, in a metropolitan area, more people should be housed in denser forms of accommodation, it is wrong for the community to subsidize the single-family homeowner

and indeed promote this form of accommodation thus adding to the municipal tax problem.

The other area of municipal taxation is the various types of imposts levied on the developer as a condition of either land subdivision or as a condition of rezoning. Sewer imposts, park levies, and other types of imposts not only increase the cost of the accommodation being built today but add an inflationary characteristic by adding to the value of all property built formerly. Thus, when the City of Toronto embarked on the sewer impost, approximately one year ago, of some $200 per apartment unit, there was an increase in the value of every apartment building built prior to this sewer impost. The present system of taxation of shelter by three levels of government results in unjust stacking of taxes. No realistic stabilization of accommodation costs can be possible unless this very substantial portion of the cost of shelter can be controlled. This is needed most at the municipal level of government. To tax one necessity in order to pay for another is unjustified and regressive. Either there should be a wider field of taxation available to municipalities or the burden placed on them by the cost of education and welfare should be eliminated.

BUILDING CODES

There is in existence the National Buiding Code, completed some years ago and constantly under review by the National Research Council. In the Toronto area, the National Building Code is not the standard used by the various municipalities and there is presently a Greater Toronto Building Code in the process of consideration with a view to ultimate use in this area. The committees responsible for the drafting of this Greater Toronto Building Code do not have direct representation on them by persons engaged in residential construction and, we believe, are therefore not as conscious of the needs of this industry.

Some savings in building costs, we expect, would result from standardization by the use of the National Building Code being adopted for this area.

THE NATIONAL HOUSING ACT

In his letter to me of February 14, Mr. James also asked me to comment on the National Housing Act insofar as it has affected the current housing crisis.

We believe that the National Housing Act has been one of the most forward pieces of legislation ever promulgated by the federal government. The National Housing Act has done a fine job of stimulating, encouraging the production of residential accommodation and improving its standards. If there is comment needed, however, on the part of government action, it is that both federally and provincially there seems to be a promotion of housing by one department and a restriction or impediment to housing by certain other departments. Thus we see the situation where the policies of the Department of Finance federally do not seem to coincide with the policies under the National Housing Act. Provincially we see the promotion of housing by the Ministry of Economics and Development with no concomitant promotion of housing by the Department of Municipal Affairs, which has a very large control of housing through its land use policies and administration of the Municipal Board. As between the administrators of the two housing agencies, Central Mortgage and Housing Corporation and the Ontario Housing Corporation, I might add that the extent of co-operation between these corporations and the private industry has been excellent. There is an awareness on the part of the officials responsible for these agencies of the problems encountered by the development industry and a desire and real effort to assist in overcoming them. Perhaps an even greater degree of co-operation between the private sector and these agencies might be obtained if the communication between these agencies on the one hand, and the private development

industry on the other hand were of a more formal nature and a part of the stated policy on the part of the National Housing Act.

With regard to that portion of the National Housing Act which effectively permits the Ontario Housing Corporation to function by providing 90 per cent of the cost of public housing projects, the performance of the Ontario Housing Corporation by itself certainly justifies this portion of the Act in its entirety.

That portion of the National Housing Act which applies to urban renewal, and the participation by municipalities in such urban renewal, has had very little usage, and we believe that this state of affairs will continue. This is due to a number of factors not least of which is the political organization of the municipality which makes the initiation of government schemes most difficult and indeed ponderous. In addition when governments deal with each other, the resultant delays and inefficiencies apply at all levels. Urban renewal will become increasingly important to the aging part of our cities with a very substantial amount of housing suitable for all age and family groupings, made available, if it is properly initiated and carried out.

The history of direct government action in housing indicates that greater efficiencies and productivity will take place when government is there to act as a stimulus and provide a proper climate for private development. This approach by government should be no different in urban renewal. We do not consider direct government action, in the area of public housing, to be immoral; on the contrary, we believe it to be completely necessary where the private sector has been unable to provide a sufficient supply of accommodation. The cost, however, will be substantially less in all cases where the development industry can be used, and, to this extent, consideration should be given to changes in the urban renewal section of the Act to encourage and permit the development industry to either initiate or execute urban renewal plans albeit with the necessary controls as contained in this section of the Act.

In another area, we believe that some changes in the National Housing Act would be advantageous to the consumer, namely, in the limited dividend section. Originally intended to provide housing for the population in the lower-income bracket, primarily by non-profit organizations, it has been little used by such groups. With some relatively minor changes to this portion of the Act to give the private development industry some greater degree of incentive on the fixed rate of return on its investment, we believe additional housing for a needy portion of the market could be provided.

SUMMARY

In general, we may summarize our position as follows:

(1) Under the present policies of all governments, the cost of housing will continue to increase. Without changes in procedures and certain policies, private industry will not be able to look after an increasing portion of our population and public agencies such as the Ontario Housing Corporation will be forced to look after the increasing portions of the population. Furthermore, under these present conditions, unless the trends are reversed, the amount of subsidy per family required to house people in the future will increase.

(2) That this present condition is due substantially to an imbalance of supply and demand in the land market.

(3) That it is due in large measure to the regressive taxation policies of the three levels of of government.

(4) That there should be an awareness and an understanding on the part of municipal and provincial authorities that if land use is to be controlled by them, there is the parallel responsibility to ensure that planning processes and zoning bylaws make sufficient land available at costs which can be finally met by the consumer.

(5) That there should be an awareness and an understanding that costs built into land or buildings by excessive demands or by delaying procedures are borne not by the developer but, in the first instance by the consumer, and in the second instance by the whole community.

(6) That a complete review of our zoning bylaws, planning processes and policies be undertaken in consultation with the development industry in order to reduce waste factors and time-consuming procedures.

(7) That direct representation and advice of developers should not only be welcomed by all authorities but sought after.

(8) That the Metropolitan Toronto area adopt the National Building Code.

(9) That the mortgage market be stabilized and more liquidity provided in the mortgage market by the creation of a public mortgage bank for the trading of mortgages.

(10) That certain changes to the National Housing Act be considered to permit private participation in urban renewal and in limited dividend projects.

Brief by:

Alan F. B. Taylor,

President,

BRAMALEA CONSOLIDATED DEVELOPMENTS LIMITED

to

JOINT COMMITTEE ON CONSUMER PRICES

Toronto, February 28, 1967.

As President of Bramalea Consolidated Developments Limited, I am appreciative of the opportunity to present a Land Developer's review of housing costs, which must necessarily only relate to the Province of Ontario, as this is the only part of Canada in which this Company builds houses.

Before dealing with the subject of the cost of land development and house huilding in detail, however, I think it will be helpful if I give the Committee a brief review of my Company's present operations and its expectations for the future.

The Company owns, and is developing a large tract of land in the Township of Chinguacousy which is in the County of Peel, lying to the Northwest of Metropolitan Toronto. This huge land area was assembled with the idea of creating a Satellite Town to Metropolitan Toronto, based on the concept of Satellite Towns which have been developed in Europe, and noteably in the United Kingdom. Such towns were developed in Europe, I believe without exception, by the Governments of the countries concerned, as an urgently needed measure to attempt to resolve the problem of the continuously expanding urban sprawl of the large cities which were fast becoming unmanageable from a servicing and administrative point of view and also to provide housing for people who otherwise had nowhere to live. The European cities were certainly becoming less and less desirable as an environment, as is the case with our sprawling metropolitan areas in Canada.

Bramalea was designed as a Satellite Town to be created by private enterprise, with the thought in mind that such a concept would be acceptable in Canada in the nineteen sixties. It was anticipated that over the long term the undertaking would be (and would have to be), profitable for the investor, and might show the way in Canada to an entirely new idea of development and to the provision of a better environment for Canadians with their rapidly increasing population, before the urban sprawl had developed to the extent that it became unmanageable and Government was forced to take measures in desperation to control it.

For the concept to be viable, it was obviously necessary to acquire at the outset, a sufficiently large acreage of land which could accommodate a large population (Bramalea is designed for approximately 120,000 persons), together with industry to provide employment and industrial assessment, commercial properties to provide community services, recreational facilities, cultural facilities, shopping, etc. It was also important that the area of land should have ready access by highway and rail to the Metropolis which it was to serve as a Satellite.

There is substantial evidence that the Bramalea Satellite City experiment has been, and is successful to the extent that the current population of Bramalea is approximately 10,500 persons; there are 3,100,000 square feet of industrial plants with a current work force of 5,000 persons; recreational and shopping facilities have been and are being provided to meet the growing needs of the population, and close ties to the Metropolis exist.

My Company is responsible for all phases of development in Bramalea—land assembly, land servicing, the construction of housing and its sale. We have been at this task in one place for the past eight years. We think this indicates both stability and success for the Bramalea Satellite City concept.

Mr. Chairman, this description has been given to indicate to the Committee the fact that Bramalea is unique in its field. Since it is unique, it has unique problems of development, and I suggest, with respect, cannot be viewed as a simple exercise in development that is the mere construction of houses and industry on a given area of land.

Because my Company was to be the only Developer in an otherwise rural municipality, it was obvious from the outset that for the Bramalea development to succeed, it was necessary for the Municipality concerned—i.e. the Township of Chinguacousy—and the Developer to become partners to the extent of recognizing a common goal. It was also necessary for the Developer to provide the means of the Township obtaining a viable basis of tax assessment, and as well, to absorb many costs which would not ordinarily fall upon a Developer. To this end, Bramalea has been faced with bearing the capital costs of schools in the Development, financing (and in large measure, constructing) a major water and sewage system including wells, trunk mains and sewage disposal plants; donating land and funds for Municipal projects such as fire halls, an arena, a large Olympic-type swimming pool, and so on. These obligations have fallen on us apart altogether from the normal responsibilities of a Developer in building roads, water and sewer services and dedication of lands as park land for use by the Municipality.

In addition, Bramalea has been called upon to effectively pay the cost of the substantial expansion of the Township administration.

Having regard to the fact that the Bramalea Development is the only urban development in an otherwise entirely rural Township, and in accord with the principle established between Bramalea and the Township as a quasi partnership it was necessary for the urban development not only to support, but to carry the rural part of the Township to a standard of services equivalent to the urban part of the Township. To illustrate this, I think I should make the point that 7 years ago there was only one multi-room school in the Township, being the first school built by Bramalea and dedicated to the Township; while the remainder of the Township—which is large—some 165 square miles—had in it only the traditional Canadian "little red school houses". Today, this primitive type of school no longer exists and the Township has a modern, first-class, urban-type multi-room school system of 7 public schools and 1 high school, together with 1 school for retarded children and one separate school. These schools serve both the rural and urban people.

In order to maintain the base of land tax assessment, necessary to support the housing development of Bramalea and, therefore, to make urbanization possible in this rural Township, it was mandatory for Bramalea to induce industry to locate there. In order to do this; in our early stages we had to make land available to industry at $1.00 per acre. This was done in the case of 3 industries using the concept of a "Loss Leader" item; and from the figures quoted in the earlier part of this submission, it has been demonstrably successful in obtaining industrial assessment, whilst at the same time necessarily creating a loss to the Company.

Similarly, Bramalea initially sold houses at a loss to induce people to locate in what was then open fields lacking other than basic services.

In 1962, by arrangement between the Developer and the Township, an independent firm of Auditors, Clarkson, Gordon & Co., was retained to make a study of the fiscal relationship between the Developer and the Township, which

study has been updated annually. A copy of this study is tabled for the information of the Committee. We consider these documents to be most valuable in tracing the costs, the growth and the problems of our Satellite City in relation to the local municipality in which it is located as the only development.

What I have said so far is intended to qualify the Company with some expertise in land development and house building, and I come now to the points raised in Dr. James' letter to me of February 14th, outlining the matters on which the Committee specifically requested information.

I point out to the Committee that as regards those questions raised in the letter about Public Housing, Governmental Partnership and loan arrangements between the Federal and Provincial levels of Government and questions of Urban Renewal, these are all outside our field of endeavour and knowledge.

We have been asked to comment on the reasons which have caused the cost of housing to rise steeply during the last few years and to the extent that the cost of new housing is beyond the reach of most of the residents of this Province.

The cost of housing must necessarily be broken down into three parts, namely the cost of raw land, the cost of servicing the land and the cost of the house built on the land.

COST OF RAW LAND

As to the cost of the raw land, Bramalea has, over a period of years, accumulated a total contiguous area of land of approximately 6,200 acres. Of this area, approximately 900 acres have been developed and sold. It will be realised that the carrying charges on such an area of land are substantial and there are other accrued charges such as the necessity of allocating to the remaining acreage the cost to the Company of land virtually given away to industry and houses sold at a loss, both of which were required to get the project under way.

COST OF SERVICING LAND

The major rise in the cost of a house during the last few years, is in the servicing of the land, which again must be broken down into three segments, namely the actual cost of the provision of the physical services such as roads, water, sewer, hydro, etc.; secondly the cost of the Municipal levies upon the Developer in respect of school construction and other capital works, and overall Municipal expenditures which I have detailed earlier, and, thirdly, the cost occasioned by Provincial Government administration, which has, over the years, become considerable.

There is, I think, a consensus of opinion in the industry that this rise in the cost of servicing is largely due to the Provincial Government's failure to organise the Municipalities on a sound regional and financial basis of assessment. As a result of this, Municipalities, in their own defence, impose excessive capital costs on Developers, at the same time limiting the amount of housing they can build.

As an instance of the continually increasing costs the Developer is faced with, take the capital cost of schools which has escalated from 1961 to 1966 by 50 per cent.

Furthermore, Municipalities tend to demand continual upgrading of services to residential areas. For example, in 1960 through 1963, the Municipality in which Bramalea is located was satisfied with roadside drainage ditches and culverts, no sidewalks, rear lot hydro and so on, but, in Phase No. 4 of Bramalea, which commenced construction in 1966, we are faced with curb and gutter, storm sewers, sidewalks, underground hydro and television facilities as a requirement of the Municipality. These are substantial costs which must be passed on directly to the purchaser.

In addition to the above, it has been found by experience that the multiplicity of Government agencies at Provincial level whose approval is required before a plan of subdivision can be registered, results in a delay of approximately two years from the inception of the relevant plan. It is virtually impossible to put a dollar figure on the administration costs, interest on monies committed, etc., while this exercise is performed, but it is a substantial amount. It has the further effect of inhibiting long term planning by the Developer as the extent of the delay cannot be reasonably forecast.

All of these costs eventually fall upon the house buyer.

It follows that the type of planning which has emerged obviously is a restraining factor on the construction of high density housing with its correspondingly lower costs because such housing does not generate sufficient taxes to support the major Municipal expenditures involved namely education and the provision of services.

COST OF HOUSE

Up to this point I have dealt with the cost of the land and the cost of servicing the land, and we now come to the third ingredient in the housing cost which is the cost of the house itself. In the last five years there has been a substantial rise in labour cost, a substantial rise in material cost and in addition to that, the 11 per cent sales tax on building materials imposed by the Federal Government.

To give some examples, the increase in price in rough lumber has been 34.3 per cent, in concrete 23.3 per cent, insulation and wall board 44.1 per cent and carpentry labour 68.6 per cent. Speaking for my own Company, we have been able during the same period to keep the increase in construction cost on an approximately 1,200 square foot semi-detached house, to only 12 per cent. We have done so by the use of advanced building techniques.

Another factor which has increased the cost of housing, is the use by the Federal Government of the housing industry as a monetary tool. For instance, the Federal Government have seen fit recently to impose an 11 per cent sales tax on building materials, which not only affects the materials used in the construction of houses, but also the Municipal services, trunk water mains, etc. required for development, both of which costs are passed to the home owner.

The Federal Government, through the Central Mortgage and Housing Corporation, turns the supply of mortgage money on and off like a tap, and arbitrarily sets the interest rate on CMHC mortgages with little reference, if any, to the money market conditions prevailing at the time of such rate changes, or to the available supply of serviced land.

In this industry, it is, therefore, virtually impossible for a Developer to plan ahead for a housing construction programme which can be achieved.

It should, I think, be apparent that any industry which has its productivity and volume effectively controlled by Government policy, i.e.—Government at all levels, which make decisions for reasons which may, or may not have anything to do with the production of housing itself, cannot operate as economically as it could in a stable financial climate.

There has recently been an outcry in the press which tended to indicate that there is a shortage of housing in the Metropolitan Toronto area. This is to some extent true, but what actually is valid, is that there is a shortage of buyers for such housing as is available at the prevailing prices.

Dr. James, in his letter of February 14th, has asked for suggestions as to what can be done now or in the future to modify the impact of the rising trend in

the cost of housing on the consumer, and on this subject I would make the following comments:

(1) As far back as 1946 when the National Housing Act was passed, the Federal Government recognized its responsibility as regards regional land use planning and community planning.

Section 31 of the National Housing Act says this: "It is the responsibility of the Corporation to cause investigations to be made into housing accommodation in Canada or in any part of Canada and to cause steps to be taken for the distribution of information leading to the construction or provision of more adequate and improved housing accommodation and the understanding and adoption of community plans in Canada:

Section 32 of the Act goes even further: "For the purpose of carrying out its responsibility under this Part, the Corporation may cause

Sub paragraph (b) studies to be made of investigations into housing conditions and housing accommodation made elsewhere than in Canada and into measures and plans or proposals taken or adopted or proposed elsewhere than in Canada for the improvement thereof;

Sub paragraph (f) studies to be made of land utilization and community planning and arrangements to be made for the furnishing of information and advice with regard to the establistement of community planning agencies, and the planning of regional areas, communities and subdivisions, in co-operation with any local or other authority having jurisdiction over community planning and land subdivisions or otherwise with a view to promoting co-ordination between local community planning and the development of public services;..."

Mr. Chairman, the National Housing Act is a statute which has been on the books for twenty years. There is no evidence that the Federal Government or Central Mortgage and Housing Corporation has moved to exercise its land use planning and community planning responsibilities which are so clearly spelled out in the Act.

The results are that while most other advanced nations in the world have been laying out comprehensive forward looking plans for the development of urban areas, for the laying out of greenbelts around cities, for the creation of satellite and new towns to contain the urban sprawl, for the provision of basic trunk lines for sewage and water, transportation, solid waste disposal facilities and the supply of serviced land and an adequate number of housing units to meet the demand—Canada has taken no such action.

The Federal Government should now take steps to see that the Corporation carries out its duties under the Act.

(2) As a further step, I would strongly recommend that the capital cost of Education should become Federal and/or Provincial responsibility in total. There has been a suggestion that this would involve a substantial increase in taxation. However, one must, I think, take into account the fact that schools are being built, equipped and paid for, and the funds required have been forthcoming. The problem is, I think, that the funds are being provided inequitably, the burden falling particularly heavily on new home purchasers.

I can give two simple examples to illustrate this point. Let us take an average family which will produce children of school age over a period of, say, 15 years. On purchasing a house, that family will be saddled with the payment then and there of their proportion of the capital cost of schools for their area. These are schools which will certainly still be standing and in use in at least 50 years time.

To give another example, my Company has recently had to abandon the construction of two apartment buildings in Bramalea for which all necessary consents were available, because the capital school cost required by the School Board, through the Municipality, was such that it would be impossible for us to obtain economic rents in that area.

(3) The Federal Government should stop using the housing industry as a monetary tool, set out a clear basis of future policy in regard to mortgage funds to be provided through the Corporation, and rates of interest applicable thereto, which steps would have the effect of introducing stability into the industry.

(4) The Corporation should change its mortgage requirements which are out of step with current housing costs. I would suggest that the maximum term of CMHC mortgages be extended to, say, 50 years and that the maximum mortgage permitted by the Corporation should be increased to bring it in line with current housing costs so that the down payments now required be reduced to a point where they are within the reach of the lower income groups.

(5) The Provincial Government should streamline and improve its administration so that a great deal of the delay and cost involved in obtaining approval of plans and subdivision agreements might be eliminated.

As a comment, the "Community Planning Branch" of the Department of Municipal Affairs does not "plan"; it reviews, accepts, rejects or modifies plans put forward by local Municipalities, but prepares and puts forward neither regional, area or local land use plans; furthermore, there is little co-ordination of land use and land servicing plans between the Ontario Housing Corporation, Ontario Water Resources Commission, Community Planning Branch, the Department of Highways, the Conservation Authorities and other branches involved in matters concerning urban development and planning.

It is my understanding that the Provincial Government is moving to overcome this particular problem.

(6) The Provincial Government having enacted legislation to provide the capital funds for the provision of water and sewage services in the Province to be paid for on a user basis by the Municipalities concerned, should see that the legislation is speedily implemented. At the present time the capital costs involved are still falling on the Municipalities, which are passing them on to the Developers, who, in turn, must pass them on to new home purchasers.

Dr. James indicated to me in his letter of February 14th, that the Committee wished to consider whether the market for serviced, urban building land might have monopolistic features which might be a cause for public concern.

I have noticed that a statement was made to the Committee during its hearing in Halifax last week which indicated that some large developments (presumably in the Halifax area) had taken on a monopolistic tendency.

It is, I think, well known that there are a large number of land developers in the Metropolitan Toronto region and an even larger number of house builders. There is little doubt that this region is probably the most competitive area in Canada for the housing industry. There is, therefore, in my view, no reason for any concern whatsoever in regard to monopolistic features in this industry in this area.

In conclusion, we have endeavoured to show in this brief that the problem that exists in providing housing at a price that people can afford, is almost entirely due to unrealistic demands made upon Developers by Government at every level, which demands must and do reflect directly in the cost of housing.

It follows, therefore, that if Government would fulfill its proper function of planning, regional land use and land servicing and of providing a viable fiscal climate in which this industry can operate, there is no doubt that the industry is very capable of providing housing units in volume and at economic prices, which the average Canadian can afford.

And finally, one statistic—

A recent study by the National Research Council says that the construction industry has done a remarkable job in holding down costs since 1945. Since then, the study says, housing costs have gone up 40 per cent but those of materials have jumped 51 per cent and labour has soared to 136 per cent.

SUBMISSION

To the

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

Prepared by the

CONSUMERS' ASSOCIATION OF CANADA (TORONTO, HUMBER-OAKVILLE, ST. CATHARINES) AND CONSUMERS' ASSOCIATION OF CANADA (ONTARIO)

28 FEBRUARY 1967

TORONTO, ONTARIO

Preamble

Mr. Chairman and members of the Committee we commend you on your decision to meet with the people in the major areas of our country in an effort to seek solutions to the high cost of living.

In order that you will be able to hear from as many consumer groups as possible today the following Consumers Association, Toronto, Humber-Oakville, St. Catharines and Ontario have decided to present one submission to you in four parts. As is evident each Association experiences problems related to its individual area. The local Associations represented here today have a combined approximate membership of 3,500 and cover the geographical areas of Metropolitan Toronto, Port Credit to Clarkson and the Niagara Peninsula. Ontario CAC has a membership of 8,000 and covers the whole of the province.

Mr. Chairman, the aims and objects of the Consumers Association have been given to you prior to today by the National Consumers Association when they presented their brief to you in Ottawa. In the interest of time they are not included here but we would be pleased to reiterate them should any member of your Committee wish to hear them stated.

The members of the Consumers' Association (Toronto area) are aware that the reasons for the high cost of living are complex and cannot be resolved by any single government or industry measure but rather by the adoption of many policies and practices which will add to the efficiency and productivity. It is not our purpose to suggest that equitable returns to labour, management or capital be curtailed but we are, rather, making some concrete suggestions for consideration which we submit will increase efficiency and be of benefit, not only to the consumer, but to the total economy.

It is the firm belief of our membership that the consumer has the right to be heard, to be informed, to be educated and to be represented. The proposals as suggested to you today are to be found within the context of these basic rights: we suggest the following proposals—

1. That encouragement be given by your Committee to the introduction of the Metric System to the Food and Packaging industry—Toronto.
2. That consideration be given to the formation of a department of Consumer Affairs within government—Humber-Oakville.
3. A. That uniform grading be adopted throughout the food industry.
   B. That the federal Sales Tax on building materials be abolished—St. Catharines.

4. That consideration be given towards the curbing of the use of Games of Chance and other Promotional Gimmicks either by regulating the type permitted or by limiting the amount which may be spent upon this type of promotion.—Ontario.

In conclusion, Mr. Chairman and Members, we ask you to give serious consideration to the foregoing proposals.

Respectfully submitted,
Cathryne Armstrong,
President,
Consumers Association of
Canada (Toronto)

PART 1

In 1961 and again in 1962 the Consumers Association of Canada (National) asked the Federal Government to undertake a study on the feasibility of adopting the Metric System as the standard of measurement in Canada. In 1965 the Federal Department of Trade and Commerce was commended in by this Association for its decision to undertake such a study. It may be further pointed out that in 1966 of the 90 nations trading with Canada 67 were using the Metric System. It is further noted that Great Britain after years of debate from 1798 to 1965 decided to adopt the decimal (Metric) system.

In 1966 the Consumers Association (Toronto) held an open meeting on this topic because of its relevance to our area. That year alone, 194,743 immigrants were admitted to Canada, a high proportion of which settled in Toronto. The Women's College Hospital, Sick Children's Hospital, the Hydro Electric System, Tooling Manufacturers and the Photographic Industries were already using the Metric System.

Opinion was registered at this meeting that encouragement be given to the Food and Packaging Industry to adopt the Metric System as quickly as possible in the interests of efficiency and ultimate economy. The Consumer would then be in a better position to equate content to price and package in fractional weights and deceptive sizes would disappear from our store shelves.

It was pointed out in the MacQuarrie Committee Report, 1950, that the desirable alternative to government control is competitive control which is predicated on the existence of a well informed consumer. It is noted here that the Bioway Company of Canada in marketing their new detergent product have at the suggestion of this Association shown the equivalent weight in grams on their label. It is offered here as tangible evidence that a manufacturer has given consideration to a label which will aid the Consumer in making an intelligent choice in the market place. It is also noted that J. M. Schneider Ltd. Meat Packers are presently using the Metric System to a degree. Invoicing from Packer to Wholesaler is more readily adapted to computer e.g. IBM. Further evidence is offered on behalf of an independent grocer who suggests that several smaller packages are actually cheaper than the large container of an aggregate weight. Had the Metric System been in use the difference would have been much more evident to the Consumer.

Recent immigrants in our city are confused about the complexity of package sizes and this in addition to the fact that there are too few clerks who speak their language are at a decided disadvantage in trying to be wise shoppers.

We realize that good shopping habits require a continuing process of education in which this Association has assumed a responsibility. It is suggested, Mr. Chairman and Members, that your Committee could be of valuable assistance

to all of us if an effort could be made by you to impress upon the Food and Packaging industry the desirability of adopting the Metric System of weights and measures as quickly as possible.

Respectfully submitted,
Cathryne Armstrong,
President—Consumers Association
Toronto.

TO SENATE-COMMONS COMMITTEE ON CREDIT (FOOD PRICES)

Submission

Humber CAC

In September 1947 the Consumers Association of Canada eagerly and intelligently entered the Canadian scene as the educator, defender and representative of the Canadian consumer. The field *then* was green with opportunity, devoid of the many pitfalls we *now* know since the consumer marketplace was not so congested. Our greatest aim was to win the race of informing the consumer on how to get dollar value for dollar spent *before* our country returned to full peace time economy. This return would surely bring an abundance of hoped-for and improved consumer goods.

In those early years, we as volunteers in the work of educating consumers on how to be wiser and more skillful in their buying, found we *could* keep abreast of items reappearing in familiar forms or appearing in new forms, as a result of technological advances due to the war. We were like a good team running a relay race. We could tackle one area of concern, i.e., the need for a change in Federal legislation to permit margarine to be sold in our country. Wherever we worked across Canada, we could pick up our share of the educational work and, so to speak, run with it so that finally we brought all the runners in and the race was won. Alas, however, as time has gone by, more races need to be run, more workers need to share the load, since the consumer goods field has become swollen with a diversity of consumer items.

Today we in CAC, and I speak especially for those of us in Humber, a densely populated, fast growing, high consumer spending area, find our running shoes almost outgrown in the face of the increasingly complicated problem of consumer choices. The need for more and better consumer education, the defence of the consumer rights and the representation on his behalf is so staggering as to make it an almost impossible race for even this strong 'voice of the consumer'.

We CAC workers can leave our homes early and often to speak to any number of women's groups, trade associations, government commissions, gatherings of experts, etc. but as fast as we talk, sharp and swift changes in the marketplace go ahead of us. It's one thing to advise women to 'buy by grade', but another to find that when she goes to a supermarket, she is denied the choice of the less expensive 'standard or utility' grade by the very absence of it on the shelves of the stores. She may learn all the right theories from our CAC teaching, but she is still at the mercy of the marketing man who offers her *what he thinks she should want!*

When the telephone rings, and my telephone rings very often, what are we in CAC to say to men who are evidently capable of making good consumer choices if they can secure good consumer information. When we are asked for help in buying the best coaxial head for a colour TV, when we are asked to evaluate the merits of three water softeners with a price spread of $80.00 between each, when we are asked what effects on plumbing and other electrical appliances such water softeners have, when it is demanded of us to rate a transistor radio or an automobile tire made in the U.S.A. with one manufactured

in Canada, when we are asked to state categorically which is the best dishwashing machine on the Canadian market—what are we to say? Our organization, on a non-profit voluntary basis, is doing an amazingly good job, has always done an amazingly good job, but today's living brings highly important and very puzzling consumer decisions far beyond our ability and good intention.

Our twenty years of endeavour have brought a better Canadian product to make a better Canadian way of life, whether it has been in food, textiles, furniture, appliances, toys or legislation with its own price tag of taxation. Our Association has been a force for the good in Canada and we will continue to be. We will always be the organization to which the people turn—whether it be the teen-ager with the question about cosmetics, the new bride with the concern of furnishing a home, the young mother with the worry about the children, the harassed husband struggling with too much credit allure, or the pensioner with too few dollars to afford all his needs. We are presently servicing complaints at the rate of 60 per cent non-CAC members! These people get exactly the same willing help the 40 per cent CAC members have come to rely on.

The time has come for the Government to enter the race to keep our consumers, Canadian citizens, better informed and better equipped to make better consumer choices. The proposal of a Department of Consumer Affairs put forward by ourselves (and other groups) makes sense and would save not only thousands of cents, but dollars too! This Department would have access to information about coaxial heads for TV colour sets and other such complex and technical questions. CAC would be the normal channel for questions and concerns to this Department. CAC would be the natural voice from the Department back to the consumer. With all our years of knowing and caring for the consumer in spite of his oftimes poor judgement, of helping him in spite of himself, such a Consumer Affairs Department would strengthen the work we are doing and would, moreover, strengthen the whole Canadian economy.

It is increasingly evident to us in this west end of Metro Toronto that there is an absolutely urgent need for assistance to the consumer so that he may know how to spend hard earned dollars in the wisest possible way. CAC is providing assistance of a very real nature, but CAC is steadily losing the race begun 20 years ago in the face of the faster and faster growing race for the consumer dollar!

Norma Anne Carrier, (Mrs. Phil G.)
President, Humber, CAC
800 members

Submission also supported by Oakville CAC—150 members
Mrs. W. G. Reaume, President

PART 3

Because terminology used in the food industry to designate Grade and Quality is very confusing and even a little misleading the St. Catharines CAC Association asks that uniform grading be adopted throughout the food industry so that the Canadian Consumer can make a discriminating choice in regard to price and quality.

Because the average wage earner of $5,000 is unable to readily save for the down payment, or sensibly commit himself to a mortgage on an average home of $18,000; the St. Catharines CAC Association asks that the Federal Government rescind the Federal Sales Tax on building materials, with a regulation that the saving be passed directly to the home buyer.

Respectfully submitted,
Eleanor Lancaster,
President,
Consumers' Association,
St. Catharines.

PART 4

On behalf of Consumers in all sectors of our provincial economy the Consumers' Association of Canada (Ontario) has requested that our Minister of Justice and Attorney General impose a ban upon the use of trading stamps and other self equalizing promotional devices.

Many studies have shown that the use of trading stamps adds at least 2 per cent to cost of food purchased from stores using them, an unnecessary expense in this period of rising costs. It is also indicated that they bear heavily upon the supplier who is under pressure to lower his prices and on the independent retail outlet which is not able to participate or whose market is wiped out by the premium plan.

While we recognize the value and educational potential of good advertising, games of chances and other promotional gimmicks fail to make any contribution to the community in this regard. We would respectfully suggest that any action taken to curb their use either by regulating the funds which may be spent upon this type of promotion, would be beneficial to the consuming public.

Respectfully submitted,
K. MacIntosh,
President,
Consumers' Association of Canada
(Ontario)

SUBMISSION BY THE CONSUMERS' ASSOCIATION OF CANADA—HAMILTON BRANCH

BRIEF ON HOUSING

As members of the Consumers' Association of Canada, we are pleased to see the institution of this committee to inquire into consumer prices and credit, and pleased to have the opportunity to bring directly to its attention one aspect of the inflated cost of living which, in our view, deserves prime consideration.

We speak through our president, Mrs. V. Cousins for the general membership of the Consumers' Association of Canada in Hamilton and the surrounding district.

The most recently published cost of living index figures indicated that housing costs, that is shelter and household operations, were more responsible than any other single item (except food) for the highly accelerated cost of living. We consider a citizen's right to decent and reasonably priced shelter to be as fundamental to his welfare as his right to wholesome and fairly-priced food. We have therefore taken note of the ways in which present housing falls short of this decent and reasonable standard, and have searched for specific and we hope practical means of alleviating some of the distress borne by Canadian citizens of average incomes in search of suitable homes, in search of an environment in which they can live in health, dignity and happiness.

SUMMARY

In general, we find that the 11 per cent federal sales tax and 5 per cent provincial sales tax contribute most effectively to the increased present cost of dwellings. We feel the tax to be unfair in two ways: it is first of all a tax on a basic necessity, comparable to a tax on food; secondly, the purchaser, in actual fact, pays a tax to the government and continues to pay interest through his mortgage, on the money which he has already handed over to the government in these taxes.

We ask therefore, for a reduction in these federal and provincial taxes.

A second factor in the increased purchase price is the high cost of land which is as expensive as it is, not only because of a natural law of supply and demand, but also because of the requirements which municipalities make that utilities and services to building lots be paid for, before the building begins. Central Mortgage and Housing Corporation figures show that in 1959 the average land cost for a new bungalow in Hamilton was $2,900.00, and in 1967 the price is $6,500.00 to $7,000.00.

Related to this problem is the great variation of arbitrary stipulations laid down by the number of building codes in effect from municipality to municipality, a situation which prevents builders, in many cases, from taking advantage of cheaper, mass-produced construction materials.

We ask therefore, for a re-assessment and a revision of local building codes with a view to standardizing them throughout wider areas.

We feel, too, that some means must be found to help the average-income family find lower mortgage rates in order to finance his home and find cheaper procedures in the actual construction of the physical dwelling. We feel further education for the public in co-operative undertakings would be of value in this second area. We ask therefore, for research and possible reforms in fiscal policies.

The high cost of adequate housing poses threats to the consumer in many ways. Mr. Stephen Lewis (N.D.P. for Scarborough West) was reported in the

Hamilon *Spectator* to have told the Ontario legislature that at least 10,000 families in Toronto now are looking for adequate housing and that a number of these families face emotional problems, or are being broken up because of poor housing conditions. More than 20 per cent of the cases handled by the Children's Aid Societies are related to housing problems. The same situation exists in Hamilton.

Although he was speaking specifically of the need for low rental housing, a similar need and a similar emotional distress exists in families whose income places them out of the bracket eligible for low rental homes, but not yet in that affluent bracket which can afford today's price of a moderately sized average home.

A man with the Hamilton average income of $6,000, can obtain his maximum NHA mortgage of $14,000.00 for 27 per cent of his salary, that is $135.00 monthly, to cover interest, principal and taxes. To purchase an average size home in Hamilton in 1966 and pay $135.00 monthly to cover interest, principal and taxes he would have to have amassed a down payment of $6,500.00—more than a year's wages, and virtually impossible.

Milford Smith, business editor of the Hamilton *Spectator* says that the 11 per cent sales tax on construction materials is strangling the steel industry which is the backbone of Canadian economy (and the livelihood of most of Hamilton's citizens). Because fewer people can afford to buy construction materials of which steel is a major ingredient, production must be cut back, steelworkers suffer a reduction in pay, and are consequently twice penalized, as producer and consumer, with respect to their ability to purchase housing for their families. In addition, Mr. Smith says that the steel industry as a whole suffers loss; shares in Stelco and Dofasco dropped in value from $27.00 to $20.00 last year. Production is limited in this industry and consequently development of our natural resources in the far-flung parts of our dominion is retarded. Since fewer pioneering developments there, and fewer simple construction undertakings in home-building are underway here, the labour force loses some of its major employers.

Another factor in the high cost of owning a home is the continuing increase in property taxes and the high sales taxes (see Table V). Mr. Nixon, Ontario Liberal leader is quoted in *The Globe and Mail* of February 17, 1967 as saying that "education costs had reached such depressing proportions that home ownership itself is coming into serious question." Mr. Grant L. Duff, president of the Ontario division of the Urban Development Institute is quoted by the Owen Sound *Sun-Times*, February 11, 1967, as saying that "Typical capital charges by the municipality add $1,000.00 to the cost of a house. Direct sales tax by the federal and provincial governments adds another $1,000.00." He recommends funds be supplied by the federal government; that the provinces ensure a supply of serviced land; that "the municipalities should be relieved of the cost of education so that they are financially able to accept residential growth."

The Hamilton *Spectator* quotes Mr. Wm. Pigott, President of Pigott Construction Company Limited as saying that "the reduction or remission by the federal government of the 11 per cent sales tax on buildling materials would do more to create an increase in construction as a whole than any other measure."

Construction work is a great source of employment; the industry however, is declining in the first half of 1967. In 1950 construction contracts provided work for 384,000 men; in 1957, 1958, 1959 for 600,000 men. Reduced construction in 1967 will be therefore, a blow to the national economy; development of new frontiers will be delayed,—and fewer families will have homes of their own or be able to afford to rent them. If a man cannot afford to provide a home of his own, he must look to the government to help him find housing. An additional burden will be placed upon the social service expenses of the government. Are we robbing Peter to pay Paul?

It is the opinion of this association that prefabricated houses could help relieve the shortage and the pressure in the housing question.

The Steel Company of Canada has sponsored the production of three 4-bedroom dwellings of 1,500 square feet which will be on display at the National Home Show in Toronto this year. *The Globe and Mail* reports the expected cost would be $15,000 or $16,000 including land. The Steel Co. suggests that this is the way to beat the rising costs of material and labour. Volume production could result if the market opened up.

Sol Burke, president of The Canadian Home Manufacturers' Association said (*Globe and Mail*, February 3, 1967) that prefabricated houses would alleviate the difficulty of supplying economical housing in rural areas and small communities where the C.M.H.C. restrictive demand for a minimum population of 5,000 before mortgage money is available prevents the construction of moderately priced homes. As a result of this restriction, there is mass migration to urban areas, where congested population compounds the housing difficulties, and adds to welfare problems. Mr. Burke said that for every prefabricated house sold, three could have been, if mortgage financing had been available. He said also that 1966 was a sobering year for house manufacturers; that the building industry seemed to have become the target of the government's fiscal policy; that a similar year could be disastrous for some sections of the building industry.

The late Mr. Kenneth Soble, as president of the Ontario Housing Corporation, asked for thorough investigations to be made into the possibility of replacing old-fashioned building methods, eliminating municipal red tape, standardizing building codes, bringing together experts in construction and manufacturers of building materials; later, politicians and labour leaders would confer to help break down road blocks of law and policy. Ontario Housing Corporation with its large scale plans for public housing would provide a big enough market to make production economically feasible.

We have been assured that Central Mortgage and Housing Corporation in co-operation with the National Research Council, has been trying over 25 years to find ways of reducing the cost of housing, and will continue to do so, and to aid other organizations in this research. We urge a renewed and intensified effort here, with particular attention given to prefabricated components, and to the supply of water, and sewage disposal.

We recognize, too, the spring house-building program whereby the federal government plans to make loans directly to builders who may then proceed with construction without first selling the dwelling unit. Although this program will help smaller communities as well as urban areas, and provide rental units as well as purchased units, the need is far greater than the scope which the plan offers—20,000 units. The Economic Council of Canada last fall set a goal of 170,000 units a year.

We note, too, that Labour Minister Nicholson has planned a series of cross-country conferences at which public and private officials in the field of housing are to explore ways in which housing starts may be increased. They are also to review housing legislation, a measure which this association feels is very necessary.

We are also aware of the hopes of the federal government in their move to allow banks to lend money for mortgages. By removing former restrictions on lending money for this purpose, the government hopes to make more money available and so bring down the interest rate. This association feels, however, that this move relieves the symptom without curing the illness. It might relieve some of the pressure on some of the families who could then afford to borrow larger sums of money, but it does not reduce the high cost of materials and

components of the dwelling. This high price results not only from production costs but from the federal and provincial taxes placed on the building materials, and on the highly-priced pre-serviced building lot.

OUR RECOMMENDATIONS

In view of these findings in which the various problems listed far outstrip the measures being used to solve them, and so provide housing at reasonable cost, this association therefore makes the following recommendations.

1. The 11 per cent federal tax and the 5 per cent provincial tax on building materials should be entirely removed. If this measure is not possible, then we request that such taxes on a single family dwelling should be removed, up to the level of a $12,000. cost price and in multiple dwellings up to a comparable level. This figure would exclude land cost, and would allow a tax on materials used above the value of $12,000.00, the use of such materials being construed as a luxury factor in home building. Removal of such taxes would place housing in the same category as food, a basic human need.

2. Central Mortgage and Housing Corporation and the National Research Council should be strongly urged to intensify and expedite their research into ways of lowering the cost of providing sewer and water services to building lots, and to find ways of taking advantage of mass produced building components, with the possibility of leading towards some kind of prefabricated houses. With regard to these recommendations, we ask that this committee support the recommendations that the late Mr. Ken Soble made to the Ontario Housing Corporation on October 17, 1966.

We heartily endorse his recommendations.

3. More uniformity should be introduced into building codes, so as to take advantage of modern concepts in building and recent technical improvements in methods and materials. We would ask that these codes be standardized over wider areas, so as to make use of mass production methods in erecting individual housing units.

4. Investigations should be undertaken to explore all possible ways of lowering the interest rate on mortgages.

5. Efforts should be made by the government to educate consumers in the many financial advantages of co-operative procedures both in purchasing building lots and in erecting dwellings.

TABLE I

RATES OF N.H.A. LOANS AND PAYMENTS

	Mortgage $15,000 over 25 years		
Effective Date	Rate	Payments per month interest + principal	Total Payments
	%	$	$
Sept. 1/1951	5	87.25	26.175
Nov. 1/1952	5¼		
Mar. 24/1954	5½	91.56	27,468
Feb. 17/1955	5¼		
Mar. 12/1956	5½		
Jan. 22/1957	6	95.98	28,794
Dec. 18/1959	6¾		
Nov. 6/1961	6½	100.48	30,136
June 14/1963	6¼		
Jan. 7/1966	6¾	102.76	30,728
Nov. 23/1966	7¼	107.39	32,217
$15,000 over 40 year term	7¼	94.78	45,494

TABLE II

AVERAGE ESTIMATED LAND COST FOR NEW BUNGALOWS GREATER HAMILTON FROM C.M.H.C.

1959	$ 2,900
1962	3,800
1965	4,800
1966	5,600
1967—Estimation	6,500–7,000

TABLE III

AVERAGE TOTAL COST OF NEW BUNGALOWS GREATER HAMILTON, FROM C.M.H.C.

1961	$ 15,600
1962	15,000
1964	16,600
1965	18,000
1966	20,500

TABLE IV

NATIONAL AVERAGE ESTIMATED COSTS OF SINGLE FAMILY DWELLINGS, CENTRAL MORTGAGE AND HOUSING CORPORATION

Year	Land	Sq. Ft.	Construction	Other	Total
	$		$	$	$
1954	1,671	1,080	10,377	257	12,305
1958	2,463	1,094	11,561	243	14,267
1959	2,472	1,089	11,750	240	14,462
1962	2,535	1,128	11,916	233	14,684
1965	2,862	1,153	13,486	300	16,648
1966	3,110	1,179	14,569	336	18,015

TABLE V

INCREASE IN COST OF AVERAGE HOME

Year	Mortgage	% increase in sq. ft.	Current Mortgage Rate	Monthly payment Princ. + Int.	% increase Princ. + Int.	Hamilton Municip. Tax per Month	Monthly Payment Princ. + Int. + Municip. Tax.
	$	%	%	$	%	$	$
1954	12,305		5½	75.09		22.33	97.42
1958	14,267	1.3	6	91.28	21.5	23.59	114.87
1959	14,462	0.8	6	92.53	23.2	25.24	117.77
1962	14,684	4.5	6½	98.37	31.0	28.66	127.03
1965	16,648	6.8	6½	109.00	45.2	31.18	140.18
1966	18,015	9.1	7½	129.10	71.8	33.53	162.63
1966—Hamilton	20,500		7¼	146.80		33.53	180.33

NOTE: Total cost of house is used as mortgage for percentage comparison as down payments are variable. NHA Mortgages are 95% of first $12,000 and 70% of remainder to an $18,000 maximum.

A down payment of 10%, for example, would reduce the mortgage and its monthly payments by 10%.

SOURCE: Calculated from C.H.M.C. Tables and Hamilton Municipal Taxes for a 1,100 sq. ft. bungalow by Mrs. L. McCague, B. Sc.

Submission of

WOMEN AGAINST SOARING PRICES

to the

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

February 28, 1967

PREFACE

In the present economic situation, most of the nation's citizens have felt the effects of increasing costs and static or relatively declining incomes and standards of living. Because of this situation, we are concerned about the recent rapid rise in the cost of food, but also in the area of rents and housing where the costs are prohibitive to persons earning the average wage in the nation. (Source: Toronto *Daily Star* series on Housing, February, 1967). It is our opinion that because of the necessity of meeting excessive costs for the necessary items for living, we are depriving ourselves and our families of personal fulfilment in other areas of living. There is no doubt that Canada, in cultural and artistic pursuits, has not fared well, and it is our belief that this is partly due to the lack of support received from the public which in turn is related to the inability of the public to provide economic support.

We feel that in this instance, interested citizens must become directly involved with the government in rectifying the situation. We must, of necessity, quickly establish both the causes of our present situation and the reasons which allow the causes to flourish. In evaluating the causes, it becomes clear that the economic picture is extremely complicated, but the reasons are solely political for it is our political system and its operation which establishes the parameters within which our economic system operates. The fact this committee exists indicated the government's total responsibility for our present situation.

However, our immediate objective is to reduce the unreasonable high cost of food by whatever means are available to us and to focus attention on other areas in which we feel excessive costs and prices are detrimental to the Canadian populous.

As consumers, it appears to us that there are many facets to the food cost problem. They all boil down to the fact that food prices are too high, and these same prices are rising at unreasonable rates. On the basis of accepted, reliable statistics, many people do not have enough money to properly feed and raise their children as well as to provide for themselves.

The acceptable food budget for an average family of four is $105.25 per month. This works out to $1,263 per year. If we accept the statistics of various social agencies, specifically that 25 per cent of a family's budget is required for fod, then the family of four requires an annual income of $5,052 or $97 per week. (Source: Miss Kay Taggart, Head of the Visiting Homemakers, Toronto).

The statistics issued by the Dominion Bureau of Statistics indicate that the average annual income in Canada is under $5,000. On this basis, at least half of the Canadian population does not make enough money to adequately care for their families.

We (the public) are constantly barraged, as this committee has been, by business and corporate leaders referring to our "free enterprise" competitive system. However, in reality, what exists is an economic system of private enterprise (quite distinct from "free enterprise") in which there is virtually no

price competition. The competition today is between the companies producing the goods and the consuming public rather than between companies. Many firms employ psychologists and analysts to determine the colours which draw peoples' attention the quickest and to design appealing packages to encourage sales—both practices unrelated to the quality of the product. A large number of various companies employ gimmicks such as "cents off" labels, give-aways and trading stamps to corner a greater segment of the total volume of sales. In this area too, the responsibility is clearly that of the government.

However, we are not here today to level fault at our government, but rather to present to our government, through this committee, practices which we believe must be curtailed and steps which could be taken to afford protection to the consumers.

Our basic submission is that the government, who we stress, decides the ground rules that our ecocnomic system must operate within, must prepare protective measures which will allow the consumers to purchase necessities without having to be wary of misleading practices and inferior goods. We submit that the food industry should be treated as a quasi public utility as it is required by every individual in our country. The food industry should be treated as any other public utility and should operate primarily for the benefit of the populous, not as it has been operating, primarily for profit, and secondarily for the populous. We do not suggest that the food companies should not make a profit, but we do suggest that their maximum profit percentages (based on investment and *not* sales) be subject to some type of government regulation.

FOOD PRICE MANIPULATION

When dealing with a commodity such as food, we cannot comprehend the policy which allows a specific store or chain of stores to sell the same product, on the same day, for different prices. We include as exhibits two tins of evaporated milk, purchases in the Loblaws store on Pacific Ave., Jan. 31/67, at *a regular price* of 2/33 cents and the *identical product* purchased in the Annette Ave. Loblaws store on the same day at the *regular price* of 2/37 cents. Both of these stores are owned by the same chain and are located in the same general neighbourhood. If the Pacific Ave. store regularly sells the product at 2/33 cents and makes a profit, why does the Annette Ave. store charge 2/37 cents for the same item?

Another example we present today are two identical one-pound packages of bacon, purchased at the Dominion Store at Dufferin Street and Lawrence Ave., by the same person on the same day and only a few minutes apart. One was priced at $1.05 and the other at 95 cents.

Did the hog prices also change 10% during the same day?

As further evidence of this practice of price manipulation in marketing, we submit the Oct. 17/66 column by Ron Haggart of the Toronto *Daily Star*. (Enclosure No. 1)

Contrary to the public claims of retailers that their markup is in the vicinity of 20% (claim by Leon Weinstein, president of Power Stores (Enclosure No. 2)), there are examples of the markup being several times 20%. In the late summer (August) when local grown tomatoes were sold by farmers for 5 or 6 cents per pound, the retailers were charging approximately 20 cents per pound, a markup in excess of 300%.

Even today, tomatoes are retailing at prices from 29 to 39 cents per pound while the wholesale price is 19 cents per pound, thus providing a markup range of 50 in excess of 100%.

With respect to "gimmick marketing", we submit these 2 containers of Billy Bee honey, purchased in the same store at the same time. One is a plastic

container which held 16 ounces of honey and cost 39 cents which works out to 2.44 cents per ounce. The other is a 12 ounce glass which sold for 43 cents or 3.58 cents per ounce. Twelve ounces in a plastic container would cost approximately 29 cents—which means the consumer was charged approximately 14 cents for the glass.

Another practice which requires some scrutiny is that of providing identification names to particular cuts of meat. We submit a photograph of 3 pounds of meat sold in Loblaws as "Canadian Pot Roast". When the binding of the meat was cut, the "Canadian Pot Roast" fell apart into 18 distinct pieces. It was nothing other than loose pieces of stewing meat bound together and marketed as a roast.

MISLEADING ADVERTISING

We ask that our government enact and enforce legislation which will protect the consumers from misleading advertising—eigher blatant or by implication. We ask that you remove the present inequities which afford a clear field for advertisers but no protection for the consumers.

At present, the only consideration afforded the consumer is contained in the code of the Canadian Advertising Advisory Board which states, "no advertisement shall be prepared, or knowingly accepted, which contains false, misleading, unwarranted or exaggerated claims, either directly or by implication." Or as in the code of ethics of the Institute of Canadian Advertising, advertising prepared by its members should be "legal, truthful and in good taste". It calls on advertisers to avoid unsubstantial comparisons; publication of unreliable or inconclusive tests; misleading claims, descriptions or illustrations; and advertising of unworthy products or services. However, these are not enforced codes but rather suggestions to those in the advertising industry. Why should the consumer be subjected to claims such as "whiter than white", intensified", and "clothes even smell fresher". Does the claim "new, improved', indicated on many types of detergents at various times mean the quality of the product is better, or, that the box has been designed better. Such objective advertising claims should be eliminated.

SIZES, WEIGHTS, AND MEASURES

Further, with regard to advertising and marketing practices which leave much to be desired, what is one to interpret when confronted with such sizes of products as "giant, king, super, regular, family, economy, and jumbo"? Does the "giant" size box marketed by one company have the same volume of contents as the "giant" size of another company? Is the "family" size of one company the same as the "economy" size marketed by another company?

We believe, that if these various sizes are to be marketed, there should be legislation to spell out what is a "giant" size as compared to an "economy" size and a specific weight assigned to each size classification.

We are asking for the government to institute a ranking of the various terms used to indicate size and to assign a specific weight to each.

In the same vein, we ask that the government institute a study of weights and measures with a view toward elimination of confusing irregular and fractional weights. As an example, we submit toothpaste boxes which indicate a weight of 2.8 ounces. What are the reasons for marketing items which weight $6\frac{1}{4}$ ounces or $2\frac{7}{8}$ ounces?

When it is obvious that even weights, such as 6 ounces rather than $6\frac{1}{4}$ ounces, would facilitate comparative shopping for the consumer, we can only conclude that the fractional and odd weights are employed by companies to confuse the public.

There are instances of short weights being marketed and we desire effective protection in this regard also.

As evidence, we offer this container of vinegar sold by the Canada Vinegar company. It is marked 40 fluid ounces but contained only 38 ounces of vinegar. Upon further examination, it became apparent that the container was capable of *holding only 39 ounces.*

We believe, that in this area of weights and measures in particular, the government must take the steps which only they can take, to provide some degree of protection for the consumer.

THE DRUG INDUSTRY

In the area of drugs and drug sales, we wish to add our support to the numerous demands that the profiteering of the drug industry be immediately curtailed. That profiteering does exist is adequately shown by the fact that the Merck Drug Company had a list price on the item Decadron of $29.80 per 100 while another manufacturer, Gilbert and Co., sold the same product for $35 per 1,000. The fact that Canadian drug prices are the highest in the industrialized world is well documented in the Toronto *Daily Star* series by D. H. Fullerton, Nov. 21, 28, 1966 (Enclosure No. 3).

We just ask the question which has been asked before, why does the government go on protecting this greedy industry at the expense of the public?

TRADING STAMPS

This committee, and other political officials, have received several requests related to the control of the practice of using trading stamps and other promotional gimmicks. We again emphasize that trading stamps are not provided for the benefit of the consumer but rather are employed to corner a larger segment of the consuming public by committing them to save the stamps and then return to the same store to make purchases and collect more stamps which become necessary for the redemption of merchandise.

It has been amply documented by studies at the Universities of Rhode Island and Cincinnati, and further admitted by some retailers, that trading stamps increase the retail price of the item to the consumer by 2-4 per cent.

We suggest that the use of trading stamps be discontinued across this nation. In lieu of such action, that is if the government feels trading stamps are beneficial to the public, we suggest that the government recognize the trading stamps as secondary currency negotiable throughout the country.

STATISTICAL DATA

We suggest that legislation be passed which will eliminate some of the inaccurate statistics which have been battered around before the public for the past eight months. The two specific changes we recommend are:

(1) that all corporations be required to calculate and publicize their profits on the same basis that applies to individuals, namely profit as related to investment. Profit on sales is not an accurate indicator of the profit position of any company.

(2) that the Consumer Price Index of the Dominion Bureau of Statistics be adjusted to accurately indicate the *consumers retail cost.* As you no doubt know, the Consumer Price Index is restricted to measuring the cost of the food inside the container and does not take into account the cost of the container or packaging (Enclosure No. 2). A rough estimate is that packaging accounts for 5 to 10 per cent of a grocery bill. So in effect, although the statistical cost of living has risen 8.7 points in the past two years (Dec., 1964 to Dec., 1966) (Enclosure No. 4) the *actual* or *real* cost of living as felt by the individual consumer has increased even more.

Both of these suggestions have been submitted in a desire for greater accuracy and honesty in the basic figures which must be used to determine the direction and rate of movement of the economy.

CONSUMERS' BUREAU

It was with a great deal of surprise that the Canadian consumer learned of the existence of a Consumer Division under the Department of Health and Welfare. It was equally surprising to learn that this bureau has existed, virtually unknown, for seven years. It was equally surprising, as well as sad and disappointing, to learn that the Consumer Bureau's publicity budget was only $18,000 for the past year. (Enclosure No. 5)

We ask that the government immediately establish a real and effective Consumer Bureau to replace the present division which has contented itself with preparing a few pamphlets and keeping well from the view of the public for which it should be working. We ask that this Consumer Bureau be supplied with enough funds to maintain an adequate staff, to launch a massive publicity campaign so that the total populous becomes aware of its existence, and be empowered to prosecute for misleading advertising and other infringements of the law which may arise. We also submit that this Consumer Bureau should have access to a weekly, prime time radio and television program on which the merits and lacks of various products and merchandise would be made public. In conjunction with this, of course, the Bureau should be empowered to test all products to see whether or not they meet the manufacturer's claims and to also run comparative tests of similar products.

We feel that the creation and maintenance of such a Bureau and program is of the utmost importance to the consumer.

We also feel that such a Bureau and program would revive and foster the element of competition between different firms, which from oft quoted comments of business leaders, is the most desirable economic state.

SUMMARY

In summation, we recommend that our suggestions be incorporated and enforced as laws as quickly as possible. As has been sufficiently shown, we believe, the manufacturing companies are concerned only with improving their profit picture, as indicated by the testimony of the Kellogg Company officials before this same committee (Enclosure No. 6) and so shun voluntary recommendations which would benefit the consumer but not their profit. Only laws will achieve the desired results—not voluntary controls or recommendations as the code of ethics of the advertising firms would like us to believe. We are sure you can easily appreciate what would occur if the payment of income tax was on a voluntary basis, and yet this is precisely how the protection of the consumer has been allowed to exist.

Along with our suggestions, we desire action on the facts and recommendations of the 1959 Royal Commission of Price Spreads and the 1963 report of the Restrictive Trade Practices Commission in relation to drugs.

We make a further recommendation for the establishment of a progressive corporation tex. We recommend that the present corporate tax rate of 50 per cent be applied to all gross *profit on investment* up to and including 6 per cent. We suggest a tax increment of 10 per cent for every 2 per cent increase in gross profit on investment. Therefore, all gross profit on investment exceeding 12 per cent will be subject to a maximum tax of 90 per cent. We stress that this type of progressive taxation does not restrict the absolute amount of profit made by any firm, but rather applies to them the same standards which apply to each of us as individuals.

SUBMISSION

of the

ONTARIO FEDERATION OF LABOUR

to the

SPECIAL JOINT COMMITTEE

of the

SENATE AND THE HOUSE OF COMMONS

ON CONSUMER CREDIT (PRICES)

February 28th, 1967

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SUMMARY OF CONCLUSIONS AND PROPOSALS

1. Our organization representing half a million trade union members in Ontario wishes to compliment the consumer groups of Canada for sparking new interest in consumer problems and in having this committee established.

2. We support public demand for the elimination of expensive sales promotions including trading stamps and the suggestions for a more uniform and understandable system of packaging.

3. In our market economy, attention to costs, prices and profits alone will not solve the problem for a very large number of families who are earning too little to afford an adequate living by modern standards, even if prices were more stable than they have recently been.

The solution for these people lies in boosting their incomes.

The trade union movement supports *minimum wage legislation* as one way to provide a floor under earnings, but this nation and this province is a long way from our present goal of two dollars an hour.

We strongly urge that the federal government move in the direction of devising a *comprehensive policy of social security based on guaranteed annual income* and urge that studies toward this goal be accelerated.

4. Over the years *decent housing for wage-earners at prices or rents they could reasonably afford has been far short of need.*

A great deal of money and time has been spent investigating the problem and not nearly enough on finding solutions.

As a result the situation today is as bad, if not worse, than it ever was.

We support the view of Leon Kumove, housing and aging consultant of Metro Toronto, that a *Royal Commission is needed* to review the roles of all levels of government and to suggest new, bold and imaginative programs for housing our growing population.

Such a broad study should not be a brake on much-needed action now to build good homes and more homes faster.

A few years ago heavy unemployment could have been avoided if the available manpower had been used for massive residential construction programs. For the trade union movement this is not hindsight.

Today we need massive land assembly programs by all levels of government to provide land at reasonable costs and to restrain speculation and exploitation.

We need lower interest rates for housing for most homebuyers.

We need more subsidized housing to provide rents geared to income and family needs.

Rental accommodation is more urgent than homes for sale. Working people are often better off when they are in a position to move as better employment opportunities open up.

We need all this now.

5. The trade union movement strongly advocates a *comprehensive, prepaid health services program* under public auspices.

It is now time that attention was paid to our advocacy of *group health service programs* under community sponsorship.

General acceptance of this kind of health service practice could mean substantial savings in lives and in money.

We specifically draw your attention to the success of the community health centre in Sault Ste. Marie for example, where hospital costs have been substantially reduced with the use of intelligently applied preventive health methods.

6. For various reasons *prescription drugs are far too high in price.*

High cost brand name drugs are not necessarily better than nonbrand name drugs.

The evidence is now so decisive that a measure of the effectiveness of this committee could well be its ability to get quick action (a) in reducing the price spread on pharmaceuticals, (b) in including drugs in the prepaid national health services program.

7. *Automobile insurance* provided by private carriers is too costly and does not provide enough coverage for the cost.

We are in favour of *auto compensation boards* in each province along the lines of workmen's compensation boards as a helpful and meaningful contribution toward lower transportation costs.

8. Consumer groups in Canada, particularly the Consumers Association of Canada, have been performing a valuable public service. None yet, however, is in a position to do as much as the Consumers' Union in the United States and the Consumers' Association of Britain are doing.

We recommend the establishment of an *agency of government to check the quality of goods and services provided for the consumer's dollar and to make its findings readily available to the public.*

9. We strongly recommend the expansion of DBS services to provide more specific data on cities and urban areas, on actual dollars-and-cents prices of the market basket and on specific groups not covered by the general Index.

10. Finally we draw the attention of this committee to our policy statements on major subjects,

(a) *Housing*
(b) *Poverty*
(c) *Wages, Prices and the Consumer* adopted at our 1966 convention and which supported
  (i) A Consumer's Bill of Rights.
  (ii) A Prices Review Board
  (iii) Legislation for more uniform weights and packaging and to provide more safeguards against dishonest and extravant advertising.

— 1 —

Submission of the
ONTARIO FEDERATION OF LABOUR C.L.C.
to the
SPECIAL JOINT COMMITTEE OF THE SENATE AND THE HOUSE OF COMMONS
ON CONSUMER CREDIT (PRICES)

Mr. Chairman,
Honourable Senators, and
Members of the Committee

The Ontario Federation of Labour is the arm of the Canadian Labour Congress in this province. Altogether we represent approximately half a million trade union members engaged in almost every field of endeavour. The policies of our Federation are formulated at annual delegate conventions. These policies cover a wide range of social and economic matters affecting not only our own members but the whole community. While the many problems sourrounding collective bargaining matters are of course of prime concern we have a very great interest in such matters as income levels, housing, medicare, pensions, public welfare, transportation—in fact in all matters having a bearing on community life. Hundreds of our people across the province serve on public boards and commissions of one kind or another covering many of these fields.

We have watched with considerable interest the public hearings of your Committee and are encouraged by the amount of additional information about prices which has emerged from these hearings. As your Committee has acknowledged, more research is needed on a continuing basis on all the problems about which this committee has already had considerable, if sometimes incomplete, date.

— 2 —

We are encouraged by the enthusiastic support for the work of this committee by the various consumer groups across the country. We believe that these groups have made a real contribution and hope that such headlines as appeared in the Toronto *Daily Star* on January 18th, 1967, "angry Housewives Present Food Brief, But Retreat Under Committee's Enquiries"...Will not in any way dampen their ardour for the cause, or in any way scare them away from further participation. The trade union movement has had similar problems over the years but has not allowed such diversions to impede its progress.

Along with the housewives we are deeply concerned about food costs and their effect on the low wage earner and those on fixed incomes in particular. We believe that fancy packaging, trading stamps and such promotional gimmicks add to food costs. We support their elimination, an objective which was included in a statement on "Wages, Prices and the Consumer" and adopted at our annual convention in Kingston last November. For your information we will file a copy of this with the members of your committee.

The reports of your hearings lead us to believe that, important though they are, the matter of food costs has been thoroughly discussed and documented. We would be pleased to assist you further in this particular area, but in our opinion there are a number of other important factors bearing on the cost of living which have not been fully aired. It is to some of these matters which we would like to direct your attention.

— 3 —

Income levels, the present high cost of such essentials as housing, education, sickness and transportation are a few of these matters with which we will deal.

INCOME LEVELS

Our organization, in common with all trade union organizations, is naturally concerned about income and income levels. It is our prime responsibility and objective to try to obtain the full fruits of increasing production and producitivity for the working people who make up the membership of our unions. We can say with reasonable modesty that bearing in mind that only about 30 percent of the working force in Canada belong to unions in some measure we have been successful.

While we are basically concerned with income levels, our influence in related fields has over the years been responsible for much social legislation far beyond our own immediate confines and indeed has been much greater than our numbers would seemingly warrant. Pensions, minimum wage legislation, workmen's compensation, unemployment insurance and medicare are but a few of the areas where our activity and influence have redounded to the benefit not just of our own members but the community as a whole. However much remains to be done before everyone is able to enjoy the fruits of our present affluence.

— 4 —

In order to bring the subject into focus, our Federation undertook a study of "Poverty in Ontario". (Copy attached to this submission). The results of this study were, to say the least, shocking.

Since then discussion about poverty has gone on at all levels of government but it is very questionable that anything really constructive has emerged. Today the distribution of income in Canada is still weighed heavily on the side of those who *have* rather than on the side of those who *need*. The evidence is that, since 1961, the period which we used in our study, the top 20 percent of our people have received 42½ percent of our national income while the bottom 20 percent have received only 4½ percent. This would seem to indicate that things have worsened instead of improved.

It is not good enough to say, as some people still do, that nobody's starving. This too-common rejoinder to expressions of concern for the less fortunate was answered very aptly by Dwight MacDonald in his pamphlet "Our Invisible Poor" published by the Sidney Hillman Foundation as a public service a few years ago. He said in part, "Nobody starves, but like every other social statistic, this is a tricky business. Nobody starves, but who can measure the starvation, not to be calculated by the daily intake of proteins and calories, that reduces life for many of our poor to a long vestibule of death?... Nobody starves but a fourth of us are excluded from the common existence. Not to be able to afford a movie or a glass of beer is a kind of starvation—if everybody else can."

— 5 —

What we are concerned with is not just that the consumer price index has risen more rapidly in the last year or two than it has before, or that food prices have shown a rapid rise. We are concerned with the simple fact that, no matter how stable the index appears to be, too many breadwinners are earning far too little to maintain themselves and their families at those levels of health, housing, food and education that our present stage of scientific knowledge indicates are essential for present-day living.

One of the tools employed to raise income for the low-wage earner is Minimum Wage Legislation. This under the federal legislation is presently $1.25 an hour and under provincial legislation $1.00 an hour. This is in our opinion too low and should be adjusted upwards if it is to have any meaning in today's economy. We suggest that it should be closer to $2.00 an hour.

GUARANTEED ANNUAL INCOME

More and more leading thinkers whose views carry weight beyond national boundaries are expressing the view that, since the affluence of our society is not being fairly distributed by means so far adopted, new and novel measures must

be considered. The author of "The Affluent Society" is as good an authority as any to start with. He told the 95th annual general meeting of the Canadian Manufacturers Association, June 7, 1966:

> "(One of our tasks) is to insure that the largest number of our people participate in economic gain. This is what improved public services and improved environment serve to accomplish. It is what a good health service helps to accomplish. And decent housing. And good community surroundings. And good and fair law enforcement. And proper consideration to the special problems of by-passed and backward areas. And in our case, sound and well-enforced laws against discrimination. But above all it is what a good educational system accomplishes. I don't think there is a single cure for poverty. But we should not, in our sophistication, conceal the obvious. A community that provides really superior schools from the earliest kindergarten or headstart ages and allows the pupil to go just as far at the public expense as his abilities allow will not have many people that are very poor.

— 6 —

> "I venture to think that the time has come in our two countries for guaranteeing minimum levels of income for those who, for whatever reason, do not earn enough for decent survival. Most of the men and women who now survive on inadequate income would work if they could. Idleness is less coveted as a career than most well-to-do people imagine. Nor is it certain that it is all that more damaging to the poor than to the rich. We now make income available to the indigent but subject to various means tests that are both costly to administer and an affront to human dignity. Often, also, they have the worst of effects on incentives, for a small job means a large loss in welfare payments. Canada pioneered a system of family allowances on this continent and related these to her income tax. It would be an excellent thing, and a good neighbourly act now to experiment with the guaranteed income or the negative income tax and show us how it can best be done."

It is not our responsibility here to suggest a precise formula to meet Mr. Galbraith's invitation. Others have done it, for example, last December the U.S. Chamber of Commerce held a forum for a discussion of how our affluent society can provide an adequate standard of living for all. Three of five panelists invited supported a form of guaranteed minimum income as a matter of right. They were Robert Theobald, who associated with the AD HOC Committee on the Triple Revolution, James Tobin, formerly a member of the U.S. Council of Economic Advisers, and economist Milton Friedman, of the University of Chicago, who originated the idea of the negative income tax.*

— 7 —

Undoubtedly Canadian economists and others are giving further thought to the subject since the Special Committee of the Senate on Aging did make a specific recommendation for the application of the principle of guaranteed income for people age 65 and over.

Apart from having too little to spend, the low income group bear too much of the tax burden. Both these points are made in a report by Helen O Nichol, Research Division, U.S. Welfare Administration, and quoted in the Ontario Welfare Reporter, Winter 1966:

> "In its simplest form, the negative income tax mechanism involves government cash payments to families and individuals whose incomes fall below personal income-tax-paying levels. The payments to the poor are calculated on the basis of exemptions and deductions to which these non-taxpayers would be entitled if they were actually paying income

* See agenda, January 1967, published by Industrial Union Department, AFL-CIO.

taxes. In another form, also integrated into the tax system, the payments are calculated on the basis of the amount by which the family's or individual's income falls below an officially determined standard of minimum subsistence..."

"The poor, almost by definition, do not pay income taxes because their incomes are below taxable levels. But they are also unable to take full advantage of the built-in aid to families in the tax system which permits personal deductions and exemptions for children. The poor, however, bear a relatively heavy burden of consumption taxes (sales, food, excise etc.) which take a heavier bite out of a small income than a large one."

This last point was put simply in the excellent brief to this Committee of the Consumers Association of Canada: "The decrease in real disposable income can be shown to be greatest for the low income groups" (page 10).

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This underlines our point. The prices crisis is in the first instance an income crisis.

It is worth noting that on the first of this month the Toronto Daily Star published the results of a public opinion poll on this subject. The question asked was,

"It has been proposed that instead of relief and welfare payments, the governments should guarantee every family (on relief or welfare) a minimum annual income. Do you favour or oppose the idea?"*

Labour showed the largest percentage favouring the idea (47%, for, 39% against, 14% undecided); farmers were second (43-40-17) while white collar workers (40-47-13) and professionals and executives (33-56-11) were in majority opposed.

This indicates to us that labour and farmers are ahead of other groups in the community in their thinking on this subject; and Canadians as a whole (43-44-13) are way ahead of the people of the United States (19-67-14) which is probably the reason for Professor Galbraith's hope that this country will lead the way in introducing an incomes guarantee program.

Prices are of no real concern to the high income group. They are of relatively modest concern to the middle income group. They are a matter of life and death to "the low man on the totem pole."

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Our Federation would urge that high priority be given to the study of ways and means of adopting an equitable guaranteed income for Canada.

HOUSING

As we stated earlier we realize food costs are high and rising, and finding ways and means of bringing them under restraint is most important. However, to save a few dollars a week on groceries and to have to overspend by hundreds of dollars a year for shelter doesn't make too much sense. This is just one reason why the housing problem, one of today's most onerous cost items for urban wage earners, deserves critical attention.

A report by Mr. Jack Key, President of the Toronto Real Estate Board, published in the Toronto *Daily Star* on February 3, 1967 brings into sharp focus the situation here in Metro Toronto, an area with a population in excess of all but two provinces. The Board's spokesman said:

— The average price of a new home in Toronto in 1966 was $29,666.
— The average price of a new home went up by $5,866 last year.
— In the past two years federal and provincial sales taxes have added $1,500 to price of new houses.

* Our reference to this question does not indicate our approval of the question as worded.

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— The price of building lots has risen by $3,000 in the past two years.
— The cost of a 50-foot building lot is approximately $8,000.*

Obviously the average wage earner simply cannot at these prices really afford a new home.

The problem is acute in many urban areas. Why else would the Immigration Department warn intending immigrants with four or more children and without an assured income of $7,500 a year or more to keep away from Toronto, Hamilton, Windsor and Vancouver?

The trade union movement in Canada is not a "johnny-come-lately" in protesting the inadequacy of our housing programs in Canada, and in demanding more imaginative, more comprehensive, more socially-minded policies.

Our interest in good housing is as old as our organization and our conventions are on record to show that if anything we have been in advance of government-thinking at all levels and certainly in advance of the public in general.

Moreover, investigations into and recommendations about housing have not been lacking. During the 1930's a comprehensive survey was made by social agencies in the Toronto area pointing to the need and to possible solutions. In 1966 the Canadian Council on Social Welfare studied substantial reports on housing while the City of Toronto received comprehensive recommendations from a special consultative committee headed by Dr. Albert Rose. The president of our organization was a member of this Committee. Sandwiched in this period of over three decades have been dozens, if not hundreds, of similar reports across Canada. If only words could build houses, there would be no shortage.

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In 1954 both the Canadian Labour Congress and the Trades and Labour Congress of Canada made submissions to the commerce and banking committee of the House of Commons which urged among other things lower down payments on housing, purchase with no down payments for low income groups at minimum interest rates and subsidized low rental housing.

Dr. Eugene Forsey, director of research of the Canadian Congress of Labour at that time, argued strongly for a two percent interest rate for low income families. The Toronto *Star* of February 24, 1954 reported that Liberal committee members and others

> "declared that such a subsidy would be a charge against the taxpayers. Mr. Forsey challenged this premise. The taxpayer might actually be benefited, he said, if one considered the cost to the community of the crime, juvenile delinquency and ill health which were associated with bad housing."

Mr. Forsey is also quoted as telling the committee,

> "If Parliament wants to bring home ownership within the reach of low paid workers, it will have to provide a much lower interest rate. This would mean, in effect, a subsidy to home ownership...
>
> "On the government's figures, there is a difference of 41 cents an hour in wages required to carry a $10,000 house amortized over 25 years at two per cent and at 5½ per cent, assuming steady 40-hour a week employment..."

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The Toronto *Star* said editorially January 25, 1954,

> "The Canadian Welfare Council has on a number of occasions declared that housing is this country's number one problem... Until a gov-

* The average cost of a 50-foot lot in Toronto Township is $9,990, compared with three years ago, an increase of 38.7%. (NHBA statement to this committee).

ernment-subsidized housing scheme for low-income families is put into operation there can be no relief to the acute housing problem...until the recommended action is taken the hard core of the housing problem will grow larger and larger."

Housing is still the number one problem. Subsidized housing is still shockingly inadequate in numbers. The problem has grown so bad that no elected representative of the people should be unaware of the full implications of the situation.

OFL Housing Campaign

This Federation has tried not to fall short of its responsibility in this field. In 1963 and 1964 we undertook and carried through one of the most active educational and publicity campaigns ever undertaken by an organization such as ours. Our objective was to get action from our members, the public and especially members of parliament, the legislature and of city councils.

We adopted a policy statement on housing at our 1963 convention and gave it wide circulation. (A copy is being made available to the Committee). We also prepared an Information Kit labelled "PUBLIC HOUSING". We published a special section of our newspaper "LABOUR REVIEW" entitled "PUBLIC HOUSING: the problems, the benefits", submitted with a quotation from Dr. Albert Rose in a paper he wrote in 1954, "People do not make slums...slums make people what they are."

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We quoted the National Construction Council of 1934 who told a parliamentary committee,

> "Our investigations of housing for low income groups show that the provision of this class of housing cannot ultimately be profitable to private enterprise...The responsibilty for housing these groups is in the final analysis the responsibility of the state."

We take this position,

> "The trade union movement has a responsibility to fight for AN ACTIVE HOUSING PROGRAM FOR PEOPLE WHO NEED GOOD HOUSING—and cannot get it through private, speculative home building. This means a major public housing program of low rental housing, subsidized if necessary. Some of this is being done, but too little, far too little."

All this is by way of emphasizing to this committee that there has been no lack of information, surveys and recommendations in the housing field. What there has been is lack of action on public housing at all levels of government—and not least at the municipal level.

With this background, we'll bring our case up to date. This month of February is CITIZENSHIP MONTH in Canada for the trade union movement—the month in which we undertake to inform and spur action among our members and the public on a particular subject. This year the subject is—HOUSING.

The Canadian Labour Congress has prepared a very informative booklet on the subject and we ourselves have issued to our affiliates and to the press a statement on housing (appended).

We are unquestionably in the midst of a housing crisis in many parts of this province and particularly in Metro Toronto.

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Too many families are being forced into the position where they spend more than they should on housing costs leaving too little for other necessities including food, health services and recreation.

The fact is that high land costs and high money costs have priced homes out of the reach of a large percentage of the population. Both of these smack of sheer exploitation. We are pleased that this Committee is addressing itself seriously to this major problem.

We quote a recent statement by Leon Kumove, housing and aging consultant to the Social Planning Council of Metro Toronto,

> "The responsibility of government at all levels—federal, provincial and municipal—needs to be straightened out. At the municipal level, the city of Toronto is doing more than its share to help meet the housing crisis, but more adequate provincial legislation and better financing on the part of the federal government is needed."

Mr. Kumove called for a Royal Commission on housing and we support this, not as a substitute for action, but as a complement to action.

SICKNESS COSTS AND DRUGS

The consumer price index shows that the item "health and personal care" has risen farther and faster than any other, reaching 184.9 (Jan. 1967) when the general index for same period is 146.0 (1949=100).

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Our submission now will suggest two important ways whereby costs of health (really sickness services) can be reduced without impairing the quality of the service, and in fact improving it.

Our suggestions are (1) the encouragement of group health practice; (2) the removal of profiteering in drugs.

Sidney Margolius, a noted consumer expert who has written on the subject both in the United States and Canada, had this to say in his syndicated column "How to Buy", October, 1966:

> "There is a way to hold down medical costs while providing adequate care. But it is available only to some families and only in some cities. This is through prepaid group practice plans, operating now in some areas. By providing preventive care, these plans have been able to reduce the number of hospitalizations required by their members in comparison with the rest of the population.
>
> "The group plans also cut costs of doctor care because the number of doctors can share the latest equipment, and services of specialists and technical staff which individual doctors cannot afford."

In some respects, particularly prepaid public hospital care, Canada is ahead of the United States. But in group health care, we are behind. To our knowledge only in Saskatchewan and in Ontario do group health care plans exist with public or co-operative sponsorship. In both provinces they have unquestionably proved their worth.

In Ontario a superb health centre in Sault Ste. Marie, operated by a community group with trade union support and participation, has shown the way to better health services at reasonable cost.

This very modern Community Health Centre started out about two years ago by taking several awards for its architectural excellence. Today the Centre has 15 doctors and 40 nurses plus ancillary staff as well as well-equipped laboratories, a pharmacy and other essential appurtenances.

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The rate charged by the Health Centre is $4.50 a month for a single person ($54 a year) and $12.50 a month for a family ($150 a year).

The Centre offers the positive advantages of team instead of solo practice referred to by Mr. Margolius. In addition it has proved that substantial savings can be made in hospital and other costs by using the group health care method with emphasis on preventive care.

The hospital records show that in its first year of operation subscribers to the Centre spent only 684 days in hospital per year for every 1,000 in the group. The average for Ontario was 1,770 days per year per 1000 people. This was a saving of 1,000 days in hospital per year for every 1,000 people.

The average stay in hospital was 7.7 days per subscriber compared with a Sault Ste. Marie average of 11.2 days.

Such group practice services elsewhere, we are informed, have also had excellent results in improving service and saving costs. The savings indicated are so substantial that they could help pay for a good part of the costs of medicare if the health centre plan were adopted on a wide scale.

As for drugs, the Director of the Child Health Centre at Montreal's Children's Hospital, made the case when he said that profits in the Canadian and United States drug industries are at least double those of any other manufacturing industry; that drug companies spend more on advertising than research; that the consumer is the victim of propaganda from the drug trade, which spends millions of dollars promoting products, many of which are failures.

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In the United States, Senator Long, assistant majority leader of the Senate, introduced a bill last year to prevent gouging on drugs used in the medicare program. Among other things, he exposed what he called a worldwide conspiracy on "the current most important antibiotic (wonder drug) tetracycline"—a pill that cost one cent to make was sold to the consumer for 50 cents and "hungry people in the poorest areas of the earth had to pay that price".

Markups such as this are not unusual in the drug manufacturing business, according to the Senator, who compared brand name drugs with generic drugs of equal medicinal value. The United States experience is pertinent as most major Canadian companies are United States subsidiaries.

That this situation also prevails in Canada is borne out by the chief federal combines investigator D. H. W. Henry who has charged that high prices of drugs are maintained by lack of competition. (*Globe and Mail,* February 8, 1967). "In these circumstances," he said, "price tends to be set at what the traffic will bear."

The investigator said that no changes in the operations of the drug industry have taken place since the combines officers made a major study of it in 1960.

The perpetuation of a situation where the sick must bear the brunt of exorbitant profit-making appalls us.

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It is the failure of the government to take effective action in matters of this kind when the facts have been exposed which depreciates the value of royal commissions and other investigating committees in the public mind.

In our opinion the least that must be done is to adopt those legislative and other measures which would cut down the profit spread on prescription pharmaceuticals and at the same time to bring drugs under federal and provincial prepaid health services programs.

AUTO INSURANCE

Last year the trade union movement in Canada including our Federation concentrated on the high costs to the nation of auto accidents and the poor record of private insurance companies in providing compensation for drivers, passengers and pedestrians alike.

Substantial increases in charges by private insurance companies a gain point to the need for some effective alternative system of insurance which gives everyone involved in an accident the maximum security at minimum cost.

The internationally-known Consumers' Union publication, CONSUMERS' REPORTS, pointed the way in an article which compared various types of auto accident coverage.

The REPORTS said,

> "The most economical automobile insurance system with which the Consumers' Union is familiar is the SGIO Automobile Accident Insurance Fund of the province of Saskatchewan in Canada. For every premium dollar put into this fund by car owners, 18 cents goes for expenses. The remaining 82 cents is available to pay claims.

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> "Judged by these yardsticks, the U.S. automobile insurance system makes a shockingly poor showing. For every premium dollar paid in, Consumers' Union estimates that about 52 cents goes for expenses of various kinds, leaving a bare 48 cents to reimburse claimants".

In Canada in 1965, 67 cents of each premium dollar was paid for claims; 33 cents of each premium dollar was paid for administration &c. This is better than the U.S. experience but still substantially below the record in Saskatchewa

Moreover the quality and extent of coverage under public insurance such as Saskatchewan's leads to the conclusion that savings can be made by an adequate auto compensation program under public auspices. At the same time coverage can be improved. This to our mind is meaningful kind of consumer protection which we commend to this committee, even while we recognize that it comes under provincial jurisdiction.

QUALITY vs. PRICE

Having mentioned the Consumers' Union in the United States, we would like to comment briefly on their work. This non-profit organization is dedicated to the protection of the consumer from all kinds of exploitation including quality and price.

A similar organization exists in Great Britain. It publishes a superb monthly bulletin called "WHICH?".

A question posed by Walker Sandbach, executive director of Consumers' Union, is appropriate here. He asked, what would people really save if they really knew the best value for their money?

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He answered, "The amount saved would be astronomical."

He cited as an example a Consumers' Union test of blenders. "The one that did the best over-all job," he said, retailed at $24.97. One that retailed for $64.95 rated lower, and one selling for $62.95 was rated "Not acceptable" for safety reasons.

Mr. Sandbach said the public lacks dependable guidelines in purchasing. "We have found over and over again," he said, "that name brands, or price, are very seldom an accurate guide on which the consumer can depend in choosing the best product for his intended use."

He had little faith that the business world itself would improve the situation, saying that a century of experience with mass-produced consumer goods "unfortunately argues against our having too much hope for industry self-improvement in this regard". He added that what is happening in the automobile industry may serve as a warning that if industry does not act voluntarily, the consumers do have a final recourse to government.

A Canadian organization which can measure goods and services on the scale of these organizations is a real need in this country. We are not ignoring the valuable contribution of the Consumers' Association of Canada. It is doing a good job but needs more public support if it is to expand its work to the extent necessary.

Our recommendation would be that an agency of government be given the responsibility to check the quality of goods and services provided for the consumer dollar in much the way it is being done by consumer organizations in the United States and Britain and to make its findings available to the public.

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This would be a tremendous contribution to the protection of the consumer and to the Canadian standard of living.

MORE DATA NEEDED

When we informed trade union research workers that we were submitting a brief to this commission, we were asked to stress that expansion of information provided by DBS would be very helpful. Within its budget limitations DBS is doing a good job. We suggest that more money should be expended for more research to include, for example,

(a) The present Consumers Price index measures price changes for a particular defined group of purchasers taken as "normal".

Particular groups such as the poor and the aged who are relatively unaffected by price changes, say, for new automobiles or hairdressing services, are affected very much by price changes in items which are relatively unimportant to the survey group used by DBS.

Not all groups need separate price indexes, but necessary analytical tools should be available for groups with special social problems.

(b) More data is needed for cities other than the present 10 regional cities.

Indexes published for Toronto and Ottawa, for example, do not represent price changes for Sault Ste. Marie or Windsor.

DBS should be given staff to prepare figures for those communities for which it publishes information on "Employment and Payrolls".

At a minimum, data should be published for the leading city in each of the 10 economic regions in Ontario.

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(c) At least once or twice a year actual dollars-and-cents prices of the market basket and individual items should be published. Only then can we compare prices per se in Vancouver, say, with those in Halifax and Toronto. To begin with, a spot index could be published for major items such as food and housing, and later expanded.

This means an expansion of DBS services is essential. We appreciate the recommendation this committee has already made in this direction.

All of which is respectfully submitted

ONTARIO FEDERATION OF LABOUR
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DOUGLAS F. HAMILTON
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February 28,1967.

Brief prepared by the

CANADIAN ECONOMIC FOUNDATION

42 Charles St. E., Toronto 5, Ontario

FEBRUARY 28, 1967.

The Honourable Senator David A. Croll,
Mr. S. Ron Basford, M.P.,
Joint Chairmen,
and Members of
The Special Joint Committee of the
Senate and House of Commons on
Consumer Credit (Prices),
Ottawa, Canada.

Senator Croll, Madam and Gentlemen:

Your Committee has spent many hours enquiring into how prices are established. This is a highly complex and complicated subject, and the replies you have received may tend to obscure the true causes of the upward movement in the cost of living.

We hope we can assist your deliberations by isolating the basic costs that are included in the setting of every selling price.

There are two major influences that cause Canadian selling prices to increase: first, inflation—an increase in the money supply (and credit), which can best be controlled by the Federal Government and the Bank of Canada. When more money is placed against a slower rate of increase in the supply of goods and services, prices will rise.

The other is an increase in the actual cost of producing and distributing goods and services. Our brief will concentrate on this aspect of our economy. However, the figures will show that recent increases in both operating costs and our money supply are the major causes of price increases.

For a nation to remain solvent and at the same time become more prosperous, selling prices must exceed costs by as wide a margin as competitors and customers will permit.

If prospective customers are *unable* or *unwilling* to pay all of the inescapable costs incurred in producing a given product or service, plus all imposed taxes, the firm will lack the capacity to grow and may even go out of business.

These truths apply equally to a one-man operation and to our largest industrial organizations, whenever they are dependent on providing goods or services that customers will voluntarily purchase.

Mr. Robert B. Bryce, Deputy Minister of Finance, has already supplied this Committee with some very revealing figures which we would like to use as evidence. These figures were in the 2nd Report (Sept. 28, 1966) published by this Committee. The figures we have used are summarized on a sheet attached at the back of this brief.

The following figures represent the five basic inescapable costs that the selling price must cover, and on a national basis the sum total of these costs equals our Gross National Product.

	All Dollar Figures in Billions			
	1949		1966 (Est.)	
	$'s	% of GNP	$'s	% of GNP
Total Goods and Services Sold by Canadians	$16.3	100%	$56.6	100%
In buying these items the customer paid the following costs:				
1. Goods and Services Purchased from Others**	X	Y	3.5X	Y
2. Depreciation	.2	1.	.6	1.
3. Taxes (Local, Provincial and Federal)	3.9	23.6	20.5	37.2
4. Human Energy Expended	8.0	49.0	28.6	50.6
5. Net Earnings before taxes*	3.3	20.3	8.2	14.5
	1.7	10.2	4.1	7.3

*The return on invested capital—profit—would be approximately half of line 5 and would be passed on as: (*a*) Dividends and/or Retained Earnings:

**The cost of Goods and Services Purchased from Others is made up of the other four costs plus the cost of any raw materials required in the primary processing stage. As a percentage of the G.N.P. it remains constant.

Rather than dealing with a single company, or an industry, Mr. Bryce's figures treat all our productive units as one huge corporation, with combined sales totalling $56.56-billions, exactly equal to the estimated Gross National Product in 1966[1]. This the total amount paid by customers for goods and services sold by Canadians in 1966.[2]

Now if you will again refer to the five basic costs it is obvious that if any one of these costs goes up, and there is no corresponding decrease in the other figures, eventually retail prices must be raised to compensate for the change.

Starting with Cost No. 3—Taxes—we can see what has happened between 1949 and 1966. From $3.86-billion in 1949 it is estimated all taxes in Canada (local, provincial and Federal) have risen to over $20-billion in 1966—an increase of over $1-billion each year, in 1966 dollars. In 1949 taxes required 23.6 per cent. of the G.N.P.; today they take 37.2 per cent.—an increase of 13.6 per cent.[3]

During this period, Federal Government spending rose by $8.44-billion—from $2.13-billion to $10.57-billion in 1966. Our provincial and municipal governments increased their spending by $8.22-billion—from $1.74-billion to $9.96-billion, or by 5.7 and 7.9 per cent. respectively of the G.N.P.

There have been no other cost increases in our country that even remotely compare with the huge and swift increases in government spending over the past 17 years.

Perhaps of even greater significance to this Committee is the *recent* rapid rise in taxes. Federal taxes have increased by 21.8 percentage points over 1963, for a total of $1.62-billion, while provincial and local taxes have increased by 34 percentage points, or by $2.58-billion. This gives us a total tax increase of $4.2-billion in just three years!

Let us quickly clear up one point. We have said that taxes are one of the five business costs, and that all taxes on business must be included in the selling price, no matter how or upon whom the original tax is imposed.

An employee is paid for what he helps to produce, part of which must be used by him (or her) to pay his personal income tax and sales taxes. This money is collected from customers by the employer, and it is reasonable to assume that for most employees that is their only source of income.

[1] Committee Report No. 2. Page 90, Appendix I. Item No. 8.
[2] Committee Report No. 2. Pages 39/40.
[3] Committee Report No. 2. Pages 98-9. Table 9.

After paying salaries and wages, plus a wide variety of special taxes, the company must also turn over to the Government 50 per cent, of that part of its income, which accountants label "net earnings before taxes".

But the company has no current income other than that which is obtained from the customer. If a customer buys a dozen eggs, she pays all the costs of production and distribution, plus all imposed taxes—right back to the farm. We do not think any economist could suggest a single tax what should not be passed on to the customer and paid by the customer. As we have pointed out, even the individual income tax—which cannot be passed—is actually paid by the customer.

Taking Cost No. 4—Human Energy—we find a jump from $8-billion to $28.6-billion, but it is worth noting that labour's share of the G.N.P. has only increased 1.6 per cent over the past 17 years.[4] These salary and wage increases have not been a major factor, except where they have contributed to inflation.

As Item No. 1—the "Cost of Goods and Services Purchased from Others"—is made up of the other four costs plus the cost of any raw materials required in the primary processing stage, this cost normally remains constant as a percentage of the G.NP., and does not by itself tend to increase prices. However, the increased cost of Taxes (Item 3) and Human Energy (Item 4) have automatically increased the cost of Goods and Services (Item 1), with the result the customer has been asked to pay higher prices. But the extra dollars she has had to pay out have mainly been going to our three levels of government.

Initially the housewives' protest and boycott of supermarkets was directed against rising food prices which have a more direct impact on their budgets than do other price increases. Also, because of the speed with which food reaches the market today, an increase in any one of the five basic costs is immediately reflected in the retail price of many food products, unlike some durable goods that may take months to reach their ultimate markets.

These ladies were asking for factual answers to four questions:

1. Why have prices gone up?
2. Will they keep going up?
3. Who gets the extra money they pay out? (and)
4. How can the public keep food—and other prices—from rising?

Some of the groups assumed "profiteering" was taking place and at least one group suggested an excess profit tax on supermarket operations. The only result that could occur from this proposal would be higher taxes—not lower prices.

They completely overlooked the fact that the profit motive is the main driving-force in our economy, as we strive to provide more goods for more people at lower prices.

On a national basis, net earnings before taxes (Item 5) in 1966 were $8.24 billion—$5 billion higher than in 1949.[5] Of this amount about $4.1 billion would be paid to the Government as Corporation Income Taxes. About $2 billion would be re-invested in future growth and development and the remainder paid out in dividends. We do not have access to the necessary figures we would require to break out the five basic costs for the food processors and supermarkets alone but we presume these are available to your Committee.

However, the real significance of these figures is that they show a drop in percentage of the G.N.P. from 1949. In 1949 gross profits for corporations and small business firms were 20.3 per cent of the G.N.P.: today they are only 14.5 per cent. This gives us an offset of 5.8 per cent, against the 13.6 per cent increase in taxes.

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[4] Committee Report No. 2. Page 94, Table 5. Item No. 1.
[5] Report No. 2. Page 94, Table 5, Items Nos. 3 and 7.

We should not be complacent about this current situation. Profits are the lifeblood of an economy and the basis of both future job security and new job opportunities. A 25 per cent drop in profits from 20.3 per cent to 14.5 per cent of the G.N.P. over 17 years can seriously discourage investment and damage our future economy.

For our governments to continue to collect over $20 billion in taxes annually, it is imperative that industry continues to grow and expand. However, if taxes increase, employees will seek higher pay (which may not reflect higher productivity), and if retail prices go up (as they will), there could well be a buyers' strike as customers find they are unwilling to pay the higher prices. Indeed, surveys show that planned purchases in 1967 of durable goods (excluding automobiles) by consumers is down as much as 50 per cent from 1966.[6]

Faced with this situation, a wise business executive would normally start reducing costs so that prices could be lowered, but today he no longer has room to manoeuvre.

With more and more to pay in personal taxes, the Employee (4) will not take less money, and the firm has absolutely no choice as to the amount of Taxes (3) it will collect from the customer. Roughly 40 per cent of all retail prices are imposed taxes, and these taxes are the most rigid and inflexible cost that could be imposed upon industry. Nor can the cost of Goods and Services Purchased (1) be reduced without decreasing output.

If Profits (5) are further reduced, we will quickly need an alternate source of capital—probably a massive new inflow of foreign capital—just to keep our plants operating.

Finally, we are left with Item No. 2—Depreciation—but as this has a relatively small effect on prices, we can avoid any further comment except to say it is less than 1 per cent of the G.N.P.

You will find a more complete examination of these costs in the booklet entitled "How We Live in Canada", which we have submitted along with our brief.

We have carefully studied the conclusions reached by members of this Committee, as reported in the Interim Report published in the Senate Debates on December 20, 1966.

We have no comment to make on the wisdom of these recommendations except to point out that none of them are specifically directed at reducing production or distribution costs, and that most of them, if implemented, would increase the cost of government services.

The recommendation "that non-price competition should not be allowed to become sufficiently important to outweigh price competition" was interesting in view of the number of government marketing boards which are working to remove price fluctuations: the latest, we believe, is one to stabilize the price of eggs.

Another of the recommendations mentions "The influence of Consumer Demand on Food Prices". Our brief mainly deals with the cost-push aspects of inflation because these seem to be the most important at this time. The demand-pull aspects of inflation, as they affect food prices, exist, but the main impact comes from government policies which encourage the public to seek additional services from government.

Right now we are on a roller-coaster and we cannot get off. To keep prices from increasing we would have to immediately clamp a ceiling on government spending; and to reduce prices we would have to reduce total government spending by 5 per cent a year for several years. If this happened there would

[6] Reported in "Marketing", January 27, 1967.

be far less pressure from the workers for an automatic annual wage or salary increase.

It would not be easy, but nothing is impossible. We do not believe government would or could initiate such a step without risking defeat at the polls, but the voters, once they realize that it is in their own self-interest to do so, can and will insist on limiting government spending.

The alternative, as our Foundation sees it, is unlimited government expansion and eventually an end to the people's free choice in Canada.

One thing the Government could do would be to change its fiscal policies, so as to wipe out inflation. This has added over $1 billion a year, during the past 17 years, to selling prices, and is, we believe, the direct result of unsound Government monetary and fiscal policies.

We express our 1966 G.N.P. in 1966 dollars, which only have about 60 per cent of the purchasing power of 1949 dollars.[7] This shows up quite clearly in the following figures:

G.N.P. IN CURRENT AND CONSTANT 1949 DOLLARS

Current 1966 dollars	$ 56.56 billion
Constant 1949 dollars	35.63 billion
Difference	$ 20.93 billion

This use of current dollars is satisfactory if it is confined to breaking down the sales dollar for a single year, but it is bad accounting practice, being misleading when applied to financial transactions that have occurred over several years. All too often it is used by government officials to indicate our country is much more progressive and prosperous than it really is, when actually we are only adding unearned dollars to our money supply.

When we use 1966 dollars the "Actual percentage increase" is inflated.

	Percentage Increase or Decrease of GNP 1949–1966 (Est.)	Actual percentage increase 1949–1966 (Est.)
	%	%
Gross National Product		248
Government Taxes—		
Federal	+ 5.7	396
Provincial	+ 7.9	473
Combined	+13.6	
Net Earnings Before Taxes—		
Corporation	− 2.4	183
Small Business	− 3.4	108
Combined	− 5.8	
Salaries and Wages	+ 1.6	257
Rent and Interest	+ 2.4	441
Net Farm Income	− 3.8	74

There is a theory, still widely held, that because of progressive taxation the burden of increased taxes falls mainly on the group earning over $10,000 a year. This is no longer true, as the following figures show.

In 1964—the latest Government figures available—66 per cent of the 5,301,219 taxpayers earned under $5000 and paid 29 per cent of the total personal income taxes collected. 29 per cent of the workers who earned between $5000

and $10,000 paid 39 per cent, leaving the 5 per cent who earned over $10,000 to pay the balance of 32 per cent. The percentage of sales and excise taxes paid by those earning under $10,000 is even higher than 68 per cent.

Rising food costs have therefore had the greatest impact on those earning under $10,000, as a higher percentage of their budget—particularly if they have growing families—goes on food. (Note: This still applies although food is usually not subject to sales taxes.)

Our Foundation believes that the basic cause of rising prices has been inflation caused by an increase in the money supply which stimulates demand, and the increased cost of government services (taxes), both of which stem from a widespread lack of public understanding of basic economic principles. The public in recent years has favoured higher wages rather than lower prices. They frequently vote for expanded government services but seldom for expanding industry, which is the source, in Canada, of all government revenues. They also seem to be unaware of the true cost of many government services.

For our Foundation to offer a solution to the present crisis would be presumptuous. The answer lies with the people themselves. Unfortunately they have been mentally conditioned into believing they can expect "something for nothing" from our governments.

Recently newspaper headlines in the Toronto area have been promising "thousands of new homes" and "cheaper housing" under a typical government scheme known as HOME. The general idea is that the Ontario Government would buy vacant land, in competition with private buyers, and then rent or lease it, lot by lot, to home-builders.

This, we are told, could reduce the cost of a new home to the purchaser in the Metro area by 50 per cent. But, as we read on, the money to buy the land is expected to come from Federal Government loans, plus provincial borrowing.

As none of the five basic costs have been reduced, the cost of the land and the house remain the same—only one thing has changed. A few Canadians will be allowed to live in these homes at a reduced cost while the difference in the true costs will be charged against other Canadian taxpayers, many of whom are already home-owners paying the full cost of ownership.

The first point we are making is that there are no short cuts: that our governments—unless they reduce their own expenses—have no magic formula for reducing prices.

The second point is that government officials have a responsibility, when they come up with a scheme of this type, to make sure the public are not misinformed or misled as to who will benefit, who will lose, and what the true cost to the public will be.

Truth in advertising is very important to our economy and is closely watched by the Better Business Bureau and the advertising media. It is equally important the government observes the same standards they expect from industry, and that they release complete information on the cost of each proposed project or service.

By way of a summary, accounting for the upward movement in the cost of living is not too difficult: whether or not it will continue is a matter for the public to decide.

We do believe a national programme to explain basic costs and how our economy operates, to the public, would help give us a more stable economy. We believe our own Foundation is meeting this challenge with some success—but we realize our efforts fall far short of the job that must be done if the public wishes to be informed as to how they can control rising prices.

It is never easy to reduce costs—someone's ox is going to get gored! —industry can do it by establishing more efficient operations, but this requires the co-operation of the investors and the workers if the customer is to be offered a lower price. However, neither group has any control over taxes, and all their efforts to reduce prices—as has been the case recently—can be nullified by tax increases.

We should remember a general price decrease is equal in value to employees to a wage increase, and of even greater value to those living on fixed incomes.

We have spent billions of dollars on Universities to train executives to run the wealth-producing segment of our economy; we should recognize their ability by giving them a much freer hand in strengthening our economy.

We hope this Committee's final report will recognize the tremendous contribution that investors, executives and employees have made and are making to the creation of wealth and the growth of our economy by constantly trying to reduce production costs and selling prices.

There are many ways government officials—both elected and appointed —could also help to stimulate the economy. They could limit government spending to a fixed percentage of the G.N.P. Mr. Mitchell Sharp has recently shown an interest in this approach. They could keep their facts and figures up-to-date and quickly make them available to industry and the public. They could reduce outdated controls on our economy, particularly in housing. They could eliminate costly programmes that fail to meet their objectives.

We should also recognize that the growth of our economy is being stifled, not only by the 37.6 per cent. of the G.N.P. that goes to government, but by a general lack of creativity and imagination caused partly by reducing the profit incentive. Taxes increase about 10 per cent. a year, and increase effects a change on the type of government we have in Canada.

There is a point where government controls and taxation become incompatible with the freedom of the citizens.

In the final analysis, it is the character of our people that will decide the future direction of our economy. If they have the intestinal fortitude to stand on their own feet and live with fewer government services, they will preserve a type of free-enterprise system; if not, we will likely all become future wards of the state.

Thank you, madam and gentlemen.

George J. Rogers, Chairman,
Canadian Economic Foundation.

Toronto,
February 28, 1967.

SOME BASIC CANADIAN FIGURES

		% of G.N.P.	% Increase of G.N.P.	% Increase 1949–1966
Canada's Gross National Product				
1966 (Est.)	$ 56,560,000,000			248
1949	16,343,000,000			
Federal Government Expenditures				
1966 (Est.)	10,572,000,000	18.7	5.7	396
1949	2,127,000,000	13.0		
Provincial and Municipal Government Expenditures				
1966 (Est.)	9,956,000,000	18.5	7.9	473
1949	1,737,000,000	10.6		
Corporative Gross Profits				
1966 (Est.)	5,344,000,000	9.4	−2.4	183
1949	1,879,000,000	11.8		
Small Business Firms Net Income				
1966 (Est.)	2,898,000,000	5.1	−3.4	108
1949	1,389,000,000	8.5		
Salaries and Wages				
1966 (Est.)	28,596,000,000	50.6	1.6	257
1949	8,000,000,000	49.0		
Rent, Interest, etc.				
1966 (Est.)	3,806,000,000	6.7	2.4	441
1949	703,000,000	4.3		
Farm Operation Net Income				
1966 (Est.)	2,176,000,000	3.8	−3.8	74
1949	1,248,000,000	7.6		
Gross National Product. Current and Constant Dollars				
Current 1966 $'s	56,560,000,000	Average increase in inflated dollars over 17 years—approximately $1-billion a year.		
Constant 1949 $'s	35,623,000,000			
Difference	$ 20,937,000,000			

SOURCE: Robert B. Bryce, Deputy Minister of Finance, and the Dominion Bureau of Statistics, as reported to the Special Joint Committee of the Senate and House of Commons on "Consumer Credit" (Prices), September 1966.

Sujet: «Comment les producteurs canadiens d'huiles comestibles peuvent contribuer à la baisse du coût des aliments et écarter en outre le besoin pour le pays d'importer du beurre de l'étranger.»

Mémoire à l'intention

DU COMITÉ CONJOINT SPÉCIAL DU SÉNAT ET DE LA CHAMBRE DES COMMUNES SUR LE CRÉDIT AUX CONSOMMATEURS (PRIX)

présenté au nom

DE L'INSTITUT DES PRODUITS ALIMENTAIRES D'HUILES COMESTIBLES

par

T. P. SNOWDEN,

directeur de l'institut

et

PRÉSIDENT DE MONARCH FINE FOODS LIMITED.

Le 28 février 1967

Ce mémoire a été imprimé sur papier de la même teinte que celle qui est permise pour la coloration de la margarine dans sept provinces. Dans ces sept provinces et dans le Québec, on pourra aussi se servir de cette couleur pour la couverture du présent mémoire.

La loi permet actuellement de manufacturer une margarine d'une couleur plus pâle que le blanc et plus foncée que l'orange.

Mais les lois provinciales interdisent l'emploi de teintes intermédiaires plus attrayantes, plaisantes à l'œil et appétissantes.

Présentation personnelle:

Je m'appelle Tom Snowden et suis directeur de l'Institut des produits alimentaires d'huiles comestibles. En outre, je suis chimiste qualifié et travaille dans l'industrie de ces produits depuis 16 ans. J'occupe la présidence de *Monarch Fine Foods Limited,* fabricants d'huiles comestibles et de margarine.

1. *Objet du mémoire:*

L'objet de ce mémoire est de soumettre une proposition sur la façon pour l'industrie canadienne des produits oléagineux comestibles de contribuer à la baisse du prix des denrées alimentaires et aussi de supprimer la nécessité constante au pays d'importer du beurre de l'étranger.

Il s'agit donc d'un mémoire au sujet de la margarine.

Avec votre permission, nous aurons certains exhibits à exposer au cours de notre présentation qui ne devrait pas durer plus de dix minutes. Deux de ces exhibits comportent 50 livres de margarine manufacturées dans les couleurs permises actuellement par la loi dans la plupart des provinces. Le troisième exhibit sera soumis d'ici quelques minutes.

2. *Au sujet de l'Institut des produits alimentaires d'huiles comestibles:*

L'Institut des aliments à base d'huile comestible est une association formée de quinze compagnies qui s'occupent de la production d'huiles comestibles entrant dans la fabrication de la margarine.

En font partie des minoteries, des raffineries et des fabriques de margarine.

On trouvera à l'appendice une liste complète des membres dont plusieurs portent des noms à signification ménagère.

L'Institut se propose de familiariser davantage le public avec les propriétés économique, nutritive et salubre de la margarine par un programme intensif d'information. Grâce à ce programme, il compte susciter une plus grande demande.

—des produits bruts qui entrent dans le raffinement des huiles comestibles;
—des huiles comestibles;
—de margarine.

En conséquence, ce programme présente donc des avantages pour les cultivateurs et producteurs de matières premières: les manufacturiers et les consommateurs canadiens.

3. *Proposition*

Nous sommes d'avis que l'industrie de la margarine peut abaisser le coût des denrées alimentaires à la condition que soient supprimées deux lois restrictives, l'une fédérale, l'autre provinciale.

Ces mesures restrictives sont:

— La taxe fédérale de vente. La margarine est la seule denrée alimentaire frappée d'une taxe de vente (12 pour cent).
— Les restrictions provinciales sur la coloration de la margarine.

La suppression de ces restrictions se traduirait par de nets avantages et pour le consommateur et pour le gouvernement.

Ces avantages seraient—

— Coût plus bas des aliments pour les consommateurs canadiens (baisse estimée à $15 millions (voir annexe III).
— Plus grand emploi des capitaux et de la main-d'œuvre des meuneries, raffineries et fabriques de margarine du Canada.

— Demande constante et exclusive de beurre produit par les fermiers canadiens.
— Frein des dépenses de devises canadiennes à l'étranger pour l'importation de beurre.
— Mise sur pied d'une florissante industrie par nos cultivateurs et producteurs de graine de colza, soya et autres huiles comestibles d'origine canadienne.

4. *Situation actuelle*

Actuellement, la ménagère n'a que deux choix quand elle a besoin d'un enduit pour tartiner le pain ou faire la cuisson.

Elle peut choisir le beurre—une graisse animale dont la production est subventionnée par le gouvernement à même les impôts. Ce produit est à la fois agréable à la vue et au goût. Ou elle peut opter pour la margarine—graisse en grande partie végétale, mais dont la coloration est restreinte à des teintes peu attrayantes dans huit provinces. Ce produit, quoique agréable au goût, ne plaît pas à la vue. Il doit être soit de couleur orange comme le papier ou blanche comme la couverture de ce mémoire. Il est interdit de lui donner des teintes intermédiaires plaisantes à l'œil. Il peut tout au plus être d'une teinte orange plus foncée ou d'un blanc plus pâle. (Référer à l'annexe II pour voir la position respective des provinces à cet égard.)

Le beurre tout comme la margarine sont des produits de la ferme.

5. *But de ces restrictions*

Lors de leur imposition, ces restrictions avaient pour but d'assurer la sauvegarde et la survie d'une saine industrie laitière au Canada, motif qui n'a plus sa raison d'être.

Aujourd'hui, ce dernier n'existe plus puisque les laiteries fermières n'arrivent même pas à produire suffisamment de beurre pour satisfaire à toute la consommation. Bien plus, le gouvernement s'est vu dans l'obligation de faire appel aux importations de l'étranger pour combler le manque de notre production domestique.

6. *Que signifie cette pénurie de beurre canadien?*

Depuis trois ans, la demande sur le marché excède la production domestique. Le gouvernement est obligé d'importer du beurre. Il y a deux indices majeurs qu'il en sera ainsi encore longtemps.

Le premier, c'est que l'augmentation substantielle des produits de la ferme et des subsides gouvernementaux n'a pas enrayé le déclin que connaît actuellement la production canadienne de beurre. En deuxième lieu, la forte hausse des prix de détail n'a pas occasionné une diminution de la demande. Ce qui confirme la croyance, bien connue dans l'industrie laitière, que l'écart entre la production et la consommation est susceptible de s'accentuer dans les années à venir. Il ressort de ces faits que des solutions à long terme s'imposent plutôt que de se contenter d'un ou deux expédients de fortune.

Une fois l'industrie de la margarine débarrassée des deux principales restrictions sus-mentionnées, il se peut que le fossé entre la production et la consommation soit graduellement comblé par celles de la margarine. Sans oublier que cela sera tout à l'avantage du fermier canadien.

Ce qui est d'ailleurs mis en évidence par les excellents résultats déjà atteints par les producteurs canadiens de graine de colza. Ils ont fait des progrès constants dans la mise au point d'une matière première de base pour la fabrication de la margarine.

Cette réussite a pu être réalisée grâce à l'aide du ministère fédéral de l'Industrie.

Ce ministère prévoit en outre que, dans un avenir prochain, la production canadienne de graine de lin atteindra un volume suffisant pour répondre à une fabrication de margarine qui assurera l'indépendance de l'industrie canadiee d'huiles comestibles sur le marché domestique.

Ainsi, l'augmentation de la consommation de margarine sera bénéfique en ce qu'elle accroîtra les revenus des fermiers et qu'elle raffermira dans une modeste mesure notre équilibre commercial.

7. *Portée des importations*

(a) Pour la ménagère

Le beurre d'importation ne présente aucun avantage pour le consommateur. Dans le passé, il est arrivé que la ménagère ne prisait pas le goût de certaines variétés de beurre importé de l'étranger. Aussi, devant les prix et les impositions de hausses qui ont cours actuellement, le temps n'est pas loin ou elle se rebiffera devant la perspective de devoir payer quelque 70 cents la livre de beurre quand elle sait fort bien que le gouvernement le paie seulement de 26 à 30 cents.

(b) Pour le fermier

L'importation du beurre n'apporte certes rien à nos laiteries et elle peut par contre, à la longue, constituer une menace pour leurs affaires. A mesure que le volume des importations grossit d'une année à l'autre, la faveur publique pourrait bien provoquer une baisse du prix de détail du beurre étranger. Si la ménagère paie 70 cents la livre de beurre domestique pour lequel le gouvernement octroie un subside de 59 cents, combien, logiquement, devrait-elle débourser pour du beurre importé que le gouvernement paie entre 26 et 30 cents, les prix déterminés sur le marché mondial?

Partout dans le monde, il a été établi, au cours des cinq dernières générations, que le beurre pouvait supporter la concurrence avec les margarines de prix inférieur. Il est dès lors naturel de se demander pendant combien de temps encore notre industrie laitière destinée à la consommation domestique pourra survivre, si elle doit lutter contre le beurre étranger vendu à moitié de son prix.

Bien que durant la prochaine année, la menace de l'importation ne constituera pas un facteur de première importance, il n'en est pas moins évident que cela représente à longue échéance pour le fermier un danger encore bien plus grand pour ses affaires que la margarine ne pourrait jamais l'être.

(c) Pour l'économie

Utiliser des devises canadiennes pour acheter à l'étranger, quand des denrées de même nature et de qualité tout à fait satisfaisante peuvent être produites et mises en vente sur le marché domestique, c'est non seulement du gaspillage, mais de plus aller à l'encontre de l'intérêt du Canada.

L'emploi des manufactures et de la main-d'œuvre canadiennes à la production de produits de chez nous, c'est non seulement faire œuvre profitable, mais prévenir l'écoulement de nos devises vers des marchés étrangers.

8. *Conclusion*

Seul le producteur étranger tire profit de l'importation du beurre. L'industrie des huiles comestibles peut apporter une solution plus pratique pour le consommateur et l'économie, sans constituer un danger pour la ferme laitière. Bien que notre industrie seconde sans réserve les efforts du gouvernement en vue de hausser le degré de prospérité du monde agricole, elle n'en constate pas moins une certaine ironie dans le fait que le fermier en arrive à devenir lui-même le consommateur.

Et ce fait a été établi par un relevé effectué en 1966 par la plus importante société indépendante de recherches sur le marché, au Canada, lequel relevé a déterminé que seulement 37 pour cent des foyers ruraux consommaient une

demi-livre ou plus de margarine par semaine, alors que 44 pour cent des foyers agricoles en consomment tout autant.

Si le comité décide de recommander l'abolition de la taxe fédérale de vente sur la margarine, il épargnera alors au consommateur quelque cinq millions de dollars.

(Dans le but d'apporter plus de précisions, on doit souligner le fait que nos commentaires sur la taxe fédérale ne s'applique pas à Terre-Neuve. Cette province bénéficie d'une exemption spéciale de la taxe de vente appliquée sur la margarine dans les neuf autres provinces.)

Si, en outre, il recommande que tous les gouvernements provinciaux, sauf ceux de Terre-Neuve et de la Colombie-Britannique (ou il n'existe aucune restriction sur la couleur de la margarine) abolissent sans délai les restrictions existantes, nous pourrons arriver à éliminer le besoin d'importer du beurre de l'étranger. (Annexe II.)

Si la discordance qui existe entre la consommation et la production domestique de beurre est éliminée par la margarine canadienne au lieu du beurre importé, les consommateurs réaliseront une économie annuelle de 10 millions de dollars dans le coût de l'alimentation (voir exhibit trois).

Grâce à l'abolition des restrictions sur la coloration qui permettra de conférer à la margarine une apparence attrayante et appétissante, la consommation devrait augmenter graduellement. Nous croyons qu'il y a un bon nombre de ménagères, aujourd'hui, qui consommeraient plus de margarine au foyer, si seulement les membres de leur famille trouvaient celle-ci plus agréable à l'œil et, par voie de conséquence, plus plaisante au goût.

Puis-je soumettre un dernier exhibit démontrant comment appétissante peut être la margarine, si les restrictions actuelles sont annulées. Laissez-moi vous montrer un autre 50 livres de margarine.

Cette réglementation restrictive ne fait qu'empirer les effets de la disette de beurre et déverser une partie de nos devises dans des goussets étrangers, tout en haussant le budget alimentaire de la ménagère canadienne.

Dans les revisions que nous soumettons, il existe une grande possibilité d'entrevoir une plus large coopération entre les manufacturiers de produits laitiers et de matières grasses. Il y a là une occasion unique de réaliser des profits tout en contribuant à l'avenir du pays, aux destinées du gouvernement et au bien-être de l'ensemble des consommateurs.

9. *Notre vœu*

Avec la disparition de la taxe de vente imposée sur la seule denrée alimentaire de première nécessité au pays, nous invitons nos membres à offrir une économie en réduisant immédiatement les prix.

APPENDICE A

MEMBRES DE L'INSTITUT DE PRODUITS ALIMENTAIRES D'HUILES COMESTIBLES INC.

Monarch Fine Foods Limited, Rexdale — Raffinerie, Manufacturier de margarine

Canada Packers Limited, Toronto — Raffinerie, Manufacturier de margarine

Canadian Vegetable Oil Processing Limited, Hamilton — Usine d'émiage de graine de lin

Kraft Foods Limited, Montréal — Manufacturier de margarine

Lever Brothers Limited, Toronto — Raffineries, Manufacturier de margarine

Maple Leaf Mills Limited, Toronto — Usine d'émiage de graine de lin

The Procter & Gamble Co. of Canada Limited, Toronto — Raffinerie, Manufacturier de margarine

Victory Soya Mills Limited, Toronto — Usine d'émiage de graine de lin

Standard Brands Limited, Toronto — Manufacturier de margarine

Westminster Foods Limited, Vancouver — Manufacturier de margarine

The Canada Starch Co. Limited, Montréal — Raffinerie, Manufacturier de margarine

Grant Products Limited, Don Mills — Manufacturier de margarine

Swift Canadian Company Limited, Toronto—Raffinerie, Manufacturier de margarine

Burns & Company Limited, Calgary — Manufacturier de margarine

Western Canadian Seed Processors Ltd., Lethbridge — Usine d'émiage de graine de lin, Raffinerie, Manufacturier de margarine

ANNEXE I

COMPARISON DE LA PRODUCTION—DE LA CONSOMMATION DOMESTIQUE DE BEURRE AU CANADA
(000 livres)

	1962 (Réel)	1963 (Réel)	1964 (Réel)	1965 (Réel)	1966 (Prévu)
Production	373,092	362,398	361,157	345,517	342,039
Consommation	332,255	361,790	366,781	364,762	357,016
Surplus/(manque)	40,837	608	(5,524)	(19,245)	(14,977)
Exportations	4	19,359	113,666	5,379	—
Approvisionnement de Fin d'Année	238,290	219,539	100,249	75,625	60,648

De renseignements

Bureau Fédéral de la Statistique, sauf pour la prévision de 1966, laquelle est tirée des chiffres établis par l'Institut des produits alimentaires d'huiles comestibles de D.B.S., pour le premier semestre.

ANNEXE II

STATUT DES LOIS PROVINCIALES SUR LA COLORATION DE LA MARGARINE (SEPTEMBRE 1966)

TERRE-NEUVE
Aucune restriction—beurre coloré en vente

ILE-DU-PRINCE-ÉDOUARD
Interdite entre 1.6 degrés et 10.5 degrés

NOUVELLE-ÉCOSSE
Interdite entre 1.6 degrés et 10.5 degrés

NOUVEAU-BRUNSWICK
Interdite entre 1.6 degrés et 10.5 degrés

QUÉBEC
Maximum 1.6 degrés

ONTARIO
Interdite entre 1.6 degrés et 10.5 degrés

MANITOBA
Interdite entre 1.6 degrés et 10.5 degrés

SASKATCHEWAN
Interdite entre 1.6 degrés et 10.5 degrés

ALBERTA
Interdite entre 1.6 degrés et 10.5 degrés

COLOMBIE-BRITANNIQUE
Aucune restriction—beurre coloré en vente

Là où des limites numériques sont stipulées dans la loi provinciale, les normes sont fondées sur la lecture de l'intensité de la couleur réfléchie sur un tintomètre Lovibond. Là où il y a des restrictions, la pratique courante est que la lecture du tintomètre Lovibond doit être inférieure à 1.6 (blanc fade) ou au-dessus de 10.5 (jaune foncé) pour fins de comparaison, disons que le beurre est généralement entre 4.0 et 4.5.

ANNEXE III

1. ÉCONOMIES POUR LE CONSOMMATEUR EN ABOLISSANT LA TAXE DE VENTE SUR LA MARGARINE		
Exemple de consommation de margarine (Terre-Neuve)		149 millions de livres
Prix moyen au détail de la margarine dans les 9 provinces	$ 0.35	
Prix de détail probable, si la taxe de vente est abolie	$ 0.315	
Economie de $0.035 la livre sur 149 millions de livres	$ 5,215,000	
2. ÉCONOMIES DANS LA CONSOMMATION DE LA MARGARINE EN REGARD DU BEURRE IMPORTÉ		
Manque de beurre prévu pour l'année de consommation laitière 1966–1967		26 millions de livres
Prix moyen du beurre importé, supposons	$ 0.695	
Prix moyen de la margarine (sans taxe de vente)	$ 0.315	
Différence	$ 0.38	
Économie totale sur la margarine à $0.38, 26 millions de livres	$ 9,880,000	
3. ÉCONOMIES GLOBALES		
Economies résultant de l'abolition de la taxe de vente	$ 5,215,000	
Economies résultant de l'achat de margarine au lieu de beurre importé	$ 9,880,000	
Total	$ 15,095,000	

SOURCE D'INFORMATION: D.B.S., sauf la prévision relative à Terre-Neuve et les chiffres se rapportant à la consommation industrielle.

EXHIBIT IV

Since this brief was printed, the report of the Carter Royal Commission on Taxation has been published. It contains a specific recommendation that the Federal Sales Tax should not be applied to food, amongst other items. We draw it to your attention as being relevant to our case.

ROYAL COMMISSION ON TAXATION

SALES TAX AND GENERAL TAX ADMINISTRATION

APPENDIX B

"Before leaving the subject of food, mention must be made of an anomaly which does not create administration difficulties under a manufacturer's tax but which nevertheless amounts to discrimination of such flagrant character that it cannot be ignored. Butter is exempt from sales tax, but margarine, butter's direct competitor and inexpensive substitute, is taxable in nine of the ten Canadian provinces. Only Newfoundland consumers are allowed to purchase tax exempt margarine.[3] Hence not only is there discrimination between competing products, but there is also discrimination between Canadian consumers depending on their province of residence. From a neutrality standpoint it is imperative that both butter and margarine receive the same sales tax treatment.

[3] Newfoundland was allowed a sales tax exemption for margarine for consumption within the province at the time it entered Confederation in 1949.

A Submission

by

GRANT L. DUFF

PRESIDENT

URBAN DEVELOPMENT INSTITUTE

(Ontario Division)

to

THE JOINT SENATE-HOUSE COMMITTEE ON CONSUMER PRICES

February 28th, 1967

Toronto, Ontario

The Urban Development Institute (Ontario Division) is an association of land and property developers in the Province of Ontario. As its President, I welcome the opportunity to express the views of the Institute before this Committee on such a vital issue as the cost of housing.

We believe enough has been said to this Committee regarding the role of the Federal Government in creating an environment favourable to the continued supply of mortgage funds. Similarly, it would be needlessly repetitious for us to dwell on the effect of Federal and Provincial sales taxes for building materials on housing costs.

Our remarks will therefore be limited to the effects of the policies of the Provincial Government on the cost of housing.

Our industry works within a framework established by the Provincial Government and its agencies and municipalities. That framework is inadequate. It prevents the housing industry from providing accommodation within the finacial capabilities of the average income earner of this Province.

The tax policies of the Provincial Government have left the municipalities financially incapable of supporting adquate residential growth. The overwhelming load of education costs borne by the municipalities has forced many of them to prohibit new housing because they cannot afford the costs of education that would result from it.

Consequently, the supply of land that can be utilized for residential construction is often insufficient to meet the demand, and its price is inflated. In Metropolitan Toronto, for example, the price of raw land has more than doubled in the past three years.

Because the Provincial Government has failed to organize its municipalities on a regional basis, they do not have the broad non-residential tax base they require. As result, they must plan on the basis of assessment and are unable to provide major trunk services. This planning by assessment precludes the construction of smaller family housing units at higher densities and correspondingly lower costs. This policy is absolutely contrary to housing needs. The municipalities cannot afford this type of housing because it does not generate sufficient tax revenue.

Another result of the anachronistic organization and tax base of the municipalities is that they impose unduly heavy capital levies on housing units for schools, sewers and parks. This adds directly to the cost of housing. In some municipalities these levies have reached $1,000 per lot.

Moreover, the municipalities themselves are only too willing to impoe arbitrary and unrealistic conditions upon new development, all of which are sanctioned by the Province. Both the Province and the municipalities are utterly

neglecting the fact that it is the housing consumer who pays the cost of each and every demand they are so ready to make. Many of these conditions, such as the mandatory provision of underground hydro, may be considered to have merit in themselves. But do they have merit when their cumulative effect is to put the cost of housing beyond most purchasers' reach?

Under the present rules pertaining to residential development, planning and appeal procedures are bogged down in a morass of delays and red tape. The lengthy delays involved not only add to the cost of housing accommodation but also tend to reduce the supply.

To permit the development industry to meet the demand for housing, the following steps must be taken:

(1) The Provincial Government must relieve its municipalities of the burden of the cost of education.

(2) The Provincial Government must re-organize its municipalities on a regional basis, giving them a broad tax base.

(3) The Provincial Government must ensure that major trunk services are provided to ensure an adquate supply of land for housing.

(4) The Provincial Government must exercise control over the demands placed upon development by its municipalities.

(5) Finally, the Provincial Government must revise its planning and appeal procedures so that they operate efficiently and with all possible speed.

Brief on

CONTRIBUTING COSTS TO CONSUMER PRICES

Submitted by

THE CORPORATION OF THE MUNICIPALITY OF THE BOROUGH OF SCARBOROUGH

To the

JOINT PARLIAMENTARY COMMITTEE ON CONSUMER PRICES

FEBRUARY 27, 1967.

The Chairman and Members,
The Joint Parliamentary Committee
on Consumer Prices.

Honourable Sirs:

The Municipality of the Borough of Scarborough is pleased to have this opportunity of expressing certain views with respect to costs which have a bearing on Consumer Prices, as it relates to the Municipal Government in this area.

The Municipal Corporation, representing that level of Government which is perhaps closest to the wage earner, is more sensitive to the attitudes of the public in respect to the rising cost of living. It is an established fact that Municipal taxes are rising each year, and we believe one reason for this is the unusual position we find ourselves in, as both a taxing body, while at the same time, being a large consumer of goods and services. Therefore, we are in the invidious position of applying taxes upon taxes, all of which is contributing to the spiraling cost of living.

It is interesting to note that of each tax dollar spent on materials and equipment with very few exceptions, approximately eighteen cents goes to the two senior levels of government. This is made up of 12 per cent Federal Tax and 5 per cent Provincial Tax compounded. The recent 1 per cent increase in Federal Tax from 11 per cent to 12 per cent, is not just a 1 per cent increase to the consumer, but also an increased percentage with the Provincial tax.

We note with great interest that the recently released report of the Carter Royal Commission on Taxation, has made some reference to changes which may be forthcoming in relation to Federal and Provincial Sales Taxes. We are not in a position at this time to comment objectively on this report, but we would wish to set out a few comments on the subject of Federal Sales Taxes, as it applies to the Municipality as a consumer.

BUILDINGS ERECTED BY THE MUNICIPALITY WHICH ARE TAXABLE IN RESPECT TO BUILDING MATERIALS

A municipality does not enjoy Federal exemption on building materials such as schools and hospitals enjoy and is therefore, liable to the 11 per cent tax on all building materials. It is an accepted principal that approximately 50 per cent of a building is material and 50 per cent labour.

The following example gives a good illustration of hidden costs.

Cost of Building	$ 5,000,000.00
50% for Materials	$ 2,500,000.00
11% of $2,500,000.00	$ 275,000.00
20 Year Debenture at 6% on the $275,000.00 of tax means a total expenditure of	$ 478,500.00

BUILDINGS ERECTED BY THE MUNICIPALITY WHICH ARE EXEMPT TAX IN RESPECT TO BUILDING MATERIALS

Dealing with schools and hospitals, both levels of the senior government have, in their wisdom, allowed tax exemptions on building materials, presumably to strive for lower costs and increased building of schools and hospitals.

It is therefore, rather startling to realize that "The Royal Architectural Institute of Canada" have the following wording in their "Standard Form of Agreement between Client and Architect", Article IV, Sub-Section (b) reads: "Where a refund or exemption of Sales Tax is granted to the Client on any materials and/or equipment, the amount of such Sales Tax shall be included in the "Cost of the Work". Using a building costing $5,000,000.00 the following analysis is interesting:

Cost of Building	$ 5,000,000.00
50% for Material	$ 2,500,000.00
In this case we must use Provincial Tax as well as Federal Tax—11% plus 5%	$ 412,500.00
Fee—6% of $412,500.00	$ 24,750.00
Resulting in 20 Year Debenture at 6%	$ 43,592.00

Sewer Contracts

The Federal Government allows exemptions on materials on the construction of sewerage drainage systems. However, whilst a contractor is required to bid, a tax exempt price, he must pay the tax on materials purchased and then when the contract is finished, file a rebate claim. This procedure ties up the contractors' money sometimes for months. It is not an uncommon thing for contractors, when figuring their price to the municipality to make an extra allowance for the loss of interest and use of their money—ANOTHER HIDDEN COST TO THE TAX PAYERS.

The Provincial Government, when the retail sales tax was first introduced, operated this way but after two years reversed this procedure and now issues to the Contractor an exemption certificate for each contract. This eliminates the futility of collecting the money and then returning it with all the unnecessary administrative burden added both to the government and to the contractor.

Equipment Purchasing

The Federal Government gives limited exemption under the Act to municipalities for "Equipment at a price in excess of five hundred dollars per unit, specially designed for use directly for road making, road cleaning or fire fighting, but not including automobiles or ordinary motor trucks". However, the municipality is at the mercy of the administrative department in its interpretation of the Act. For example, a tractor with a snow plow attached is considered specifically designed for snow removal and is exempt. Should the tractor wear out before the plow attachment, replacement tractor on which is mounted the original plow is considered taxable.

With the growth of municipalities over recent years, the tendency is toward more contracting of road and sewer construction and the major portion of equipment funds are now being spent on such items as garbage collection and garbage disposal equipment. This type of equipment is probably the most expensive that a municipality is to buy and is all taxable. The larger portion of them

are manufactured in the United States. The following illustration on what happens to a $1,000.00 State side is interesting.

Equipment at U.S. Border		$ 1,000.00
Plus 8 and ½% U.S. Exchange		85.00
		$ 1,085.00
Plus 22 and ½% Duty		$ 244.13
		$ 1,329.13
Plus 12% Federal Sales Tax		$ 159.50
		$ 1,488.63
Plus 5% Provincial Tax		$ 74.43
		$ 1,563.06
Freight $50.00		$ 50.00
		$ 1,613.06

Before leaving the subject of Federal Sales Tax, it is desired to draw the Committee's attention to the method with which tax rulings are handled. When the Federal Government hands down a ruling to a municipality, this information is unlikely to be made available to any other municipality, resulting in some municipalities paying tax and some not paying tax for the identical piece of equipment. The only way, to date, this has been overcome is by the voluntary exchange of information by municipalities and being on a voluntary basis. This is not 100 per cent successful. A classis example is sidewalks. The Federal Government has always maintained a sidewalk is not part of a road which means, sidewalk construction equipment and sidewalk snow removal equipment is taxable. Only this month this decision was reversed in a ruling to a large western Canadian city.

Provincial Sales Tax

The Provincial Government have been most sympathetic with municipalities on tax exemptions but all in the field of real property. With the exception of fire trucks, sweepers and flushers, all other equipment is taxable. Vast sums of money are expended annually at the municipal level on equipment and by the very nature of the services a municipality must provide, the attrition rate and equipment is very high.

Conclusion

Gentlemen, in this short presentation we have endeavoured to show that the rising cost of living, as reflected in consumer prices, which your committee is studying has a direct relationship to our Municipal Government operation. Again, we would point out that we find ourselves in the invidious position of applying Municipal taxes upon Federal and Provincial taxes, all of which is contributing very greatly to the spiraling cost of living.

Respectfully submitted,

R. M. Campbell
Mayor

C. A. Tripp,
Clerk.

SUGGESTED RECOMMENDATIONS

1. Municipal Corporations be exempt from Federal Sales Tax on materials used in all construction.

2. That Article IV, Sub-Section (b) of the Standard Form of Agreement Between Client and Architect of the Royal Architectural Institute of Canada be rescinded by government order.

3. That all construction contractors working on municipal construction contracts be given exemption certificates by the Federal Government for each contract.

4. That Municipal Corporations be exempt from Federal tax on all garbage disposal equipment.

5. All special rulings issued by the Federal Sales Tax Department be referred to:

(a) Canadian Federation of Mayors and Municipalities

(b) Provincial organizations such as the Ontario Municipal Association.

(c) C.C.H. Canadian Limited, publishers of law reports; so that these rulings are readily available to all municipalities.

6. That all Municipal Corporations be exempt from Provincial Tax on garbage disposal equipment and snow removal equipment.

Council Chamber,
City Hall,
St. John's, Nfld.,
WEDNESDAY, March 1, 1967.

Pursuant to adjournment and notice a sub-committee of the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. C.W. Carter.—1.

For the House of Commons: Messrs. Allmand, Basford (*Chairman*), Boulanger, Lefebvre, MacInnis (*Mrs.*), Mandziuk, McLelland, Morison, O'Keefe and Watson. —10.

The following were heard and questioned by members of the sub-committee:

Mr. A. Vivian,
Commissioner of Housing,
Department of Municipal Affairs & Housing,
Government of Newfoundland & Labrador,
St. John's, Nfld.

Newfoundland Co-operative Union,
St. John's, Nfld.
Brief.

Mr. G. Haggett,
President.
Mr. D. Garland,
Managing Director.

Newfoundland Fish Trades Association,
St. John's, Nfld.

Mr. Eric Harvey,
Secretary-Treasurer.
Mr. H. Lake.
Mr. G. Etchegary.
Mr. P. Russell.
Mr. P.K. McGrath.

At 12.15 p.m. the sub-committee adjourned.

At 2.00 p.m. the sub-committee resumed.

The following were heard and questioned by members of the sub-committee:

Mrs. G.M. Walsh,
Provincial President,
Consumers' Association of Canada,
St. John's, Nfld.
Brief.

Women's Club,
Memorial University of Newfoundland,
St. John's, Nfld.

Brief.

Mrs. Evelyn Barton,
Chairman.
Mrs. E. T. Kelly,
Member.
Mrs. J.A. McKim,
St. John's, Nfld.

Brief.

At 4.45 p.m. the sub-committee adjourned to the call of the Joint Chairmen.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch

BRIEF

to the

JOINT PARLIAMENTARY COMMITTEE ON
CONSUMER CREDIT (PRICES)

presented by

THE NEWFOUNDLAND CO-OPERATIVE UNION
NEWFOUNDLAND

March 1, 1967

APPENDICES

Appendix I

History of the Newfoundland Co-operative Union.

Appendix II

Objectives of the Newfoundland Co-operative Union.

Appendix III

Consumer Co-operative Societies—Sales and percentage of net surplus to sales for years 1964 and 1965

Appendix IV

Code of Ethical Standards for Co-operatives

We wish to thank you for the opportunity to meet with you and to present our views on the problems of consumer credit and prices in Newfoundland. Attached to this brief as an appendix are four documents which present the history of the development of the Newfoundland Co-operative Union, the objectives of this organization, consumer co-operative sales for years 1964 and 1965, and the Code of Ethical Standards for Co-operatives. As you will see in the appendix of the Newfoundland Co-operative Union is a federation of all co-operatives of the province with a total membership of approximately 15,000 consumers. There are several points that we would like to make in the brief herewith presented. These deal mainly with:

1. The lack of public knowledge concerning the cost of credit.

2. Due to the lack of information with regards to many food and manufactured products the consumer is unable to make a reasonable assessment of the prices he or she has to pay.

3. Gimmick and give-away promotions add to the cost of products that the consumer purchases.

4. There is a discrimination by many of the fruit companies of the Mainland, with regards to shipment of fruit and vegetables to Newfoundland.

5. The agency type of business structure in Newfoundland in many cases has a tendancy to add to the ultimate cost of the consumer.

6. The cost of transporting food from the Mainland of Canada to the Island of Newfoundland adds considerably to the ultimate consumer price.

7. The high cost of construction in Newfoundland prevents many groups who are desirous of establishing a Co-operative from doing so.

8. The lack of a Federal Co-operative Act limits the establishment of Canada wide co-operative organizations in this province.

9. The need for housing, individual and multiple, is extremely great in the province of Newfoundland and the high cost of both servicing and constructing homes is making it increasingly more difficult for individuals to own their own homes or even to find proper accommodation.

The fact that Newfoundland is just now really entering the industrial development era and the fact that in many cases Newfoundland people are receiving for the first time monthly take-home-pay there is an increase in the sales promotion to these people by many firms to provide them with the so called luxury items such as electric washers, televisions, and probably automobiles. Along with these sales promotions usually comes the finance organization which is prepared to accept as the slogan goes "a dollar down and a dollar a week", thus putting many of the people deeply into debt and in many cases loaded with interest charges which they have no concept of. We have on files a documented record showing a purchase which cost the individual 36 per cent interest premium. We therefore feel that there is a tremendous need for both Provincial and Federal legislation with regards to the publication of the true interest charges being made by all lending institutions.

In view of the fact that there are many new products coming on the market today there is a greater need for some type of consumer protection not only with regards to the matter of prices but also with regards to the matter of health protection. We would therefore urge consideration of some type of consumer protection department in government.

Newfoundlanders probably because of the nature of their living have a great tendency to take a chance. Probably in the early fishing days when men went to sea in their dories they knew every day they were taking a chance and so today the promoters are capitalizing on this characteristic by using every means possible to promote their product through "Money in the bay", "A Chance to win $1000", etc. etc.

We would therefore urge some type of control to be implemented which would curb these lotteries and give-aways.

We understand from the managers of the co-operative stores that the fruit companies on the Mainland are prepared to ship fruit and vegetables to the stores but they will not guarantee quality upon arrival. They claim that the mishandling of fruit and vegetables during transportation across the gulf makes it impossible for them to guarantee the good condition of the products upon arrival. This is contrary to the majority of fruit wholesales in other parts of Canada where they guarantee the quality of the goods to the destination. One can easily see the possibility of the wholesale shipping inferior quality merchandise to Newfoundland. We would urge that this be investigated and steps be taken to give the consumers of Newfoundland equal treatment to those in other parts of Canada.

At the time of Confederation there were several importers representing Canadian firms in Newfoundland. In order that they might continue in their business these importers were set up as agents of the different firms and they were then entitled to an agent's commission for the products shipped into the

province even though they may not have had any responsibility or any expense in the handling of these commodities. This commission in many cases increases the eventual ultimate cost to the consumer. We in the Co-operative Movement feel that this matter should be investigated and where it is effecting the prices paid it should be removed.

There appears to be a discrimination against the province of Newfoundland due to the fact that it is an island, in that there is an extremely high charge for transporting by truck on the ferry, food commodities. This applies both to commodities coming to Newfoundland as well as products such as lobster and fish being transported back to the mainland. Because of the perishability of many food products it is necessary to use this means of transportation thus increasing the cost. The federal Government has seen fit to construct a causeway to the island of Prince Edward Island at considerable cost to the tax payer, and we would ask that consideration be given by the Federal Government to subsidize the shipments of food both to Newfoundland and food products exported from Newfoundland. This would then give an equal opportunity for the consumers of Newfoundland to purchase their food at a comparable cost to other parts of Canada.

There are many people in Newfoundland, especially in the large cities, who feel the need for co-operative action in order to reduce the costs of living. However, in view of the fact that the establishment of a shopping centre amounts to millions of dollars in some cases, there is a reluctance to take the risk for such a large investment. The Government of Newfoundland has for some years had a Co-operative Development Loan Board which will lend at reasonable interest rates small sums of money to help co-operative programs. We would urge that consideration be given to the expansion of such a loan board fund to a Federal basis, and that these monies be made available on a loan basis to co-operative groups wishing to set up shopping centres, etc.

Several Canadian co-operatives would give consideration to establishing operations in Newfoundland but due to the fact that there is no federal co-operative legislation they are unable to make this step. We would therefore urge the establishment of federal legislation for co-operatives.

With the coming of the Trans Canada Highway and with the increasing industrialization of the province many of the smaller communities are slowly disappearing as the people move to the larger centres. This is now causing a tremendous problem of housing. This is especially noticable in communities where new fish plants are being established and new industries are developing. We would urge that the Central Mortgage and Housing Corporation be asked to consider loans to a central co-operative organization which could then proceed with the construction of homes and apartments in the congested areas and to establish co-operative groups which would operate these for their mutual benefit.

In summary may we list the recommendations which we would like your committee to consider:

1. Legislation with regards to "Truth in Lending"
2. The establishment of a consumer protection department.
3. Some type of control of lotteries and give-away promotions which increase the cost of the commodity.
4. To investigate the shipment of fruit and vegetables to Newfoundland.
5. Removal of the agency privilages where this increases the ultimate cost to consumers.
6. To urge the establishment of freight subsidies on food commodities moving in and out of Newfoundland.

7. Consider the possibility of Federation Co-operative Loan Board.

8. The immediate establishment of a Federal Co-op Act.

9. To urge Central Mortgage to make capital loans to central co-operatives for house building

We wish to thank you for this opportunity to present to you our views on the matter of consumer credit and prices in Newfoundland.

History of the Newfoundland Co-operative Union

The Newfoundland Co-operative Union was born in an atmosphere of heady optimism, at a time when Newfoundland Co-operators believed the co-operative movement was soon to be involved in a major revival. This enthusiasm was not shared by some co-operators outside Newfoundland, or by some local government officials, who had not been impressed with the record of either of the two regional co-operative councils. Leading the co-operative revival was to be the Newfoundland Co-operative Union, which was to open its membership to all registered societies, including those that had not been eligible to participate in the two regional co-operative councils which the NCU was replacing.

These included the large consumer co-operatives at Grand Falls and Gander as well as societies on the northeast and southwest coasts. Bringing together the three societies of Corner Brook, Grand Falls and Gander was a major step forward, particularly in the case of Grand Falls which, perhaps because of its registration outside the Co-operative Societies Act, had remained detached from the movement generally. These three societies, by virtue of their size and development, contributed approximately fifty per cent of the Union's budget from Newfoundland co-operatives.

From the start, however, the NCU was to lean heavily on government for very substantial direct and indirect support, thus continuing the tradition that had been established with the Avalon Co-operative Council. In retrospect there are those who, in 1965, question the advisability of establishing a co-operative central organization having as its managing director officers of the government's co-operative division.

At the time of its organization, however, the NCU was willing to accept all the aid it could get from outside sources, and no effort was made to delay the formation of such a central until provincial co-operatives were prepared to pay a substantial portion of the operating costs of such an organization. This was an era of active government involvement in the co-operative movement, and co-operatives were encouraged to call on government for advice, guidance, and financial help.

In 1952, at the NCU annual meeting, the provincial minister responsible for co-operative affairs indicated that the co-operative movement would some day be asked to be solely responsible for expansion and promotion of co-operative activities. In the meantime, the provincial government was willing to provide funds and personnel.

The Union was advised orally that the Newfoundland Government would likely consider favorably a request from the Union for a grant sufficiently large for it to employ its own managing director, who would not in any way be associated with government. For reasons which are not clear it was to be 12 years before the NCU finally accepted the offer.

The Board of the NCU did, however, request the secondment of three government co-operative fieldmen to the Union for a year to enrol new members in the Union. It was hoped that this experiment would help the Union to appraise the amount of work that could be accomplished by fieldmen, making it possible to realistically budget for the next year. In fact, one fieldman was made available.

The effect of this work was soon noticeable of Fogo Island, by increased membership in the Union and other provincial co-operative organizations. The position of managing director of the Union continued to be filled through secondment of an officer from the Co-operative Division.

During its first 15 years the NCU performed its most useful functions in keeping in touch with national co-operative trends, by bringing many provincial co-operative organizations into regular contact with one another at various places throughout the Province, in encouraging the sale of co-operative insurance and in developing wholesale services. Its greatest weaknesses were that it failed to provide effective stimulus to either fisheries and agricultural producer co-operative development, and it did little to initiate effective province-wide programs of credit union development.

In 1962, at the annual NCU meeting, the Premier reiterated that the provincial government was withdrawing from organizational and commercial activities associated with co-operative development, but that it would provide financial assistance to the NCU and other agencies particularly the Extension Service of Memorial University, which would actively promote co-operation.

The Premier offered a grant to the NCU sufficiently large for the Union to assume responsibility for the propagation and promotion of co-operative development, the money to come from savings on the proposed phasing out of the government's Co-operative Extension Division. The Union accepted this offer and at a special Board meeting prepared a submission to government in which it requested a grant of $20,000. In mid-1963, the Union was advised that a grant not of $20,000, but of $10,000 would be made available. This was considered insufficient by the Board. At the Union's annual conference in 1963, delegates were advised that a grant of $15,000 for the Union had been approved.

First attempts to obtain a qualified person as managing director were unsuccessful. The assistance of the Co-operative Union of Canada was sought and in 1964, a management agreement was signed with the CUC which provided for the organization to find a qualified person to serve as managing director of the NCU. Early in September, 1964, the terms of the agreement were implemented by the arrival in St. John's of a managing director from western Canada.

The Objectives of the Newfoundland Co-operative Union

The objects of the Union are the development and maintenance of co-operation of Newfoundland and in particular, but without limiting the generality of the foregoing to

(a) take necessary measures to perform such services in the development of the co-operative movement in Newfoundland as the Union approves;

(b) encourage and assist in the application of co-operative principles and methods in dealing with economic and social needs by the organization and development of co-operative organization and associations for distribution of goods, production, manufacturing, marketing, housing, health, insurance, credit and any other activities or services

to which co-operative principles and methods may be applied;
(c) carry on, encourage and assist in educational and advisory work relating to co-operative enterprises;
(d) protect the interests of co-operative societies by appropriate action in making representations to legislative, executive and administrative authorities;
(e) print, publish and circulate any newspaper or other publication in the interests of co-operative enterprise, principles and practices;
(f) render services designed to ensure efficiency and uniformity in the conduct of the business of members and in standardizing their bookkeeping, accounting and other procedures;
(g) do any and all other things incidental or conducive to the attainment of these objects and to the exercise of the powers of the Union.

THE CODE OF ETHICAL STANDARDS FOR CO-OPERATIVES

1. *Purpose*

We co-operators recognize that the consumer has certain Rights, and that these Rights should not be violated by the organization. Among these Rights are:

(i) The Right to Safety
(ii) The Right to be Informed
(iii) The Right to Choose
(iv) The Right to be Heard

2. *Code of Ethical Standards*

In recognition of the fact that it is a duty of this consumer-owned organization to respect and protect these Rights, the following Code of Ethical Standards shall apply to all activities of the organization:

(a) All claims, statements, information, advice, and proposals shall be honest and factual.
(b) Sufficient disclosure of pertinent facts and information shall be made as may be necessary to enable one to make a fair appraisal of the proposal as related to the requirements to be fulfilled.
(c) Public decency and good taste shall be duly regarded.
(d) Unfair exploitation in any form shall be avoided.
(e) Comparisons of co-operative merchandising, products, service, philosophy, principles, and practices, to those of others shall only be made honestly and fairly. Unfair disparaging comparisons shall be avoided.
(f) Interests of the membership as a whole shall be paramount to the interests of the institution.
(g) Equitable treatment of all members shall be diligently pursued.
(h) Knowingly persuading or advising an individual into action which may not be in his best interests shall be avoided.

3. *Applying the Code to Practices*

Because we agree that the consumer has certain Rights and that we aim to conduct our activities in the interests of the consumer, we shall, therefore, in any or all interpretations or applications of this Code, concern ourselves with human values and not with legalisms.

The test as to whether an action adequately conforms to these standards lies in the answer to the question: What is the effect on the ordinary or trusting mind? It is not enough that the discerning, knowledgeable and/or analytical person can make a fair assessment if the ordinary or trusting individual would be misled.

CONSUMER CO-OPERATIVE SOCIETIES

SALES FOR YEARS 1964 AND 1965 AND PERCENTAGE OF NET SURPLUS TO SALES

Name of Society	Address	Sales 1964	Net Surplus 1964	Percentage of Surplus to Sales 1964	Sales 1965	Net Surplus 1965	Percentage of Surplus to Sales 1965	
		$	$	%	$	$	%	
Baie Verte	Baie Verte	138,636.41	2,329.46	1.7	152,803.23	404.23	.3	
Bardland	Barr'd Island	27,025.30	813.41	3.0	—	—	—	Not available for 1965
Brig Bay	Brig Bay	140,802.08	11,763.77	8.1	162,653.60	10,611.62	6.5	
Calvert	Calvert	59,478.78	4,036.03	6.7	59,630.00	4,153.00	6.9	
Conche	Conche	54,472.94	3,509.70	6.5	56,752.03	2,913.17	5.1	
Cormack	Cormack	112,868.11	5,181.94	4.6	129,998.24	9,847.00	7.6	Revised
Corner Brook	Corner Brook	2,000,751.21	188,078.07	9.4	2,154,723.13	189,300.00	8.8	
Eastport	Eastport	88,630.67	6,599.87	7.6	102,711.21	7,232.54	7.0	
Eureka	Trinity East	22,127.83	1,137.66	5.1	27,433.72	1,959.40	7.1	
Gander	Gander	1,101,344.52	26,195.03	2.3	—	—	—	Not available for 1965
Grand Falls	Grand Falls	782,320.07	27,670.76	3.5	835,643.27	13,084.03	1.5	
Grenfell Memorial	St. Anthony	193,384.08	Deficit	—	221,646.42	2,058.62	.9	
Hatchet Cove	Hatchet Cove	22,383.78	2,814.53	12.2	18,755.00	1,595.00	8.5	
Hodges Cove	Hodges Cove	44,898.00	Deficit	—	39,493.00	Deficit	—	
Kingwell	Kingwell, P.B.	58,159.04	1,827.77	3.1	55,120.24	1,855.66	3.4	
Little Paradise	Little Paradise	9,034.86	413.24	4.6	10,032.27	466.92	4.7	
Long Island	Beuamont	55,387.00	1,634.00	3.0	—	—	—	Not available for 1965
Lord's Cove	Lord's Cove	51,648.09	3,556.08	6.9	56,959.00	1,809.00	3.2	
Lorries	Lorries	68,641.76	2,826.03	4.2	77,597.00	7,312.00	9.4	
Lourdes	Lourdes	148,933.57	10,921.18	7.3	163,160.96	14,204.65	8.7	
Midland	Midland	76,044.50	5,736.58	7.5	81,337.41	5,629.58	6.9	
Modil	Doyles	101,502.59	2,887.31	2.8	124,976.00	7,171.00	5.7	
Mundy Pond	St. John's	68,733.89	3,359.79	4.9	67,538.55	2,221.95	3.2	
Musgrave Hr	Musgrave Hr	34,988.88	494.88	1.4	27,581.21	Deficit	—	

Oderin	Oderin, P.B.	45,418.85	1,684.11	3.7	45,363.00	3,069.00	6.7	
Salvage	Salvage, B.B.	38,134.93	1,676.16	4.4	—	—	—	Not available for 1965
Seldom	Seldom	35,680.01	2,773.93	7.7	—	—	—	Not available for 1965
South Branch	South Branch	60,960.40	2,377.44	3.8	59,482.00	2,209.00	3.7	
Stag Harbour	Stag Harbour	65,207.26	2,839.73	4.3	68,018.44	3,272.93	4.8	
St. Barbes	Flowers Cove	200,112.00	14,026.00	7.1	207,812.00	2,294.00	1.1	
St. Fintan's	St. Fintan's	29,870.87	1,082.48	3.6	33,203.00	2,476.00	7.4	
St. Jones Within	St. Jones Within	28,216.25	2,199.67	7.7	23,299.00	1,832.00	7.8	
Springdale	Springdale	92,749.92	5,955.29	6.4	110,039.53	5,941.39	5.3	
		6,059,148.45	348,391.90	165.1	5,173,762.46	304,923.69	142.2	

	1964		1965	
Average of 31 Societies	5.3	Average of 26 Societies	5.4	5.7 after Revision
Percentage of Total Net Surplus to Total Sales	5.7		5.8	5.9 after Revision

NOTE: Five co-operatives have not yet filed returns for 1965.

Prepared by M. F. O'Brien,
Inspector of Co-operative Societies
Registry of Co-operative Societies

Copy Revised
January 27, 1967
M. F. O'Brien

BRIEF

To the

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

Submitted by the

NEWFOUNDLAND BRANCH
CONSUMERS' ASSOCIATION OF CANADA
ST. JOHN'S NEWFOUNDLAND

FEBRUARY 1967

PREAMBLE

The Newfoundland Branch of the Consumers' Association of Canada is very pleased to have this opportunity to appear before this Committee.

This inquiry by the Special Joint Committee of the Senate and the House of Commons is of value to all Canadians and of special value to the consumers in the Province of Newfoundland where the cost of living is one of the highest in all of Canada.

THE NATURE OF THE CONSUMERS' ASSOCIATION OF CANADA

The Consumers' Association of Canada is a national organization serving the interests of Canadian consumers. It is an incorporated association, non-profit, non-sectarian and non-political in its outlooks and objectives. Thus it is independent of any particular region, business or industry. Funds are raised mainly from the membership dues of persons, though some government grants have been obtained.

The Consumers' Association of Canada has five main objectives. It seeks to educate consumers to understand and properly fulfill their roles. When possible it seeks to provide a point of united strength to improve the standard of living in Canadian homes. The third objective, and an important one, is to study consumer problems with a view to recommending solutions. Connected with the foregoing is the objective of bringing the views of consumers to the attention of government and industry while opening channels between these and the consumer. Finally, the Consumers' Association of Canada seeks to obtain, and provide for consumers, information and counsel on consumer goods and services. Research and testing is carried out to accomplish these objectives. In short, the attempt is to provide a voice for, and a wide range of services to Canadian consumers.

The national association receives information and advice from similarly organized provincial associations, which are in turn representative of local associations. Thus the national association gathers information and views from local groups all over Canada through the provincial associations. None of the officers anywhere in this structure are paid any fee, salary or honorarium. The only salaried people in the Association are the executive director, director of testing, membership secretary and clerical staff at Ottawa.

The Newfoundland branch of the Consumers' Association of Canada was formed in 1961. The Association has a membership of approximately one hundred members, an executive of six which are:

President	Treasurer
1st Vice President	Recording Secretary
2nd Vice President	Corresponding Secretary

Also chairmen of standing committees which are Consumer Problems, Publicity, Program and Constitution as well as a Board of Directors. Executive meetings are held monthly and Public meetings two or three times per annum.

Since its formation in 1961, the Association has

(1) Presented a brief on meat inspection in Newfoundland.

(2) Presented a brief on food prices to the provincial Royal Commission on Food and Drug prices, which included a survey of food prices conducted at regular intervals over a two year period (see Appendix "D").

(3) In 1965 a list of 60 items of food and household needs was compiled by this branch and distributed to CAC branches across the Dominion for a comparative price check.

(4) The Newfoundland branch of CAC was instrumental in having legislation passed in the form of an Act respecting the Direct Sale of goods and servces in the Province (Newfoundland and Labrador) Bill ♯ 86.

(5) Through the efforts of CAC the short milk carton 32 ozs. selling at the same price as the 40 oz. carton was removed from Supermarket shelves.

(6) At present the Newfoundland branch of CAC is promoting a campaign on the Use and Abuse of Drugs. This campaign will continue for the next year.

(7) CAC Newfoundland Branch has participated in many national projects and surveys.

(8) Up to the present time CAC has been the only organization equipped to handle consumer complaints, some of which would normally be handled by the Better Business Bureau.

EVIDENCE OF THE PROBLEM

Consumers have shown a great deal of concern about recently rising prices. We are not able to determine whether all of the concern is well founded. We are, however, convinced that in a very real sense consumers are 'loosing out' with the rapid price increases which have recently taken place.

FACTORS IN FOOD COSTS TO THE CONSUMER

It seems reasonable to argue that the consumer can in many cases protect himself for awhile against rising prices by increased care in shopping practices. However, a number of cureent practices so operate as to make such selectiveness difficult. We do not, of course, know it as a statistical fact, but we suspect that these practices have become more extensive in the last two years or so. Our guess is based on the number and type of complaints we receive, samples of which are presented in appendix to this submission (see Appendix "A").

PACKAGING

Packaging is something about which careful food buyers have long complained. Often the packages are unnecessarily elaborate and expensive. Consumers usually want the product not the package. Processors could help mitigate rising prices with more economical packaging, though we are well aware of the legitimate reasons processors have for using more elaborate packages under present market conditions. Furthermore, careful choice is made difficult if not impossible by the rapidly growing variety of sizes in many product packagings. We simply cannot believe that myriads of package sizes are necessary or desirable. We know why they are used but cannot fail to object to them as confusing,

unnecessary and inhibitive to the careful choice consumers must make when prices begin to move up, either for particular groups of products or in general.

We note with alarm the increase in advertising and promotional techniques which are being adopted and feel they add to increasing costs.

RECOMMENDATIONS

1. That retailers of food should stock more locally grown farm produce.

2. That produce should be priced according to quality and size.

3. That retailers of food should provide a special stall for day old bakery goods at reduced prices, also stale bread should be sold at a price lower than that for fresh bread.

4. That heavier wrapping be provided on prepackaged meats and that a transparent plastic tray be used in place of the present absorbent cardboard.

5. That retail prices of fresh fish and salted cod fish should be investigated in view of the wide margin between the price paid to the producer and by the consumer.

6. That in view of the high increase in the price of locally produced eggs in the past twelve months, the price of eggs should be investigated.

7. That retailers of food be requested to import from the Maritime Provinces more fruit, especially apples, which presumably would sell at a lower price than those imported from British Columbia.

8. That a Public Market be established in St. John's to provide a site where farmers, fishermen and others producing local foods can display and sell their produce to the consumer.

9. That in view of the fact that milk prices in St. John's are 20 per cent higher than in any other major city in Canada, an investigation into milk prices should be conducted without delay.

> NOTE: The Commission's attention is drawn to Appendix "B" which outlines, in the major cities of Canada, the price paid to the Producers and the Retail Price paid by consumers and to Appendix "C" which outlines per capita consumption in the various Provinces.

10. That items already priced and displayed should not be affected by price change of new shipments.

11. That store owners maintain close supervision on pricing of items to eliminate clerical errors.

12. That the consumer when checking out items has the cash register window clearly visible at all times.

13. That the practice of using staples for closing bags containing edible items be discontinued as it is hazardous to health.

14. That a department of consumers affairs be formed.

APPENDIX "A"

Packaging

— odd sizes, numerous sizes of containers
— containers which give a misleading impression as to their capacity
  — illustrations on packages—misleading as to contents
  — weight of contents,—in fractional oz. and grams (food and household needs)
— premiums and bonus,—coupons in packages

Advertising and Promotion

— lavish advertising,
  — television and magazine, newspaper and flyers
  — "sale" and "special" give impression that food items are reduced price but more often than not are regular price—comparative prices rarely given
— Promotional devices
  — contests, coupons, giveaways and other sales gimmicks

Merchandising Procedures

— (in store) the attempt to convey the notion that regular prices are special through techniques such as "everyday low price" or "special price"—when in reality they're usually the regular price.
— (in store) end island or bunk end displays—consumers are led to believe that bargains are always displayed at the end of an aisle, when actually these foods are often higher in price than the same item on the regular shelf.
— reducing size of package or container—an effective way of disguising a rise in the price of certain commodities is the practice of reducing the size of the container (thus the contents) while maintaining the same price.

APPENDIX "B"

PROVINCIAL COMPARISON OF FLUID MILK PRICES—SEPT.—1966

Province	Market	Price Paid to Producers per 100 lbs. of Milk	Retail Price for Standard Milk per Quart
		$	
Newfoundland	St. John's	9.50	35
Prince Edward Island	Charlottetown	5.13	24
Nova Scotia	Halifax	6.10	26½
New Brunswick	Saint John	6.00	28
Quebec	Montreal	5.55	23–27
Ontario	Toronto	5.75	29
Manitoba	Winnipeg	5.20	27
Saskatchewan	Regina	5.90	24
Alberta	Edmonton	5.60	26
British Columbia	Vancouver	6.56	29

APPENDIX "C"

PER CAPITA CONSUMPTION OF FLUID MILK BY PROVINCE—1965

Province	Population	Annual Fluid Milk Sales—'100 lbs.	Annual per Capita Consumption—lbs.
Prince Edward Island	108	21,817	202
Nova Scotia	761	196,929	258.0
New Brunswick	623	157,298	252.5
Quebec	5,657	1,491,038	263.6
Ontario	6,731	2,074,504	308.2
Manitoba	962	249,521	259.4
Saskatchewan	951	195,457	205.5
Alberta	1,451	361,377	249.1
British Columbia	1,789	493,001	275.6
Newfoundland	498	14,000 (estimated)	28.1
Canada	19,571	5,241,942	267.8

COMMENTS

The figures presented here were obtained from the Department of Industry, Dairy Division at Ottawa. More up to date information on milk prices across the Dominion could not be obtained for inclusion in this brief.

However, the price of pasteurized milk in St. John's has risen greatly and because of this factor milk is presently being imported from Nova Scotia which sells at a lower price that locally produced pasteurized milk.

We would like to present here a list of the various brands of pasteurized and homogenized milk and prices that are on sale on supermarket shelves in St. John's at the present time.

LOCAL	
Sunshine Dairy—Qt. Carton Pasteurized	43¢
Kenmount Farm—Qt. Carton Pasteurized	41¢
IMPORTED	
Farmers—Qt. Carton Homogenized	37¢
Modern City Dairy—Qt. Carton Homogenized	36¢

We have not gone into the field of Drug Prices as this is a very wide area and requires more research than time permits.

Mrs. Libby Macdonald, Past President
Mrs. D. K. Landrigan, Constitution
Mrs. G. M. Walsh, President

A BRIEF SUBMITTED TO A SUB-COMMITTEE OF THE JOINT PARLIAMENTARY COMMITTEE ON CONSUMER COSTS AT ST. JOHN'S, NEWFOUNDLAND ON MARCH 1, 1967

by

THE MEMORIAL UNIVERSITY OF NEWFOUNDLAND WOMEN'S CLUB

In this short brief we hope to impress upon this committee the harshness of consumer conditions for the average family in St. John's.

The average yearly income in St. John's is $3000.00, whereas the average wage in central Canada is $5000.00. The approximate wage of a female clerk in a national supermarket chain in St. John's, Nfld is $50.00 a week; in St. John, N.B. the wage is $72.00 a week. For a male clerk in the same company the wage in St. John's, Nfld is about $60.00 a week; in St. John $78.00 a week and in Toronto $100.00 a week. There is a $10.00 difference in the wages of male and female clerks in St. John's, Nfld and $6.00 in St. John, N.B. In New Brunswick the company pays the full premium for group insurance, here they pay only a part of it. This means that a married man with a family in this position earns $3100.00 a year here.

Investigation has shown that the food costs of a middle income family with four children is $2000 to $2500 a year. This amount provides for an adequate diet as outlined in the Canada Food Guide, with no luxuries. In the schools the children are taught, with appropriate coloured posters, the contents of a proper daily diet, one green vegetable, one yellow vegetable, eggs, three glasses of milk, etc. It is our belief that over one half of the population cannot possibly obtain the recommended diet.

Because of the fluctuation in food prices it is impossible to budget for food. For example, bacon rose from 65 cents to $1.05 a pound; back down to 79 cents and up again to $1.00 within three weeks. Pickled beets rose from 27 cents to 35 cents in two days. One brand of evaporated milk in one branch of a supermarket was 39 cents for two tins and in another branch 41 cents.

It is not unusual to find items marked 'on special' at the front of the store and to find the same item at a lower price in another part of the store. One member bought a five pound box of detergent with a 27 cents mark off printed on the box for $1.56; three weeks later the same box was priced at $1.62 with an old price on the side of the box $1.48 scratched out.

The cost of transporting food from the mainland may be part of the cause of the high prices but this does not account for the constant fluctuation. We recommend an investigation into the exact cost of transportation and waste. It is frequently observed that pounds of fresh fruits and vegetables are simply discarded without the storekeeper ever lowering the prices.

Actual case: One supermarket would not price their Christmas turkeys until a rival chain had priced theirs. This suggests price fixing.

We oppose misleading labeling. For example, on Fleischmann's Margarine the front large label says "Made from 100 per cent Golden Corn Oil—side label, smaller letters "Refined Corn Oil 80 per cent"—side label in large letters

"Accepted (blank) Health Magazine"; which leads one to believe that Health Magazine has recommended it, however, in the (blank) are the words "for advertising in".

We recommend that real estate practices be investigated. A person contemplating the purchase of a house here can expect to pay about $5000. more than for the same standard of dwelling on the mainland. Transportation costs again are the reason given. A speculator in St. John's bought land at one price and sold it at twice that price in about a week. A small contractor in St. John's has to go downtown to a building supply broker to order his material and then pick it up himself at the manufacturer's. Obviously the man in the middle has an effect on the final price.

One of our members recently negotiated the purchase of a four bedroom bungalow priced at $22,000. On the day of the signing, the surveyor discovered a fifteen foot drop of loose soil into the neighbour's yard. A retaining wall would be needed. When the member's lawyer looked into the matter he discovered that the whole house was built on new fill, not yet settled. The lawyer asked the municipal housing advisor what could be done about this kind of land and got no satisfactory answer. Meanwhile the prospective buyer had placed a $500.00 deposit with the realty company. When the deal fell through the lawyer had trouble getting a refund but was finally able to get $400.00 of the $500.00. The $100.00 not refunded was said to be for fees and investigation. The lawyer's fees, of course, still will have to be paid and our member feels herself lucky to have escaped the consequences of such a purchase.

We recommend that there be an investigation into agricultural problems. For example many vegetables which grow well in Newfoundland are imported at an unreasonable cost. Peas, beans and cauliflower have all been grown successfully in at least one member's home garden. Although there are dairies on the island, there is only one cup of milk per person per day produced. According to the Canada Food Guide a child should have at least three cups a day.

As mothers we protest the poor quality of reasonably priced childrens clothing, specifically cottons. In order to obtain a lasting quality one has to pay a high price. As a result we suggest that more than half the families in St. John's are inadequately clothed.

Many people require a car in their work; this item is no longer considered a luxury. At least one make of cars sold in St. John's is shipped first from England to Toronto and then back to St. John's. This increases the final cost of the cars by at least $100.00. Shipping practices such as this do not make sense, certainly not to the people who finally pay for the cars.

We hope that we have shown by these few examples that it is not just the cost of food, as high as it is, that makes life difficult for the average family in St. John's but the overall cost of living. Man, after all, does not live by bread alone.

SUBMISSION BY MRS. J. A. McKIM

St. John's, Nfld.,

March 1, 1967

Mr. Chairman and Members of the Commission:

I am speaking as an individual and do not represent any group or organization. However, I have been buying food for a family for 25 years. My husband is a clergyman and in the course of church work I have come in contact with a group of people or rather a segment of our people who are statistically anonymous yet who are not a part of what we assume to be our affluent society. I am much concerned over the practical and psychological effect that the constant rise in prices has on the individual and the family.

In the course of working in the church I have known many families which never come to the attention of welfare but for one reason or another have barely enough income to meet their needs. These people are often in a low income group but are too proud to seek welfare and they wouldn't quite qualify anyway.

I am thinking of families where the husband's wage or salary is not enough to meet costs of family essentials today let alone the comforts which our standard of living leads everyone to expect. Often the mother is forced to find work and this is often at a low wage as well. In such cases there isn't enough money to hire anyone competent to look after the children and they suffer from lack of adequate care. The lack here is usually psychological or emotional rather than physical.

In some cases the wage earner does not assume proper responsibility for the family and the mother is left to get along as best she can, even though the situation does not reach the stage of being investigated by welfare.

In such situations constantly rising food prices are a great hardship and tend to discourage people from remaining independent and trying to make their own way. Such people often look at the recipient of relief or welfare and see him to be better off. If, in addition to this, they feel they may be the victim of exploitation they are inclined to give up the struggle and accept the easy cynicism of defeat.

This problem is more acute in this province than elsewhere, which fact is borne out by the accompanying D.B.S. figures. These are from the last available year—1965.

You will note that Newfoundland has the lowest per capita income of any Canadian province, being $200 lower than Prince Edward Island, the next lowest on the scale and just a trifle above half that of Ontario. You will also note that 40.9 per cent of our population is in the age bracket 0-14 years of age. Certainly all of these are non-wage-earners and the great majority of children do not support themselves for six or seven years beyond that age group. This, too, is the highest per centage of that age group of any province. In addition we have the highest birth rate of any province in Canada. According to a D.B.S. official this trend can be expected to continue.

So it follows that even if food prices are found to be substantially the same here as in say, Toronto, it is, in reality costing the low income family more to live in St. John's. To make a rough comparison—if a dozen oranges cost the same here as they do in Toronto and Ontario income is twice what it is here, the low income consumer is actually paying twice as much for his oranges. In addition he is feeding more people with them.

These figures would indicate that the high cost of food and drugs ought to be given more serious concern here than in any other part of the country.

There are other factors operating here which put the consumer at a disadvantage. Some of these, upon investigation may be reasonably explained. It is possible that other factors could be eliminated and thus help reduce food costs.

We do not benefit in any way from seasonal prices. We pay as much for apples in October, when they are abundant and cheaper on the mainland, as we do in March. We can never buy apples by the basket or by the hamper. They are always sold by the pound. In addition we have no opportunity to get apples or any other produce cheaper by buying them from the producer as the consumer has in other areas.

Pepper Squash has been 23-25 cents a pound in our super-market for about two years. Sometimes it looks as if it is not only the same price but the same squash. Nobody can afford to buy a vegetable with such a high wastage proportion at such a price, least of all low income people.

Last year we were paying 14 cents a pound for Texas cabbage in March and we still paid 14 cents a pound for local cabbage in September or October at the supermarket. We are presently paying 17 cents a pound. Cabbage is the most widely used green vegetable here as is a staple in low income food baskets.

The price of fruits and vegetables bears no relation to quality. We often pay more for poor quality produce than we do for good quality at another time. Produce is not marked down when spoilage begins. Sometimes we will see bananas reduced to 15 or even 10 cents a pound but they are too rotten to eat. If a customer objects or makes a direct request to have the price reduced because of poor quality this will sometimes be done.

Stale bread or baked goods or dented cans are not reduced for quick sale. They are left on the shelves at full price.

It is generally believed here that imported fruit which is brought in by boat goes first to a central fruit distribution center in Montreal and is then re-shipped to Newfoundland. It is also believed that all local produce sold through the Dominion Stores here must first go through Canada Packers. I have no confirmation of these facts but feel that they should be looked into.

In addition to this it is generally felt that the commission agent who stands somewhere in the line from manufacturer to wholesaler to retailer to customer adds an unnecessary cost to the final price of food. Here again, as an individual I have no facts, figures or proof and would be unable to obtain them but the yellow pages of the telephone book lists about thirty of these firms and I think is a field that would bear investigation.

I would like to recommend that:

(1) The price of produce be based on quality and that the retailer be responsible for any loss in quality through purchasing or transportation fault. In this connection the insurance set-up should be investigated and taken into account. Are wholesalers or retailers compensated for loss of quality suffered in transportation and if so, what disposal is made of produce on which insurance is collected?

(2) Produce of inferior quality be marked down while it is still usable and the same price be charged to all customers on a policy basis and not by individual negotiation. The people who need this consideration most are usually the most timid and do not, as a rule, speak up.

(3) That a public or municipal market-place be established where producers and fishermen can offer their produce on a regular basis.

(5) That for the benefit of the consumer in general and for the low income family in particular there be some kind of supervisory body or committee to deal with food cost. Perhaps this need not be as stringent as a price control board such as we had during the war but a body whose duty it would be to watch prices. Perhaps retailers could be required to report to this committee any

articles on which prices were raised within a given period—say a month. In this way it could be seen if an article has a general rise in price and an easy check could be made with the wholesaler. If the increase were only noted in one store enquiry could be made for the reason. This committee could also investigate consumer price complaints in the same way as the federal inspectors handle quality complaints now.

Some such arrangement would help the consumer feel he had some recourse in the face of rising costs. Price supervision would be a recognition of the right of the consumer to see to his own interests with dignity and some hope of success.

In closing I would like to add that I can supply names and addresses of persons who would be willing to be interviewed privately to confirm my statements that low income families are having a hard time.

Mrs. J. A. McKim
5 Exmouth St.
St. John's.

TABLE OF PER CAPITA PERSONAL INCOME

Newfoundland	$ 1,175
Prince Edward Island	1,370
Nova Scotia	1,488
New Brunswick	1,374
Quebec	1,754
Ontario	2,296
Manitoba	1,919
Saskatchewan	1,966
Alberta	1,974
British Columbia	2,280

TABLE OF AGE GROUP 0-14 YEARS

Newfoundland	40.9%
Prince Edward Island	35.14%
Nova Scotia	24.3%
New Brunswick	37%
Quebec	34.5%
Ontario	32.3%
Manitoba	32.6%
Saskatchewan	34.2%
Alberta	31%
British Columbia	

BIRTH RATE PER THOUSAND

Newfoundland	29.9
Prince Edward Island	25.5
Nova Scotia	24.1
New Brunswick	24.9
Quebec	23.5
Ontario	23.2
Manitoba	22.7
Saskatchewan	24.1
Alberta	25.3
British Columbia	20.7

First Session—Twenty-seventh Parliament

1966-67

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 40

TUESDAY, APRIL 11, 1967

JOINT CHAIRMEN:

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Clarkson, Gordon & Co.: Mr. Donald C. Scott, C.A., Mr. Marcel Camirand, C.A., Mr. Fred S. Mallett, C.A.

Woods, Gordon & Co.: Mr. John H. O'Callaghan, Senior Consultant.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25786—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,
Asselin (*Charlevoix*),
Basford,
Boulanger,
Choquette,
Code,
Crossman,
Horner (*Acadia*),
Leblanc (*Laurier*),
Lefebvre,
Macdonald (*Rosedale*),
MacInnis,
Mandziuk,
McCutcheon,
McLelland,
Morison,
O'Keefe,
Olson,
Otto,
Rideout,
Saltsman,
Smith,
Watson,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract from the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

25786—1½

Your Committee recommends that it be authorized to adjourn from place to place.

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(For text see Interim Report in Committee Proceedings No. 27.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—
Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(For text see Interim Report in Committee Proceedings No. 27

J. F. MACNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, April 11, 1967.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices) met this day at 10.00 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Hollett, McDonald (*Moosomin*), O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—6.

For the House of Commons: Messrs. Boulanger, Choquette, Crossman, Lefebvre, Macdonald (*Rosedale*), MacInnis (*Mrs.*), Mandziuk, McCutcheon, McLelland, Morison, O'Keefe, Saltsman, Smith and Watson.—14.

In attendance: Dr. R. Warren James, Special Assistant.

A report on the Committee's sessions held outside Ottawa between February 20 and March 1, 1967, was ordered to be printed as Appendix A to these proceedings.

The following were heard:

Clarkson, Gordon & Co.

Mr. Donald C. Scott, C.A.
Mr. Marcel Camirand, C.A.
Fred S. Mallett, C.A.

Woods, Gordon & Co.

Mr. John H. O'Callaghan,
Senior Consultant.

A report prepared for the Committee by Clarkson, Gordon & Co., "Profitability Study Five Major Canadian Retail Food Chains", was ordered to be printed as Appendix B to these proceedings.

At 12.45 p.m. the Committee adjourned to the call of the Joint Chairmen.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

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THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, April 11, 1967.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Ladies and gentlemen, I call the meeting to order.

At the outset I wish to file for the record the report of the committee of its sessions held outside Ottawa between February 20 and March 1, inclusive. Copies will be prepared and sent to each member of the committee. It is a factual report.

(*See Appendix A*)

We have as out witnesses this morning some members of Clarkson, Gordon & Co. On my immediate left is Donald C. Scott, who is a partner in Montreal, and next to him is Marcel Camirand, also of Montreal. Then there is Fred S. Mallett, a partner in Ottawa, and next to him John J. O'Callaghan, who is a senior consultant with Woods, Gordon & Co., Toronto.

On December 7 we authorized a study to be made in the terms set forth on page 5 of this report. I shall read this for the purpose of the record:

(*See Appendix B*)

> The purpose of this study is to assess the profitability of food retailing operations in Canada by The Great Atlantic and Pacific Tea Company, Limited, Dominion Stores Limited, Loblaw Groceterias Co., Limited, Canada Safeway Limited and Steinberg's Limited—including where applicable, their subsidiary and affiliated companies. This assessment is to include examination of the trend in profitability over time, and of the level of profitability in comparison with that experienced in other segments of the Canadian economy and in food retailing in the United States.

I thought perhaps we would have a summary of the report from Mr. Scott at the outset, and then we will have a question period.

Mr. Donald C. Scott, C.A., Partner, Clarkson, Gordon & Co.: Thank you Senator Croll. Ladies and gentlemen, the chairman, Senator Croll, has suggested that it might be useful if I were to run through the highlights of this report briefly with you. I do not propose to read it all to you, but I thought perhaps you might be interested in some of the background information, and some of the reasons why we did certain things we did.

The initial task that faced us was to select those profitability yardsticks which might be most useful in looking at the profits of these five companies in relation to Canadian industry generally and in relation to their counter parts in the United States. The three that we selected as being most useful for our

purposes were these: First of all profit as a percentage of sales. Now, I am sure that this is the ratio which you have heard witnesses before this committee quote to you with great frequency. This is the ratio which I think is used most frequently by the members of the industry themselves to appraise their own operating performance. In very simple terms a profit figure of one per cent means that for every dollar that the chain store receives from the consumer one cent remains with them as profit after deducting all expenses of any description, including income taxes.

The second ratio which we selected was profit as a per cent of equity in the company; that is with the investment made by the shareholders either by way of invested capital or re-invested earnings. This is the traditional test that an investor might put on the enterprise to determine its profitability in relation to the other opportunities in which he may place funds.

The third ratio that we have used is the per cent of profits to total assets. This is a slightly different ratio in that it is more likely to be used by economists than by businessmen. It attempts to measure profits which are generated by all the resources used in the business. For this purpose the net profit figure which we have used is the return which is available for all classes of investors.

Money is supplied to business enterprises basically by three types of investors: by the shareholders, by debenture or note holders, long term lenders, and by trade creditors and by others supplying short term capital. The return available for the suppliers of capital is the net profit of the company and by the amount of interest which is paid to the people who have provided capital by way of debt of one sort or another. The net profit figure we have used therefore is the net profit to which we have added back interest paid by the company. We then compare that with the total assets, which is the other side of the coin of the capital which has been provided by these three sources. If you like we can come back at a later point to discuss the relationship or lack of relationship of these three ratios to consumer prices.

In attempting to look at the Canadian spectrum as a whole we tried to select the statistical data which might give us the best measure of one industrial group with another. There is not a good deal of statistical data available to us in Canada. We have used for this purpose the information which is available from the Department of National Revenue, which is published on an annual basis in their little booklet *Taxation Statistics*. When we started this study the most recently available information was the 1963 year; before we completed our work, the 1964 figures became available and they are embodied in the report.

I should tell you how these figures are made up by the Department of National Revenue. They simply take each corporation's income tax return for a year and drop the entire results for that company into one classification or another on the basis of a judgment decision by someone in the department as to the company's main line of business. On page 11 you will find the category "Retail Food Stores," for instance. This means that "Retail Food Stores" will include the results of non-retailing activities of certain retail food companies and will exclude the food retailing operations of other companies whose main area of activity is another industrial class. For example, we would assume that in the case of a food retailer who also operated a bakery, all the results as far as the Department of National Revenue are concerned would drop into the main category of "Retail Food Stores". On the other hand, you might have an organization which was involved in both wholesaling and retailing, and the department might in their judgment decide that wholesaling was the main activity and drop it into the wholesaling category. There is, therefore, this area of confusion in these figures.

We have selected three categories, if you will turn to chart 1 on page 13. We have taken the category "Retail Food Stores," for "All Retail Trade," and "All Manufacturing."

Des copies de notre rapport, en français, sont disponibles, pour ceux qui le préfèrent.

I think the three categories are fairly representative of a rather large segment of our Canadian economy. We have used the retail food stores category as being representative of the results of the five chains under study. A little later in this report you will see that we have gone to a good deal of trouble to try to refine the figures of these five groups so as to eliminate wholesaling, manufacturing and other extraneous activities, to try to come out with, if you like, a pure retailing profit, but we have not done so here because to do so would have distorted the comparability of these ratios with the other segments of the economy.

The five chains under study do in fact make up the lion's share of this category of retail food stores. You should bear in mind that these statistics come from corporation tax returns, so that they will exclude unincorporated businesses, co-operatives, voluntary food chains, except where the individual stores or groups of stores are incorporated.

You will see on chart 1 that retail food stores, like all retail trade, earn less profit per dollar of sales than do manufacturing industries. I think this is what you might expect. On the other hand, invested capital in retail operations generate proportionately larger sales, so that profit as a per cent of shareholder equity or of total assets does not vary to the same extent. If you look at the chart you will see that profit as a per cent of equity and profit as a per cent of total assets jumps around a good deal and that the results, particularly in recent years, are not dissimilar for the three industrial groups. The retail food stores return was certainly much greater 12 or 13 years ago, as you can see by the 1954 figures, but this has dropped down and in the last 5- or 6-year period particularly, they are pretty much all on a par.

Turning to the five major retail food chains, we prepared a questionnaire which we took to each of the five companies and discussed with them what we were trying to accomplish, and tried to anticipate any problems they might have in the preparation of the figures we were looking for. Basically, we patterned our questionnaire on one which had been developed by Harvard and Cornell Universities in the United States. We did this because—as you will see later on—we wanted to compare Canadian and United States experience, and we thought we should do this on a basis as consistent as possible.

The information which we requested was designed to exclude the wholesaling and manufacturing operations and operations of retail outlets concerned primarily with non-food items.

All the way through this report I should caution you that when we are talking about retail food sales, what we are really talking about are the sales of stores primarily dealing in foodstuffs. For example, we did not attempt to take a store like Steinberg's and exclude from it all the sales of things like razor blades, which would have been a monumental task. I doubt whether it could have been done, in any event.

To exclude wholesaling, manufacturing, et cetera, may sound like a simple enough thing to do; but I can assure you this was quite a major undertaking for the majority of this five-company group. These five organizations have different corporate structures. They certainly have different management philosophy. They operate in different ways, with different accounting practices, to some extent. We have taken the figures they supplied us, we have made such adjustments as we thought we were appropriate to eliminate some of the more obvious inconsistencies.

For example, some of the companies followed deferred tax accounting, some followed flow-through accounting for taxes, which is somewhat different. We put them all on the same basis for the purposes of this study.

I mentioned in our report that, in the case of Steinberg's and Loblaw's, the companies had very real difficulties.

Steinberg's, for example, carries on not only a retail food business but they own and operate extensive real estate holdings and they operate the Miracle Mart stores, which are general merchandise stores. In many cases, those operations share facilities and personnel and it is really quite a job to sort out the income and costs pertaining to each of these.

It becomes even more complicated when you then have to take the company's balance sheet, the statement of financial position, and decide, for example, what portion of shareholders' equity you are going to attribute to the Mircale Mart operation or the food operation or the real estate operation.

Loblaw's have all Steinberg's problems, multiplied several times over. Ladies and gentlemen, you have seen Loblaw's corporate chart and you know that it is a lengthy and involved one. Some of the companies have minority shareholders interests. In addition, there are companies actively engaged in wholesaling, manufacturing and other activities, in addition to retailing.

I think you should know that the Loblaw's organization, for example, had a large group of people working pretty much full time for six or seven weeks, to produce the financial information that we had asked for.

If I may, I would like to read to you the three caveats which we set out on page 16, because they are so important. The first is:

> 1. Because of the exclusion of non-food retailing operations and other adjustments which have been made by us or at our request, the profitability ratios developed are not necessarily the same as those available from the annual reports of these companies to their shareholders, nor the same as those previously submitted to the committee.

I might add that this was a source of concern to some of these companies, that having appeared before your committee and having given you certain figures, they were a little disturbed that we should then come in with some figures which were different. I would like to emphasize to you their figures were not prepared on the same basis as ours. In most cases, they presented figures which were basically the consolidated corporate results, while the figures that we are presenting are simply for the food retailing operations.

The second caveat is:

> 2. Despite the great care and substantial amount of time spent by each of the chains in preparing their financial data for submission to us—and we can assure you that the amount of time and effort was substantial—the results produced reflect arbitrary prorations and adjustments and can at best be considered to be informed estimates.
>
> 3. For these reasons it would be dangerous and perhaps misleading to attempt to draw many conclusions from the comparison of one chain's results with those of its competitors. We think, however, that these profitability figures taken in the aggregate are meaningful and provide a useful yardstick for determining trends and for comparison with other segments of the economy.

We wished to compare the financial information from the five companies with comparable data from the United States. There is an excellent study, Technical Study No. 7, published by the United States National Commission on Food Marketing in June 1966. This is a very complete and very up-to-date piece of work.

Technical Study No. 7, in its section on profitability includes information from a number of different sources. We have taken the Harvard-Cornell series as being representative. It relates to the operation of chains with multiple units; it attempts to deal only with food retailing; the figures are up-to-date; and, as far

as we could determine, the figures do not vary to any great degree from other studies. We have specifically mentioned here one done by the First National City Bank of New York.

The Harvard-Cornell people have produced figures which are broken down by size of chain. We have selected their category encompassing United States food chains with sales above $100 million. Each of the chains in Canada included in our study has sales in excess of this amount.

If you turn to Chart No. 2 on page 18 you will see the results of our comparison. I might add that the supporting figures for all these charts are contained in the schedules annexed at the conclusion of the report.

You will note that profit per sales dollar is higher in Canada than in the United States. In the United States, the profit per sales dollar has not changed appreciably over the five-year period, whereas in Canada there has been a slight upward trend.

Profit as a percentage of equity is much the same between the two countries and profit as a per cent of total assets is slightly lower in Canada. Since profit as a per cent of sales is higher in Canada, we can assume that the capital turnover, that is, sales per dollar of investment, is lower here than in the United States. We have not conducted any study as to why this should be so, and I suggest to you that this would be a fairly major job to undertake because of the many factors that might be involved.

Even though these comparisons with the United States are reasonably up-to-date, we thought it would not be amiss to pull together any other recent profitability information which would tend to give the direction or extent of recent profit changes, since in large measure it was the rising cost of living in recent months which gave rise to this project in the first place.

As we mentioned earlier, the Department of National Revenue statistics are available to 1964. There are some D.B.S. statistics which are available for more recent dates, but these are much more restricted.

First of all, the D.B.S. statistics show only sales and profit data. So that while we can produce figures for profit as a percentage of sales in recent months, it is not possible to make calculations of profit as a percentage of shareholders' equity or of total investment.

One other limitation is that we do not have a D.B.S. category for retail food stores only. The best we can do is use the category called "all retail trade." Neither of these may be serious limitations, because profit margins in the period 1961 to 1964 have been a greater influence on return on investment than have variations in the level of sales generated by investment.

I think we can say that recent movements in profit margins alone will permit an assessment of the direction, but not necessarily the magnitude of the changes in return on investment.

The fact that we do not have a "retail food stores" category but simply "all retail trade," maybe a limitation, but this may not be all that serious because the trend lines are reasonably parallel in the years we have looked at earlier, therefore I think that it is a safe assumption that "retail food" has reacted in much the same way as "a retail trade".

The D.B.S. figures are shown on page 21. We have included "manufacturing" as well so as to give you some basis of comparison.

You will note that in the second and third quarters of 1966 the profit margins were lower than for the corresponding periods a year ago—or even for two years ago for that matter.

We also tried to obtain from each of the five companies the most recent results that were available. In certain cases these were prepared on the same

basis as the statistics shown in our charts, that is, with wholesale and manufacturing excluded, in other cases it was not possible to get this breakdown for interim periods.

On page 22 you will see that, for the period from the end of February to the end of November, 1966, A & P's profit margins dropped off by .20 of a per cent. Dominion Stores' slid off very slightly. Safeway's were pretty well unchanged—in fact they were up by a very tiny margin.

Steinberg's half year results were not available to us at the time we started to draft our report, but they were announced subsequently to their shareholders. While the interim figures are not prepared on the same basis as the figures given to us, we did note that the results provided to the shareholders disclosed a drop in profits compared with the corresponding period in the previous year, and a decline in the profit to sales ratio.

From conversations with the management of the five companies involved it is fairly clear that this is a trend which is continuing at the present time.

Finally, we turned our attention to the question of leases and lease option arrangements which are so common in the industry. Some of the witnesses before you have made reference to these and have indicated the effect that these lease arrangements might have on their profit ratios. Unless you wish me to do so, I would not propose to go through this section, although I would be glad to answer any questions on it.

In summary, we might say that we obtained information from each of the companies to enable us to make a calculation of what the capitalized present value might be of their leases. This required us then, if we were to be comparable with the other profitability figures, to adjust our profit figures by the interest element contained in the annual rental payments and also to make a calculation or estimate of the amortization which might be acquired of the capitalized cost.

We had no idea what the results were going to be when we started into this, but we found that the inclusion of leases of of capitalized leases in the financial statements which, as you know, is a procedure which has not received any great degree of acceptance as yet in financial statements, would not change the profit to total asset figures which we have shown in our charts. For certain of the companies, the inclusion of capitalized values of leases increases the profit as a per cent of total assets ratio. In other cases, it lowers this ratio. But, strangely enough, for all companies in total, the adjustment required is insignificant.

Now, I would not want to suggest to you that this is inevitably the answer, because I think, if you took any particular company or any particular industry, you might come up with quite a different answer. But in this case we found that the figures were not distorted materially one way or the other because of the lease factor.

I think perhaps this would be as good a point as any for me to stop and to suggest that we would be pleased to answer any questions that you might have on our report.

Mr. McCUTCHEON: Mr. Chairman, I only have one question. Going over some of the schedules here it would seem that on every basis, the three bases that you use, the chain stores are more profitable than any other element of business examined. At a preliminary glance, would I be right in concluding that chain store profits are abnormally high in relation to the rest of the commercial organizations in our country.

Mr. SCOTT: I think this is a judgment decision. I would have to leave it to you. This was really not our task to decide whether profits are too high or too low, and quite frankly I am not sure what too high or too low is. To go back to your first statement that on every basis the retail food stores are more profitable in Canada than their counterparts in the United States, I think if you will turn to

chart No. 2, this is not what would be indicated. Retail food stores showed the lowest profit as a per cent of sales. They seem to fall somewhere between all retail trade and all manufacturing as a per cent of equity, and they are slightly higher than manufacturing and even still higher than all retail trade as a percentage of total assets. In one ratio they are higher, in another they are lower and in one they are in the middle.

Mr. McCUTCHEON: Then to return to the comparison of chain store profits in the Dominion of Canada versus the United States, you find out that the American chains—if I understand you correctly, and I want you to correct me if I am wrong—the American chains have a higher profit in relationship to equity than Canadian stores. Yet our stores make twice the profit per dollar sales.

Mr. SCOTT: If you turn to chart No. 2 on page 18—it is in the summary as well—and if you look backwards, you will see in 1966 the Canadian figure was 1.66 per cent. That is on the actual figures. It is on schedule 4 for the Canadian companies, and on schedule 5 for the U.S. companies. The most recent year when the spread was biggest, the Canadian companies earned 1.66 per cent and the U.S. companies 1.33 per cent. The year before it was 1.60 per cent compared with 1.44 per cent. To get back to five years ago it was 1.31 per cent in the United States and 1.35 per cent in Canada. The spread as I indicated has widened a bit, but the spread at the most recent figures we have available is 1.66 per cent compared to 1.33.

Mr. McCUTCHEON: In spite of this, what is the reason that the American stores are more profitable in relationship to investment and yet apparently are operating on a narrower margin?

Mr. SCOTT: Well, they are not more profitable—certainly in most recent years. Again on chart No. 2 at page 18 you will see that the Canadians are making, in most recent years, slightly more than their United States counterparts, but I think for all practical purposes, as a percentage of equity, it is practically identical between the two countries. As I said earlier, we just don't know the reason for this. It is something that would require a great deal of study to find the reasons for. It may have to do with consumer buying habits or population densities. It does seem to me that the United States can generate proportionately higher sales per dollar on invested capital than we can in this country. There are many factors to be considered in this.

Mr. McCUTCHEON: Would population density be the main factor?

Mr. SCOTT: It might be very important.

Senator O'LEARY (*Antigonish-Guysborough*): On this subject we have been told by one or more witnesses, and I believe this myself from my own experience, that the price structure regionally in various sections of the United States shows a greater variation than there is actually between Canadian and American prices. Do you know anything about this?

Mr. SCOTT: I am sorry, we don't. We were dealing on aggregate figures and did not make any analysis on a geographical basis.

Senator CARTER: In your comparison with the United States performance, you based your comparison on studies by Cornell University and Harvard. Are these U.S. lines here, these statistical reports taken directly from the Cornell study or did you modify them in any way?

Mr. SCOTT: They are taken directly from these studies. The one modification which we made, and we noted this back on schedule 5 at the bottom, was to take the Cornell figures and add interest in making our calculations or profit as a percentage of total assets. But the figures themselves were all drawn unedited, if you will, from the Harvard-Cornell studies.

Senator CARTER: In preparing the Canadian figures did you follow the same formula followed by Cornell?

Mr. SCOTT: We certainly attempted to.

Senator CARTER: You ran into the same problems apparently, or they must have run into the same problems of different corporate structures, of overlapping of enterprises and of overlapping of wholesale and retail, and leasehold properties as compared with owned properties.

Mr. SCOTT: I am sure they did.

Senator CARTER: And you handled the Canadian figures in the same way as Cornell handled theirs with respect to those matters?

Mr. SCOTT: Cornell certainly had difficulties collecting these figures, as you might imagine. What I suspect happens in many cases is that the Cornell people don't get exactly what they ask for. The individual companies are not going to go to the same amount of trouble that they would for a committee of the House and the Senate to try to refine their figures, and I suspect some of the figures they receive are not—they have not got them in the same detail. And also not everyone will reply to the Harvard-Cornell questionnaire.

Finally, we cannot tell who is included in their figures and who is out, except that we know the sample is large. This information is not disclosed to anyone. This is done as a private study, and one of the rules of play is that they will not say who participates.

Senator CARTER: If you have not been able to refine your figures, as you were otherwise able to do because of the information you had, whereas the Cornell people had to take what they could get, how would this lack of refinement have changed your own representation? How does this change the picture of these graphs? Would it have widened the gap or would it have narrowed it? What was the effect of the modification?

Mr. SCOTT: I find that very hard to answer. I think I might answer you in this way. If we left in the Canadian figures, the wholesaling and manufacturing operations, we certainly would have tended to increase the figures for profits as a percentage of sales. I do not think there is any question of that. I suspect some of the other ratios would change too, but I just do not know the effect of it. Of course, we are guessing when we are talking about the amount of distortion in the Harvard-Cornell figures, there may not be very much; it may simply be that companies which are fairly clean participate fully in the study and those that are much more complicated participate to a lesser extent. I just do not know. I think it is very hard to come up with an answer on that.

Senator CARTER: In your figures on manufacturing did you draw a distinction between manufacturing and processing?

Mr. SCOTT: I would have to defer to my expert here. Is there a separate category?

Mr. John J. O'Callaghan, Senior Consultant, Woods, Gordon and Company, Toronto: We used the category of all manufacturing, which includes the processing activities of all types of products and materials, including food processing, for instance; and all types of manufacturing activity.

Senator CARTER: Processing is included in the figure. You did not make any study with regard to detergents, for example, which is processing and retailing?

Mr. O'CALLAGHAN: No, detergents did not fall within our terms of reference.

Senator CARTER: Does it fall in manufactuing or processing?

Mr. O'CALLAGHAN: We were using manufacturing as a comparative yardstick for our primary interest of retail food stores. We were using manufacturing as an indication of profitability experienced in another major segment of the economy, and thus we used manufacturing as a whole of all kinds without looking at any particular activities within manufacturing.

Senator CARTER: I am interested in page 9. You give an illustration there and set out some examples. Company A and Company B you say are hypothetical companies and they are hypothetical figures. One man has got $10 million shareholders' equity and ends up with 10 per cent profit on it. The other has only $4 million shareholders' equity and says he borrows the rest. The man with $4 million shareholders' equity ends up with 20.5 per cent profit, which is double the other. Is that realistic? If a man has $10 million would it not be more realistic for him to borrow the money? If a man could get $6 million with only $4 million equity under the same conditions, surely the man with $10 million could do a lot better, probably get better terms? It would not be good business for him just to keep his $10 million there, would it?

Mr. SCOTT: We have used this admittedly as a rather extreme example, simply to illustrate the effect of the leverage, which is only one factor which will affect this. In point of fact, some of these companies use no borrowed capital at all, not one cent.

Senator CARTER: Does that account for some of the things we are looking for?

Mr. SCOTT: I would like to be able to turn back to the figures and say that this is what accounts for it, but unfortunately it is much more complex than that. Some of the companies which make no use of leverage do have a very high rate of return as compared with equity. I think this is just one of a number of complex factors which will affect this. The only point of this example was to caution you that in this particular example you could have two companies equally efficient, the same prices, exactly the same profits, and this ratio would be twice as much in one case as in the other.

Senator CARTER: I realize it illustrates a point very well, but I was wondering about the business decisions involved in this sort of thing, if they would be hypothetical too.

Mr. SCOTT: It does not seem to be hypothetical. The companies have followed greatly different management philosophies. This was one of the very surprising things, certainly to me, and I think to my colleagues, in going around and talking to these companies and collecting information, to find that here were five companies, all basically in the same business, with such widely differing views on the best way to organize and run their particular businesses.

Senator CARTER: It could be part of the answer to the problem we are trying to come to grips with. It could be involved in the situation we have at the present time, because they chose to do that, they chose to operate in this way.

Mr. SCOTT: I am not very clear on the point you are making, Senator.

Senator CARTER: We are making comparisons with food companies, comparing them with the profits they make, or comparing them with other industries and so on. Company B has made 20.5 per cent profit compared with 10 per cent for the other company. He could compete much better with the other man if he only wants to make 10 per cent profit; he could lower his prices, could he not? He has got much lower operating expenses.

Co-Chairman Senator CROLL: The basis is the identical prices, is it not?

Mr. SCOTT: This may be, but I think most of these companies do try competing on a price basis at the top. Management, I think quite properly, are trying to arrange their affairs so as to be competitive at the consumer level and to maximize the figure on the bottom line.

Senator CARTER: But if it does not lead to a logical conclusion we have to discard this as a reliable yardstick.

Mr. SCOTT: Quite right, and this is the point we are making. I do not think this is a reliable yardstick.

Senator THORVALDSON: That is really the whole point of this. It is meaningless because it does not relate to any real competition. It is quite meaningless.

Mr. SCOTT: I think it is meaningless if you are trying to compare one company with another. It may be meaningful if you are taking an industry over a period of time. If this industry was making a 50 per cent return on equity, which would be a senseless example, if they did that over a five-year period, you might well ask whether or not the consumers being taken advantage of. I do not think this is reliable information to compare one company with another in a particular period.

Mr. O'KEEFE: I do not know that philosophy is part of our terms of reference, but a moment ago you said that these firms had different management philosophies. Will you explain that, what the philosophies are, and how they differ?

Mr. SCOTT: We were just talking about one such factor. They have different philosophies as to the use they make of borrowed capital, or whether they use capital obtained from the shareholders. There is a great variety of practices in these companies as to how they deal with their premises. We found that some of the companies make extensive use of lease-back arrangements. In other words, either they, or someone on their behalf, will buy a major store and lease it back to them on so-called net-net basis, which in effect gives the lessor his investment plus an interest factor.

One chain has pretty well all its leases under ten years in length. They pay pretty much a commercial rate, and they do not look on leasing as an alternative source of financing. They choose to pay commercial rates to have short leases, to give themselves maximum flexibility to abandon areas that may not be going as well and to get into other areas as quickly as possible and at small cost rather than being tied down by long-term leases.

Companies like Steinberg's for example, will choose to make long-term investments in real property. They may be willing to forego profits now, in order that they will have available to them, five or ten years from now, those locations which they think will be valuable to them, and they will have them at that time at lower cost. Thus they may be playing for the long-term profit.

There are so many decisions which vary between companies. Stores like Dominion, for example, are primarily food retailers; and to a lesser extent, A & P; and you have Steinberg's, and Loblaw's who are wholesalers and manufacturers. Steinberg's, because they are in general merchandising areas, this is their philosophy, they believe themselves to be not food retailers but retailers generally.

Senator THORVALDSON: Would you not also agree that the firm might carry this to a greater extent still, namely, instead of leasing all their real estate, one firm might decide to lease all their equipment like trucks and consequently the only equity capital they would need is only what they are required to carry in their stocks, most of thich could be borrowed from the banks. This is why the yardstick is not any great value, namely, the profit as a percentage of equity.

Mr. SCOTT: I suggest it has real value to the shareholders.

Senator THORVALDSON: But for our purpose.

Mr. SCOTT: That is right.

Mr. O'KEEFE: In explaining one of the difficulties you had, you gave the instance of razor blades, as separate from general food and retailing. Surely when the housewife brings her basket of groceries to the check-out point, razor blades are listed separately on the machine, because they are taxable, I understand. You gave razor blades. Why should there be such difficulty?

Mr. SCOTT: It may be quite possible, as you suggest—

Mr. O'KEEFE: One is taxable: the other is not.

Mr. SCOTT: I do not think that is the important factor. It might well be possible for those companies to break down their sales dollar between food and non-food items—

Mr. O'KEEFE: They must do it, anyhow.

Mr. SCOTT: They probably do—

Mr. O'KEEFE: They must do it. Excuse me, they must do it, they must pay sales tax on hardware and they pay no tax on the food.

Mr. SCOTT: Your point is made. I think the difficulty is not in segregating the sales figure, it is what must necessarily follow from that. It is then taking the salary of the boy who sweeps the floor and deciding how much of that you allocate to the razor blade sales—and this goes right through the whole operation. How much of the light, heat and power and, as I mentioned earlier, when you get into the balance sheet you get really into trouble, how much of the long-term debt interest applies to the sale of non-food versus food items. It would be just a fantastic task, and I suspect that the results you would get would not be very meaningful.

Mr. O'KEEFE: I appreciate that, thank you, Mr. Scott.

Senator O'LEARY (*Antigonish-Guysborough*): I can appreciate the break down between food and non-food items would not be too difficult, and I am sure these companies do it for their records. Did they give you any evidence of any great increase in this in recent years? Is there a considerable magnitude, is this growing, this non-food sales business, growing steadily with these companies?

Mr. SCOTT: I must say I would have to tell you that we did not ask for the figures to be broken down on this basis and to the best of my knowledge none of the companies that I talked to volunteered any information or made any comments on that.

Mrs. MACINNIS: I have two or three questions and I realize that this committee has had evidence before on this point. You made reference to the fact that the food chains, the five big ones, have the lion's share of the food business. What percentage exactly did you find?

Mr. SCOTT: This really was not quite what I said. I said they made up the lion's share of that particular national revenue category called retail food stores.

Mrs. MACINNIS: What was the percentage?

Mr. SCOTT: We just do not know that percentage.

Mrs. MACINNIS: Oh.

Mr. SCOTT: We tried to get it. The D.N.R. statistics are based strictly on tax returns, so they pick the sales up from these returns. They use taxable income rather than net income and they also produce the taxes paid figure.

Senator THORVALDSON: They only went to 1964, anyway.

Mr. SCOTT: They only went to 1964. We attempted to do this. We asked each of the companies, by way of supplementary schedule, to indicate to us what the sales, taxable income and taxes paid were for the 1964 year—we took it as a sample—for each of the corporations that they felt might be included in these D.N.R. figures. They are guessing too as to precisely what the selection was that D.N.R. might follow. So we have two unknowns. We really do not know how the companies might decide which were food retailers and which were not, and whether the department would agree or disagree.

We came up with figures which were not really too meaningful to us. It looked to us that about 80 per cent of the sales in the D.N.R. data might be accounted for by the five chains; but when we were looking at profits, we were over 100 per cent there. I think the only conclusion we can draw from that is that D.N.R. have classified some pieces of this group into some other category.

Mrs. MACINNIS: You were not able to get anything at all in regard to the months when the food prices went up? You were not able to get any figures on that at all?

Mr. SCOTT: No. These only go to 1964.

Mrs. MACINNIS: Or even any projections? There is another question—

Co-Chairman Senator CROLL: I did not understand your question. You said "You did not get any projections". On what?

Mrs. MACINNIS: On the months, on the percentage—you could put it better.

Co-Chairman Senator CROLL: The percentage of the total mark-up?

Mrs. MACINNIS: Yes.

Mr. SCOTT: I do not think we know that. As I pointed out earlier, in our statistics we do exclude all the unincorporated businesses, all the co-operatives, all the voluntary food chains, all the corner groceries which are owned by families and are not incorporated.

Mrs. MACINNIS: So we really have no meaningful figure there at all?

Mr. SCOTT: I think what we can say with relative certainty is that the bulk of the figures in the Department of National Revenue category called "retail food stores" is made up of these five chains. I do not think there is any question of that. If you are going to ask me whether it is 50 per cent or 60 per cent or 93 per cent, my answer that I do not know. But I know it is a substantial portion in there. It may be a different portion, if you are looking at sales rather than at taxable income.

Mrs. MACINNIS: Yes. In chart 2, dealing with the three categories: profit as a per cent of sales, profit as a per cent of equity and profit as a per cent of total assets, I would like an explanation of that, although it may not be very meaningful. I notice that in every case the one thing that characterizes the Canadian figure is that the trend seems to be steady, whichever way it is, whereas the United States trend seems to jump about more. It may not be a great jump, I admit, but obviously it is jumping up and down more than the Canadian one, Have you any explanation for the greater steadiness in the Canadian trend?

Mr. SCOTT: I am afraid I have not. I could only guess, but I am afraid I do not know.

Mrs. MACINNIS: What would be your guess?

Mr. SCOTT: The American figures have taken a downturn in 1965 and 1966. My guess would be that that downturn will be followed a year later by the Canadian figures. But this is just a guess on my part, and that really does not assure you that the American figures are not going to drop further in the current year either.

Mrs. MACINNIS: You really do not know why?

Mr. SCOTT: No, I do not.

Mrs. MACINNIS: A lot of this seems difficult and very nebulous because of the overlapping and everything else that you have referred to, but our job is to try to figure out what these things mean in regard to the consumer. Have you any theories as to the different management philosophies of the chains? What would their effect be? Would anything be gained from their differences and switchings about as to the effects of certain courses on profitability and on prices? Could you draw any conclusions from what you have found in their different practices?

Mr. SCOTT: I think you have to break that into two sections, one dealing with profitability and one with consumer prices.

Mrs. MACINNIS: Right.

Mr. SCOTT: Because they may not necessarily be the same.

Mrs. MACINNIS: Take profitability first, then.

Mr. SCOTT: I think that the individual managements would say that there is a great deal that you should read into the various philosophies when dealing with profitability, because over the long run they are all trying to maximize their returns. I think you would find that the company managements would say that to a large extent they are starting from the same point as all the other companies—that is, the level of consumer prices—because they believe that they are in a very competitive industry and that prices have to be competitive at the top. Now, you may choose to agree or disagree with that particular philosophy, but this is certainly what the individual managements we talked to would suggest to us was the case.

Mrs. MACINNIS: What about the prices? Did you draw any conclusions at all or could you?

Mr. SCOTT: No. I think it is very hard, but what we did do, as you will see, if you will turn over to page 8, was to try to put the thing in perspective for you. We thought it might be useful to deal at a little more length with this profit to sales ratio, which is the one that the companies keep using again and again. Now, we said, "Let us assume a rather dramatic situation; let us assume a jump of 10 per cent in consumer prices under three different sets of circumstances." And we put January and December in here just to indicate that this might have taken place over a 12-month period. Now, if you move down to example No. 2, which I think is the one perhaps closest to the facts, if that profit to sales ratio has not increased, even though prices have gone up 10 per cent, what it means is that where the chain got $1 before, it now gets $1.10 from the consumer. But if its profit ratio remains constant at 2 per cent, then what it is getting in the way of profit is no longer two cents, 2 per cent of 100, but .022 cents, which is 2 per cent of the larger revenue they are getting.

In other words, if prices have risen 10 cents on a dollar and they have maintained their ratio at 2 per cent, they have ended up with a fifth of a cent out of that 10 per cent increase. Or you might, if you wanted to state it in inaccurate terms, say that the price increase resulted in one-fifth of one per cent higher profits to the chains, with the other nine and four-fifths being passed on to suppliers of goods and materials, higher wage rates, and higher costs for everything.

I think that is useful, because it indicates that the profit sales ratio does give you some yardsticks to measure against price increases.

Now, when I say that was an inaccurate way of stating it, I think that the companies would say, "Now you are oversimplifying it." Higher consumer prices do not result from increased profits. This is a horse and cart situation. Nor do higher prices necessarily result in bigger profits, because there are all sorts of other factors which might enter into it, such as efficiencies which might be introduced which would change the situation. But if you set those aside and assume there is no change in efficiency, and no change in any other factor, what it does mean is that of the 10 per cent increase, if the company holds its level steady at 2 per cent, 9 4/5 per cent end up with somebody else and one-fifth of a per cent ends up with the retailer.

We have tried also to take two other examples. One is if the company increased dramatically its profitability from 2 per cent to 3 per cent, which is an increase of 50 per cent; even in that case it would appear that only 1.3 cents out of the 10 cent increase in prices would end up with the chains and the rest would be passed through. If you take the other example, which is example No. 3, if their percentage dropped off, then in fact they would be paying out more to suppliers of goods and services than they would be getting in increased prices from their consumers. And this may in fact be what is happening.

Mrs. MACINNIS: I have just one other question. Could you give us an explanation of what would happen if Stenberg's now cut out the trading stamps,

as they say they are going to? Would it be possible, judging from the figures you have got from them, for them to do that without cutting down on their profit picture, such as it is? Could they absorb that on the basis of what you have seen of their other policies?

Mr. SCOTT: I am not sure I understand the question: If they cut out an expense, could they absorb the income?

Mrs. MACINNIS: I cannot express myself very well, but what I am trying to get at is what effect on their profit picture will the effect of cutting out those stamps have?

Mr. SCOTT: I do not know. I think that people who use promotion methods such as this would say they do it in order to attract customers to maximize earnings. Now, whether this is a valid argument I do not know. I think this is a marketing decision, if they cut it out. If anyone can cut out any expense, not lose sales and maintain the same margins, they are obviously going to make more money.

Alternatively they can pass it on to the consumer. But whether this would be the result, I do not know. They may feel that it is necessary to increase other types of advertising, perhaps more newspaper advertising, or they may feel it necessary to provide some other inducement that would have a cost factor attached. I don't think there is an easy answer to the question. Otherwise you could deal with almost any item on any company's statement of profit and loss, and say, "If you cut that out could you not reduce consumer prices?" And the answer I think is, "Yes, if you could cut it out and still attract the clientele." There is no doubt that companies could reduce their costs by not having parking lots at their stores, by not bothering to keep them quite as clean as they do, by cutting down on maintenance, by having less costly equipment. There are many ways that cost could be cut down, but it is a debatable question whether this in the long run is the best course of action for either the companies or the consumer; it is a decision for management, and I don't know the answer.

Mr. SALTSMAN: I have a supplementary question on a previous question asked by Mrs. MacInnis. If in a period of rising prices the companies maintain their normal markups, will this generally be reflected as higher profits?

Mr. SCOTT: Yes.

Mr. SALTSMAN: When the supermarkets were before us, I think some of their arguments were that they were not increasing their markups, but as prices were rising—let us say producer prices or manufacturers' prices—and they maintain their markup rather than decrease it, this too would be reflected in higher profits?

Mr. SCOTT: Are we talking about markups or profits?

Mr. SALTSMAN: Markups, at the moment, because the profit picture does not show up until later in the year. The immediate decision is the markup decision. If they are marking up the goods at a constant figure, and prices are rising at the same time, at the end of the year if other things don't change, this will be reflected in higher profits?

Mr. SCOTT: I think that is right. It is almost a truism that if you maintain the same markup in a period of rising prices then you will have higher profits as well.

Mr. SALTSMAN: Is it correct then to say that in a period of rising prices if you want to maintain profits, you would need to reduce the markups?

Mr. SCOTT: I think so.

Mr. CROSSMAN: Looking at schedule 4, pages 1 and 2, I notice a list of five companies. It shows an increase in profit from 1962 to 1966, and my question is: Is this also true for other divisions of business in the community in Canada?

Mr. SCOTT: Well, I think that if we are going to compare it with other divisions of business in Canada, you will pretty well have to go back to the schedules supporting chart No. 1 which shows the figures. The ratios developed on schedule 4 were done on a basis which does not really lend them to very accurate comparison with other segments of the economy. We just do not have the figures for other segments on this basis. Therefore I think you must go back to chart No. 1. I think we have attempted to do just this, to compare the five chains in that they make up a large portion of the retail food business with the other segments of the economy, namely all retail trade and manufacturing, and I appreciate that this is only good as far as 1964, but we have tried to close that gap by using the more limited D.B.S. statistics for the subsequent period. I don't think you could draw the conclusion from chart No. 1 that retail food is moving in a markedly different pattern from the other segments of the Canadian economy. The downturn in profit ratios, as shown by the D.B.S. figures on page 21, seems to have occurred a little earlier in manufacturing than in retail. Whether this is simply a lag or whether there are some other interpretations that can be put on it, I am not sure, but I do not see from any food retailing figures that we have produced that the retail chains are moving in one direction and industry as a whole moving in another.

Mr. MORISON: May I ask a supplementary to that? I notice that other segments of the economy have been increasing their dividends. I see 10 per cent this year for some. I don't see any of the food chains increasing their dividends. Does not this tend to show that possibly their profits have not been as great?

Mr. SCOTT: I will have to take your word as to what is happening with regard to dividend rates, because we didn't explore with the companies what they are doing with their dividend policies. I don't know that there is anything we could add other than what we have said here. These are the profit ratios that appear to be developing. I suppose the most recent company's statement out is the Steinberg one, and they certainly showed a decline in recent months.

Mr. MORISON: As against an increase in dividends from other segments?

Mr. SCOTT: This could be.

Mr. MCCUTCHEON: May I have a supplementary here based on Mr. Crossman's reference to schedule 4? I am a little bit intrigued by this. For example, if we take the top company, A&P—their profit for sales in the five-year period goes from .92 up to 1.85, which is up .93. The profit equity is up 2.77 in that same period. And their profit/total assets is up 1.59 in that period. Then we drop down to the bottom of the page to Loblaw's and in 1962 it was 1.08 which went up to 1.17, with a .09 increase, and their profit ratio to equity is up 2.31. Then we go over to their profit relationship to total assets, and it is up 1.41. That is a decline. We are not economists, nor are we accountants. What does this mean? How do they do this?

Mr. SCOTT: Well, I think it is a very good question, Mr. McCutcheon, and I just don't know the answer. This is not what we were trying to do. We were not trying to analyse the operating results company by company, or trying to explain why profits were moving one way or the other. What we are trying to do was to collect company statistics so as to produce aggregate figures for this industrial group, if you like.

Mr. MCCUTCHEON: The thing that intrigues me is the fact that, if my memory serves me correctly, Loblaws was not listed as being one of the cheapest chain stores as far as consumer buying was concerned, yet their profits on their total assets have dropped almost 1½ per cent, and their margins in there are not very attractive compared with some of the others.

Mr. SCOTT: I just do not know what the answer is. We have not enquired, and I think you will have to form your own conclusions.

Mr. McCUTCHEON: I am forming them.

Mr. SCOTT: As we point out in the earlier section on the profitability yardsticks, there really is not a nice clean-cut direct relationship in these cases between consumer sales prices and profitability.

Co-Chairman Senator CROLL: What do you mean when you say there is not enough relationship between consumer sales prices and profitability? You have left me out on a limb.

Mr. SCOTT: If you go back to page 7, we have put in three little examples there to illustrate three companies that are all charging the same price for their products. We have taken that as the starting point. Company B, for one reason or another, is able to earn an extra cent margin; instead of earning 25 cents it earns 26. We do not know why. Perhaps it has more efficient buying, perhaps extra skills in this area so that they can make a little bigger markup. They have the same expenses as company A, other than cost of goods, yet they end up with 2 cents instead of 1 cent at the bottom line. They are on the surface twice as profitable.

We are just saying that you cannot immediately jump to the conclusion that there is a major difference between consumer prices. Similarly, company C buys its goods at the same price and with the same efficiency as company A, so that its gross margin is 25 cents, but it is sometimes able to get by with only 23 cents of expenses instead of 24. Perhaps it is more efficient, perhaps it can lay out its store in a more efficient fashion, perhaps it has a more efficient and better trained workforce, perhaps it just does not provide its customers with the same amenities as the other store and instead of translating this into lower prices translates it into higher profits; perhaps it spends less on advertising and promotion. It may be a number of things. The point of this example was to show that you can have a situation where one company may make twice as much as the other and yet have prices which are strictly competitive.

You can work out an extreme example of that very easily by taking, say, the corner grocery store, which may be very inefficient. I am not suggesting all corner groceries are very inefficient, because some of them are not. You might well have a situation with a corner grocery which was not only not making any money but was losing it, yet its prices could be a good deal higher because of higher buying costs, they do not buy in car load lots; it may be more expensive to operate on a per unit basis because of the lack of volume of sales and so on. I think it would be unfair to look at the bottom lines as a per cent of sales of two companies and say they are indicative of prices consumers were paying.

Mr. McCUTCHEON: This would indicate that the total assets of the Loblaw's concern increased by far greater than most of the others. In fact, it went from $99,374 to $161,139 during that period of time.

Mr. SCOTT: You must appreciate these are over a period of years, and the Loblaw organization has a great many companies. I believe that during this period they acquired additional organizations, or additional companies, so you may find that the group you are looking at in 1962 is not the same group as in 1966. There may be additional incorporated entities included there. This would be indicated, I think, by the sales per store between 1964 and 1965. I would assume—although we did not carry on an investigation into this—that some change in activity has taken place there, presumably the acquisition of some group where the average size of the store was smaller. Again I am just speculating.

Mr. McCUTCHEON: We are just simple folk here. Is not the lesson obvious, that they must have been making some money in order to acquire this greatly increased amount of assets? It is basically fundamental.

Senator THORVALDSON: It could be borrowed money. You can increase your assets by borrowed money.

Mr. WATSON: On page 21, where the scale is "All Retail Trade" and the second group of figures all pertains to manufacturing, how many of the five companies you have inquired into here, which we are talking about, are mixed up in both retail sales and manufacturing, if any?

Mr. SCOTT: I would suspect that four of the five are probably in both activities, but again I do not know how D.B.S. might have classified them. It would depend upon the corporate structure being followed in each case. For example, I believe A & P carries on an operation that you might describe as manufacturing. I think it is in the same corporate structure. If it is in the same corporate structure as their food retailing I would suspect the total operation would be in all retail trade, because the Dominion Bureau of Statistics is not taking companies and carving them into pieces. On the other hand, in Loblaws' organization, for example, where a company was clearly manufacturing and not retailing it obviously would go into the manufacturing category.

Mr. WATSON: Then I take it what you are saying is that they are not wholly owned subsidiaries, that the company mixed up in manufacturing is straight manufacturing and the retail end of it is a subsidiary of the manufacturing part?

Mr. SCOTT: No, I am not saying that. I think that the manufacturing carried on by any of these chain store organizations could be in a corporation which also does retailing or wholesaling, or it could be in a corporation subsidiary to it, either wholly owned or partly owned. We are not dealing here with companies that are not subsidiaries. I think that in each case, in the Loblaw group, for example, we are dealing with subsidiary companies, not in every case wholly-owned, but certainly subsidiaries.

Mr. WATSON: In other words, the profit as a per cent of sales in 1964. In these particular cases, for a full year, it was 1.26; it increased slightly in 1965; and you do not have the figures for 1966.

On the manufacturing end of it, in almost all cases, the profit is three times as great as it is in the retail end. So, in the overall picture, am I right to presume that it is not just the profit that the company is making in the retail grocery store that is so all important, that the company chain is making far more profit than there would be indicated in the per cent of the retail store?

Mr. SCOTT: That might be a misleading inference to be drawn. The fact that the manufacturing profits, as a per cent of sales, are higher than in retail, I think simply illustrates the amount of investment which is required, the relative amount of investment, relative to sales, in these two industries.

Retailing is a fast turnover operation. They may not be making any more as a percentage of investment, any more or any less, necessarily, than any other segment. What you must do is take these percentage figures, multiply it by the sales in each case, and relate it back to the investment, in order to determine what these companies are doing vis-a-vis one another, if you are looking to see what they made for every dollar put in.

I do not think you can draw the conclusion, for example, that because manufacturing can make three per cent on sales, and retail trade can make one per cent on sales, that manufacturing is three times as profitable as retailing. That would be an erroneous conclusion.

Mr. WATSON: Following up the figures Mr. McCutcheon outlined, which were on schedule 4, would it be right to assume that really not all the problems concerned with consumer prices are the fault of the actual goods sold, or the cost of food? They could also be charged up to the basic thinking or means of managing in the parent company, as one of the figures outlined there, where the profit was, I believe, 10 per cent, and the other was 20.5 per cent.

This all reflects back into the price. It means what the merchandiser has to sell his goods at, in order to come up with a profit. The fault is that of the management in not doing business possibly in the most efficient manner?

Mr. SCOTT: I think that is right, if you made the general statement that, if all of these five companies were inefficient, prices to consumers would be higher than they should be. I think that is really what you are saying, that if you have an inefficient company and it is able to add a mark up to the sum of its costs, then the efficiency is going to be reflected in consumer prices. Whether or not you reach the conclusion that these companies are all inefficient. I do not know.

Mr. WATSON: I have another question and also a comment. Mr. Scott mentioned, in his opening remarks, dealing with page 16, that the figures we were dealing with today are not basically the same as some that come out in the companys' statements. That leads me to believe that these companies all have chartered accountants and that basically the chartered accountants do not all agree with the basis to come up with a set of figures.

Mr. SCOTT: That last statement is probably right. There are differences of opinion in many accounting policies. But I do not think this is the reason why these figures will differ from those published in the published report.

The reasons are simply that the figures reported to the shareholders will be the consolidated figures of the parent company and all its subsidiary companies, regardless of the types of business activities carried on by them. As I pointed out earlier, in the case of Loblaws, this will mean that Loblaws food stores, their wholesaling operations and manufacturing operations and anything else they may be interested in as a corporate group, is what they are reporting to the shareholders and what the shareholders are interested in. It is, how much money did this group make, this group that we the shareholders have invested in.

The reason that the figures in here are different is that you have charged us with the responsibility of determining as best we can what these companies are earning on their food retailing operations. So we have excluded from the report of earnings, those activities which we think do not bear directly on food retailing.

It would have been just as easy to put in the reported figures, but then you would have asked us how we compare Steinbergs with a group of Miracle Marts and with land activities, retail operations, manufacturing operations and so on, with a company like Dominion Stores where you are dealing only with retail operations. You would ask if we have got a lot of apples and oranges, whether it makes sense to plough them all into the pot and describe them as the results of the retail food chains in Canada.

Senator THORVALDSON: I find it hard to find out from your various charts, and schedules, the answer to this question. Are the food stores making greater profits, say, in the last five years, than they did in the previous five years? I have some difficulty in reconciling your schedules in that regard.

There may be a difference in the base of these schedules that you may be able to point out to me.

Would you refer first to page 18, chart 2. What I am using is the one at the top. "Profit as per cent of sales" which I think we have agreed is the most accurate measure of comparison. I find there that, in about 1961-62, the profit in Canada and the United States, was identical at 1.4. Then the United States Chart finishes up slightly higher. You have to do this calculation with a ruler. I think it finishes up there in 1965-66 at about 1.5, whereas the Canadian profit as a percentage of sales increases to approximately 1.7

In other words, it is indicated by the chart that the Canadian food sales companies have increased their profit by approximately 3/10ths of one per cent.

Mr. SCOTT: I think the figures are back in schedule 4; it is 1.66 for Canada and 1.33 for the United States.

Senator THORVALDSON: I am equating that to schedule 1, right after page 27. I refer to the first column, retail food stores. It says profit companies only. May I refer to you the figures after tax.

Starting from the bottom there, 1954 to 1959, I have calculated the average. This is a simple calculation, but I have calculated the average profit for those years at 1.74. Then, coming to the years 1960 to 1964, which is five years, it would appear that the average profit in those years is 1.51.

If this schedule is accurate, then it would appear that the profits of these companies have been reduced during the last five-year period over the previous six-year period by about two-tenths of 1 per cent.

Is there some difference in the basis of these two calculations or schedules?

Mr. SCOTT: Yes, there is. The source data for these two sets was different.

Senator THORVALDSON: That is what I suspected. I noticed that the source data for Schedule No. 1 is Taxation Statistics, Department of National Revenue. That would indicate that the source data for chart 2 must be different.

Mr. SCOTT: Well, the source data for chart 2, the Canadian data that is, was, as it says at the bottom, "Special Reports from Five Companies." These were the results of our questionnaires summarized on Schedule No. 4. They are not on the same basis at all. The D.N.R. figures on chart 1 are based on statistics and tax returns, so you are talking about taxable income instead of net profit before taxes.

Surprisingly enough, though, if you overlay these two charts for the years where they do overlap, the differences are really quite small. Surprisingly small. We thought that, when we did this, we might find some fairly major variations because of the way the figures were put together, but profit as a per cent of total assets, for example, in the years 1961 to 1964 on chart 1 seems to be running in the 6 to 7 per cent range, and that is about the same as it is on chart 2. As a per cent of equity it is running in the 10 to 11 per cent range. It is a shade higher than that on chart 2, running about 11 to 12 per cent there. And the profit to sales ratio is not dissimilar on chart 1 and chart 2. Perhaps it is a shade higher on chart 1, but they are within a fairly close tolerance, and I was surprised to find out that they did come out that close.

Senator THORVALDSON: Is not the variation approximately eight-tenths of 1 per cent, which would in fact make an entirely different picture? Chart 2 to me, if the basis is correct—and you say that it is on the basis of the company figures—

Mr. SCOTT: Yes.

Senator THORVALDSON: Chart 2 seems to me to give an increased profit to the companies over the last few years, whereas Schedule 1 indicates a considerably reduced profit.

Mr. SCOTT: As a percentage of sales now.

Senator THORVALDSON: As a percentage of sales after taxes.

Mr. SCOTT: If you look at the line on chart 1, it has been increasing slightly.

Senator THORVALDSON: I have Chart 2 here.

Mr. SCOTT: Chart 1 on page 13. I think the two points you are making are really not inconsistent. I think that profit as a per cent of sales in Canada, as shown by chart 2, has tended in a slightly upward way in the last few years. I think that the same trend is evidenced in chart 1. I do not think that is inconsistent with what you said a minute or two ago, that the profits generally are lower in recent years than they were in the previous five-year period. I think this is quite true. I think it is very marked, if you look at that profit as a per cent of equity on chart 1 where in 1954 the profit as a per cent of equity in the retail food store category was up over 15 per cent.

You may recall that the royal commission report in 1959 did comment at that time that the profit as a per cent of equity of the retail food industry seemed to be a little high compared with other segments. Now, that has been driven down into line and I think we can only speculate as to what the factors may have been. I think in part surely it must have resulted from the emergence of some of the more active voluntary chains and other competitive elements.

Senator THORVALDSON: That is all, thank you.

The CHAIRMAN: Did you have a supplementary, Mr. Macdonald?

Mr. MACDONALD (*Rosedale*): No. Actually, the witness went on to answer the question I was going to ask.

Mr. BOULANGER: Mr. Scott, will you permit me to ask a question in French to Mr. Camirand?

Mr. SCOTT: Certainly.

M. BOULANGER: Monsieur Camirand, si vous aviez à faire face demain matin à une centaine de femmes consommatrices, au peuple, et à répondre ou à expliquer brièvement, en somme, vous répondriez quoi? Ces compagnies-là, ces commerces-là opèrent d'une façon aussi normale que tous les autres genres de commerce; il n'y a pas de profits exagérés comparativement aux autres genres de commerce. Et, si vous aviez à répondre pour que les gens comprennent bien, quelle serait votre réponse pour résumer tout cela?

M. CAMIRAND: Eh! bien, j'ai l'impression, premièrement, que c'est votre problème. Toutefois, je pense qu'il y a un commentaire prédominant, et c'est que la conclusion que l'on peut tirer c'est que, dans cette industrie plus particulièrement que dans d'autres, la concurrence est assez forte, elle est même très forte, et c'est la concurrence qui mène les prix, qui établit les prix.

M. BOULANGER: Cela veut dire que, dans le cas de la nourriture, quand on parle du coût de la vie, du détail, du commerce, du manufacturier, ceux-ci, dans des conditions normales, offrent des prix comparables aux autres branches.

M. CAMIRAND: Je le pense.

M. BOULANGER: C'est ce qu'il faudra répondre.

M. CAMIRAND: Je le pense. D'ailleurs, si vous interrogez les détaillants, vous constaterez qu'un des principaux facteurs dont ils se servent, c'est de regarder les prix du voisin, car la concurrence est très, très forte.

M. BOULANGER: Quand on a des coopératives qui viennent nous voir pour tenter de nous prouver que de former une coopérative c'est sauver de l'argent pour le consommateur, et, si on regarde leur prix de vente, c'est le même prix de détail qu'un simple magasin, sauf qu'on donne des timbres, ou une ristourne et, en fin de compte, on constate que tout cela n'est pas une affaire pour épeurer personne.

M. CAMIRAND: Je ne dis pas, et je ne voudrais pas conclure que tout est normal et que l'on a absolument rien à dire ou à faire à ce sujet. Mais, cela veut dire que je pense que, avant de blâmer M. Untel, ou M. Untel, il faut peut-être se demander s'il ne faut pas blâmer nos habitudes, parce que tout cela se fait selon nos habitudes de vie. Quand on parle de coopératives, je suis bien d'accord avec eux que l'on pourrait réduire les prix des aiments, peut-être de 20 p. 100, comme ils le prétendent, mais pour cela il faudrait en réduire le coût. Ce n'est pas une question de la volonté du détaillant ou du manufacturier, c'est la volonté du consommateur lui-même. C'est mon impression.

Mr. BOULANGER: Mr. Chairman, I think I have had a very smart answer, and I know now how to go about and speak to the people.

The CHAIRMAN: I suspect you knew even before that.

While we are just on this point, I would like to say a word. We conducted business on the following basis: this was a 30 per cent mark-up; this was a 20

per cent mark-up; this was a 12 per cent mark-up—all mark-ups on the cost price, and we attempted to increase the total amount of business and in that way increased the profit. That was one method, as I remember it or understood it.

I find from looking at these figures that all these stores are not only increasing their total amount of business and sales but are constantly increasing their profits on sales. It seems to me that they are now getting the best of both worlds, are they not?

Mr. MACDONALD (*Rosedale*): Is that really correct, Mr. Chairman?

Co-Chairman Senator CROLL: Take a look at Schedule 4 at the column "Sales ($ Thousands)" and also at the "Profit/Sales". There, Mr. Scott, you will see that there is something which strikes me as being incongruous, or am I behind the times?

Mr. SCOTT: I suspect you are not very far behind the times, senator. I would think the answer we might well receive from these companies' management would be this; that they are over a period of years increasing their efficiency. I know that in many cases the companies were most anxious to give us various operating statistics to illustrate the gains they had made in the productivity of their labour force and in other areas, to illustrate that there is nothing incompatible with their return going up at the same time as consumer prices are holding steady or going down. I don't think it is our function to form judgments on this. I simply put it forward as the sort of argument we might well receive on that question.

Mrs. MACINNIS: Following on Mr. Boulanger's question and the answer he got, is it correct to say that it is the whole structure of the chains, the corporate business and so on which brings about this situation? I mean it is right in the very structure, embedded, and creates a situation of a kind where co-operatives according to the other witnesses did actually cut by as much as 20 per cent the cost of getting goods to the consumer. So the fault is not in the management but in the whole way the thing is constructed. Would I be correct in inferring that from the question and reply we had earlier?

Mr. SCOTT: I think that might be a dangerous inference.

Mrs. MACINNIS: It might be dangerous, but is it true?

Mr. SCOTT: I don't know. We just have not got into this area of co-operatives, it opens up a Pandora's box. You get into the question of taxation and many other things.

Mrs. MACINNIS: But we were told that co-operatives could often cut by at least, or as much as 20 per cent.

Mr. SCOTT: That is what they say.

Mrs. MACINNIS: If this is the case there is no use looking around at this highly competitive thing and expecting the companies might do something about it.

Mr. SCOTT: I think perhaps what I should do is repeat what I said earlier. I think it is quite true that by cutting out any expenses you can reduce the cost to the consumer, but whether or not this is what the consumer wants, I don't know. This can be done just as easily by the chain stores. We have five companies here who are engaged in what I believe to be very active and intense competition. Now if it was simply a case of saying "Let us cut out all these frills; we can take all the market away from our competitors"—I would be very surprised if this was not done by at least one company or by some new entrant into the field. I don't know if there is anything particularly magic about co-operatives. If this is the way to operate to attract business, to sell out of a warehouse door, to make people come and pick up their goods, and to cut out the amenities, fancy labelling, fancy displays, and just sell produce at the lowest possible cost, then maybe someone will do it. But on this point at least the management of these five

companies are convinced that this is not what people want. You may question their judgment, but the test is right there is the marketplace. If this is the way to do it, there should be a flood of people rushing in to take this customer dollar away from them.

Mr. MACDONALD (*Rosedale*): Looking at Schedule 4, at the profits in relation to the total assets, and at the three headings on page 2—are there certain factors such as the economic cycle or rising prices generally which explain the fact that in 1965 the profits in relation to total assets were higher than in 1966? Can you make any speculation as to why the figures in 1965 were higher than in 1966? I am looking at the profit in relation to total assets. The final column on the right-hand side. You will see that in every case in 1965 it was a better year than in 1966, in percentage terms, and as the senator noticed, there is a steady build-up to 1965.

Mr. SCOTT: There has not been a drop-off in all categories. Take profits as a percentage of equity, for example. I would point out that in many cases these 1966 figures were taken fairly early in the year—they are the figures for 1965-66, sco that in the case of Steinberg's they go as far as July, and in the case of Loblaw's they go to May. In the case of Dominion they go to March and in the case of A & P to February. They each show the results of a period of time when prices were rising.

Mr. MACDONALD (*Rosedale*): You used the figures right through to the end of the year on the basis of those available at that time?

Mr. SCOTT: We have included the full 12-month period for each company ending in 1966, and in the body of the report we have included any subsequent interim information available to us. It does show, as you suggest, a drop-off in the percentages.

M. CHOQUETTE: Monsieur Scott ou monsieur Camirand, l'un ou l'autre, on a pas mal épuisé tout le sujet, et les questions que l'on pourrait poser seraient plutôt rédondantes. Toutefois, je voudrais avoir une opinion de votre part, si vous aviez l'obligeance de l'exprimer, que pensez-vous de la recommandation contenue dans le Rapport Carter au sujet de l'imposition sur les gains capitaux, parce qu'il appert qu'il y a une constante augmentation dans l'actif total des grands magasins à chaîne, alors, êtes-vous disposé à nous fournir une opinion à ce sujet?

Mr. SCOTT: No.

M. CHOQUETTE: Est-ce que je pourrais savoir pourquoi ils ne veulent pas?

Senator CARTER: I will just come back to the two charts, Nos. 1 and 2. You told Senator Thorvaldson that the information given there is information you got from the five companies whereas on chart No. 1 you got it from the D.B.S. or National Revenue?

Mr. SCOTT: Yes.

Senator CARTER: Do the Department of National Revenue statistics include all the food retailers in Canada or just the five companies?

Mr. SCOTT: It includes all corporations who, in the view of the Department of National Revenue, have as their main activity food retailing, all food corporations. They are the main area of activity.

Senator CARTER: That would be what, 90 per cent of the food retail business?

Mr. SCOTT: I do not know. I think it would be a very high percentage, but it does exclude co-operatives, the voluntary chains where they are not incorporated, the corner groceries and so on. I think this would represent a large proportion.

Senator CARTER: My next question relates to what Mr. McCutcheon and Mr. Watson were inquiring about. If you go to chart 2 and come back to the profit per

cent equity again—although it is not reliable in the individual companies; it does show a trend—if you look at the trend in Canada, the trend is slightly upward as I see it.

Mr. SCOTT: Yes.

Senator CARTER: Is it fair to deduce from that that the explanation might be a trend towards more leasehold property and more leverage in these five companies?

Mr. SCOTT: No, I would not have come to that conclusion necessarily, although this may be a factor.

Senator CARTER: It could be a factor?

Mr. SCOTT: It may be a partial factor. I do not know.

Senator CARTER: The reason I ask this is because these five companies apparently are over 50 per cent of the food industry.

Co-Chairman Senator CROLL: More than that.

Mr. SCOTT: I would think so.

Senator CARTER: More than that, 60 per cent. If you go back to the trend on chart 1, the trend is down. How do you explain that? This is chart 1, profits of the food retail stores.

Mr. SCOTT: I do not think the trend is down if you look at profit as a per cent of sales.

Senator CARTER: No, I am looking at the profit as a per cent of equity. I think this partly answers the question put by Mr. McCutcheon. If the trend is up for 60 per cent, which is quite clear on chart 2, I do not quite see why the trend should be down, and it is down up to 1964.

Mr. SCOTT: I think perhaps you are comparing the wrong figures. If you look at chart 1, the figures you have to take are really those on the far right-hand side, the last three years, from 1961 to 1964, because they are the only ones that overlap with the other chart. I think you will find those trends are not inconsistent.

Senator CARTER: I am sorry, yes. You only go from 1961 to 1966.

Mr. SCOTT: There is a degree of overlap. I think you are quite right in that in the longer term the trend has been in the other direction.

Senator CARTER: But that would indicate the trend points towards more leasehold and more leverage, would you think, in the food retail industry?

Mr. SCOTT: I would be most hesitant to come to the conclusion that this was the factor which changed those figures. My own opinion—and it is nothing more than an opinion—is that that would not be a significant factor in these figures. I would think the general state of the economy would be much more important.

Senator CARTER: You think that somewhere along the line, if it could be projected from 1954 to 1966, it might be levelling off, so you could still preserve the downward trend?

Mr. SCOTT: I think if you look much later at chart 2, if you extend chart 1, you will find when those figures become available they will look much the same as the 1965-1966 figures that appear on chart 2, the same sort of trend line, which is still a slight upward trend.

Senator CARTER: If you make a projection from 1964 based on chart 2 and project that trend for two more years you would still have a downward trend, would you not?

Mr. SCOTT: I think the retail food store trend line in chart 1 is moving slightly up on all three bases if the trend did continue for the next couple of years, although I think the incline in the line is not very great.

Senator CARTER: It is possible that a trend towards leasehold could be one of the reasons for that upward turn?

Mr. SCOTT: It might be a factor, but I think it is a very small factor. There was no really major switch in emphasis that we noticed going through. I would suggest that even if there were a fairly major change in the method of operation there would be quite a time lag before it would have effect because the existing lease arrangements would—

Senator CARTER: Bearing in mind that trend example on page 9, to which I referred you earlier, do you not think it logical to assume this might be happening now?

Mr. SCOTT: As I say, I just do not know what sort of weight to put on that one. It undoubtedly could be a factor, but my own view would be that it could not be a major factor. I could be quite wrong.

Senator CARTER: If Loblaw can make more money in real estate than food is it not more likely that he will put his money there?

Mr. SCOTT: I would expect that company managements would put their funds to the best use wherever they could, otherwise they do not deserve their jobs.

Mr. CROSSMAN: You referred to charts 1 and 2. I notice at the bottom of chart 1 the Department of National Revenue taxation statistics, annual issues. Would it be possible to get to 1966? We could make a better comparison then between the schedule and the chart.

Mr. SCOTT: When we started into this report, 1963 was the latest year available, and 1964 has just been issued. These are the most recent figures available.

Mr. CROSSMAN: I mentioned that; I said they were annual issues.

Mr. SCOTT: They are issued on an annual basis but there are fairly significant time lags.

Mr. CHOQUETTE: Is the questioning over?

Co-Chairman Senator CROLL: No, you go ahead.

Mr. CHOQUETTE: I want to switch to another matter.

Co-Chairman Senator CROLL: Senator Carter has finished. If you have a question you go ahead.

Mr. CHOQUETTE: It is not a question. I just want to draw the attention of the committee to the fact that for months and months now we have heard reports on food and reports on housing. When are we going to contemplate the recreational activities of man? If we are to study the cost of living this is part of our civilization. Are we going to contemplate other subjects? Since I have sat on this committee we have had the same report every time, on food and housing. What about commercial publicity? That subject has not been exhausted. I would like to switch to something else.

Co-Chairman Senator CROLL: Mr. Choquette, a reference was given to us which had to do with the cost of living, and we thought the most important aspect of that was food.

Mr. CHOQUETTE: It is one aspect. It is the most important, but it is only one.

Co-Chairman Senator CROLL: It is the most important, and since we have started I think it is general knowledge, and bears repeating, that the cost of food—

Mr. CHOQUETTE: Too many repeatings.

Co-Chairman Senator CROLL: —the cost of food has gone down consistently, not much but down, as against other elements in the economy which have not gone down, so all I can say for the committee at the moment is that it has been

very successful in its first job. We are coming to the conclusion of that aspect now and we thought we might move to the question of housing. We are not yet quite completed. This was essential before we reached any conclusion, and that is where we are at the moment.

In addition to that, we must keep in mind that the Government has said, I think, that it is about to establish a Department of Consumer Affairs. All our hearings must be taken in that context, you must agree; so we must not jump too far ahead, until we see exactly what there is further to do.

In addition to that, the house will likely conclude and start again, sometime about the end of the month.

All these things we have to keep in mind, before we jump into something.

Mr. CHOQUETTE: Do you mean that we are not ready for a report, after all we heard on food and housing?

Co-Chairman Senator CROLL: Sure, we are ready for another report.

Mr. CHOQUETTE: We are ready? I would like us to contemplate some other activity, which sometimes exerts deep influence on the cost of living, like recreational activities. Today people like to live—and they do live now.

Co-Chairman Senator CROLL: We were thinking of housing, which is most important.

Mr. CHOQUETTE: I agree with that. That is why we spent so many months on this. I think we should then switch to something else, to have a full and complete view on the cost of living. That is only one suggestion.

Co-Chairman Senator CROLL: You are talking sense, of course. But do not forget that we authorized this study to be made and the study was completed, and here it is now. I am not sure that we are at the end, but we are in the position where we have some further views.

Mr. CHOQUETTE: What about commercial publicity? I think we have only on report on that. We need some more witnesses, because you remember that in the first report we were not in a position to make any recommendation. We could not conclude anything as far as publicity is concerned. We need some more experts on that, and let us drop food for a while.

Co-Chairman Senator CROLL: Mr. Choquette, we will have to make up our minds, as to where we are going after we complete the study on food.

Let me ask one question. I am going to put Mr. Mallett on the record. You did some studies in connection with this.

Mr. Fred S. Mallett, C.A., Partner, Clarkson, Gordon & Co., Ottawa: Yes, sir.

Co-Chairman Senator CROLL: In the course of the studies, were you able to ascertain their method of fixing the mark-up on their articles?

Mr. MALLETT: The answer to that would be very simple—no, we did not try. I think this is a matter for corporate management at the store level in most instances.

Co-Chairman Senator CROLL: It occurred to me that it might have arisen in the course of conversation. I do not suggest it was part of your responsibility, but when the question of profits arose and the figures, I thought that that question may have been asked.

Mr. MALLETT: No, it was not asked.

Mrs. MACINNIS: Before we adjourn, there is the matter of this report. Are we planning to get in a report before this session adjourns?

Co-Chairman Senator CROLL: I am not sure, because the question of a report raises many aspects—what have we got to report on?

Mrs. MACINNIS: The view I would take is that, as Mr. Choquette has said, people across the country will be expecting a report at this juncture, before a

new session starts. I think the people would expect a report in the end of this session, in the light of the travalling we have done. I know there are a number of things I would like to see in the report, and I imagine a lot of people are in the same position, though if we are going to do it we will have to have it done quickly.

Co-Chairman Senator CROLL: Some drafting is being done.

Mrs. MACINNIS: Are there plans? I would like an answer as to whether or not there are plans to make a report before the session winds up?

Co-Chairman Senator CROLL: I have no idea when the session will wind up, at the moment.

I will get the Steering Committee together again very shortly, I will get hold of Mr. Basford, who is not well today, and see what we can do to see what aspects need to be covered that have not been covered already.

Mrs. MACINNIS: Many people are taking it for granted, people I have been talking to, that there will be a report following our trip across the country, they seem to feel this would be logical. As Mr. Choquette said, we might then look at some other aspect.

It seems to me that there should be something at the winding up of this session, because we would normally go out of business as a committee, anyway.

Co-Chairman Senator CROLL: The understanding was we would go out one day and get into business again the next day.

Mrs. MACINNIS: I know. But this would be the logical thing.

Co-Chairman Senator CROLL: I will get the Steering Committee together. We have discussed this. We will see what we can do. Remember, before we left on the last occasion, you were asked to send in to Dr. James any suggestions that you have for the report.

Senator O'LEARY *(Antigonish-Guysborough)*: We still have time.

Co-Chairman Senator CROLL: We got one report and that was all. Remember, you do not write a report, you sweat a report.

Mrs. MACINNIS: If you are on a deadline, it helps.

Co-Chairman Senator CROLL: I am not too sure that you can make good reports on deadlines. We gave this task to this from, it is a good report, but they extended the deadline, too, and they worked very hard.

Mr. Scott, on behalf of the committee, I wish to thank you. You have done very well this morning. We are much impressed with the report and with your evidence this morning. The team that you brought with you indicated the interest and the keenness you took in carrying out this whole undertaking. On behalf of the committee, I thank you.

The committee adjourned.

APPENDIX A

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT AND COST OF LIVING

A Report of the said Committee on its sessions held outside Ottawa between February 20 and March 1, inclusive.

During the fall of 1966, it became increasingly evident from the letters and petitions to the committee that in several parts of Canada public concern over the cost of living was exceptional and that the problems of diverse regions could not all be heard during the committee's sessions in Ottawa. A number of groups and organizations in the provinces made direct appeals to be heard but found it too costly and impractical to travel to the Capital. Consequently, it was decided that one-day sessions of the committee should be held in a number of centres outside Ottawa. It was the concensus of the committee that regional views might provide further information on the cost of living generally and on the costs of housing in particular.

Having received the authorization on December 20, 1967, from the Senate and House of Commons "to adjourn from place to place," the committee scheduled public hearings in twelve cities (Appendix A). The latter were selected primarily on the basis that they should represent the various regions in the country. For reasons of expediency, both co-chairman headed a sub-committee and thus covered eastern and western Canada simultaneously between February 20 and March 1. During the six days of hearings the sub-committees heard 197 witnesses who spoke on behalf of 90 groups and organizations.

This report makes no attempt to digest the vast amount of written and oral information gathered. Its intention is to record the general observations of the committee on the regional hearings and on the sum of the representations that were made. The submissions of the witnesses have been tabled for further reference and consideration by the committee.

(For text of briefs, see Vol. No. 39)

Public Interest in the Cost of Living:

The sub-committees found without a notable exception that public interest in the cost of living was keen in every part of the country. This was demonstrated repeatedly both by the considerable number of witnesses and spectators in attendance at the hearings and the extent of the coverage given to each session by the news media. Newspaper reports on the hearings were particularly thorough and have been added to the compilation of evidence for the committee. Most impressive, however, was the degree of concern shown on the part of the witnesses. While the quality of their presentations varied, it was evident that considerable research and thought had preceded all written and oral testimony. In view of the very short notice that was given. most of the submissions were exceptionally well prepared. The committee wishes to record its appreciation to all the individuals, groups and organizations for their interest and valuable testimony.

The General Relevance of Regional Views:

In the briefs on the costs of food and other household goods, the sub-committees discovered very little regional variation. It became apparent that the experiences of consumers were similar throughout the country. Any division

lines to be drawn between the regions in regard to food retailing practices would have to be arbitrary and not one area could be singled out which suffered most from the cost of food.

A good deal of useful information on various aspects of food costs was presented but most of it only substantiated the earlier findings of the committee. In this respect, however, the committee found it extremely useful to measure the degree of unanimity among Canadian consumers on specific consumer problems. The range of opinion on certain advertising and promotional practices, for example, was so wide that few conclusions could be drawn about their acceptability by the consumer. It was clear, on the other hand, that the consumer was unanimous in her appeals for more informative labelling on packaged goods. Also widespread, for instance, was the feeling that the proliferation of package sizes had gone too far and that size standardization was needed for numerous products.

It was surprising in many instances to learn of the extent to which consumer groups were aware of the previous work and findings of the committee. Many presentations did no more than emphasize the findings and recommendations tabled in the Interim Report of December 20, 1966. It is the conclusion of the committee that national and regional publicity given to its sessions in Ottawa had been extremely good and that it had provided useful information to the consumer.

In accord with a recommendation in the Interim Report, several organizations called for more and better consumer education and information services. Nearly all consumer groups expressed the view that a government body was needed to protect their interests on a continuing basis. As evidence for this view, a group in the Maritimes claimed that prices had dropped in the area for a week before the committee's arrival.

Some issues which were brought to light before the sub-committees had not previously been heard. One, about which the committee expressed grave concern, was the reported practice of raising retail prices just before each pay-day. Since no substantial evidence of the practice was presented, however, the committee could but condemn it outright and trust that it does not occur. The committee was also told by both consumer and producer groups that the disposition of the consumer towards a federal sales tax on margarine was unfavourable. One view was that taxation on the commodity precluded its use by the consumer as a reasonable substitute for butter. Elimination of the tax would redound substantially to the cost benefit of the consumer, it was said.

Regional Views on Housing Costs:

Both sub-committees were impressed by the high calibre of the testimony presented on the subject of housing. Treatment of this complex subject was often very thorough and extensive with the result that some of the evidence could not be heard for the lack of time. All the presentations, however, have been saved for further, careful consideration.

Notwithstanding, the committee was able to form the opinion that housing problems loomed larger in parts of Canada than other consumer difficulties. The evidence presented showed that in the field of public housing particularly, there were serious difficulties which required determined action on the part of all three levels of government as well as the Canadian housing industry. Marked regional differences were encountered and it became virtually impossible for the sub-committees to draw any meaningful conclusions which would apply to the whole country. Few solutions, as such, were proposed by the witnesses. In many cases, the argument was convincing that housing costs *per se* were not the only problem. Concomitant social, technical and even psychological problems were involved. A proposal that the committee should give further study to housing costs, however, met agreement at almost every hearing.

All submissions on housing are presently under consideration by the committee.

The co-chairmen and members of the sub-committees who attended the hearings wish to express their appreciation to all the witnesses for their excellent efforts.

APPENDIX "B"

PROFITABILITY STUDY

FIVE MAJOR CANADIAN

RETAIL FOOD CHAINS

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Arthur Young, Clarkson, Gordon & Co.
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Telephone 235-4366 (Area Code 613)

March 20, 1967.

The Joint Chairmen
The Special Joint Committee of
the Senate and House of Commons
on Consumer Credit (Prices):

We respectfully submit this report on our study of the profitability of the food retailing operations in Canada of the five major retail food chains.

At your request we have summarized our report and this summary precedes the full text.

Clarkson Gordon & Co.

DCS/FSM

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3. Canada - Profit as per cent of assets 1954-1964
4. Canada - Five major retail food chains Profit ratios and sundry financial data 1961-62 through 1965-66
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SUMMARY OF REPORT

The purpose of this study is to assess the profitability of food retailing operations in Canada by The Great Atlantic and Pacific Tea Company, Limited, Dominion Stores Limited, Loblaw Groceterias Co., Limited, Canada Safeway Limited and Steinberg's Limited. This assessment is to include examination of the trend in profitability over time, and of the level of profitability in comparison with that experienced in other segments of the Canadian economy and in food retailing in the United States.

The profitability yardsticks deemed most appropriate for this purpose are:

(a) profit as a per cent of sales

(b) profit as a per cent of shareholders' equity or net worth

(c) profit as a per cent of total assets

Profit as a per cent of sales is the ratio most commonly used by the members of the industry itself to appraise their own operating performance and profitability.

Profit as a per cent of shareholders' equity is the ratio which, over a period of time best measures the performance of an enterprise. It tells us what return the management of a company has been able to achieve on the investment made by the shareholders.

Profit as a per cent of total assets is a ratio which provides a somewhat broader economic gauge of the profits generated in a particular area of economic activity by all the resources used in the business.

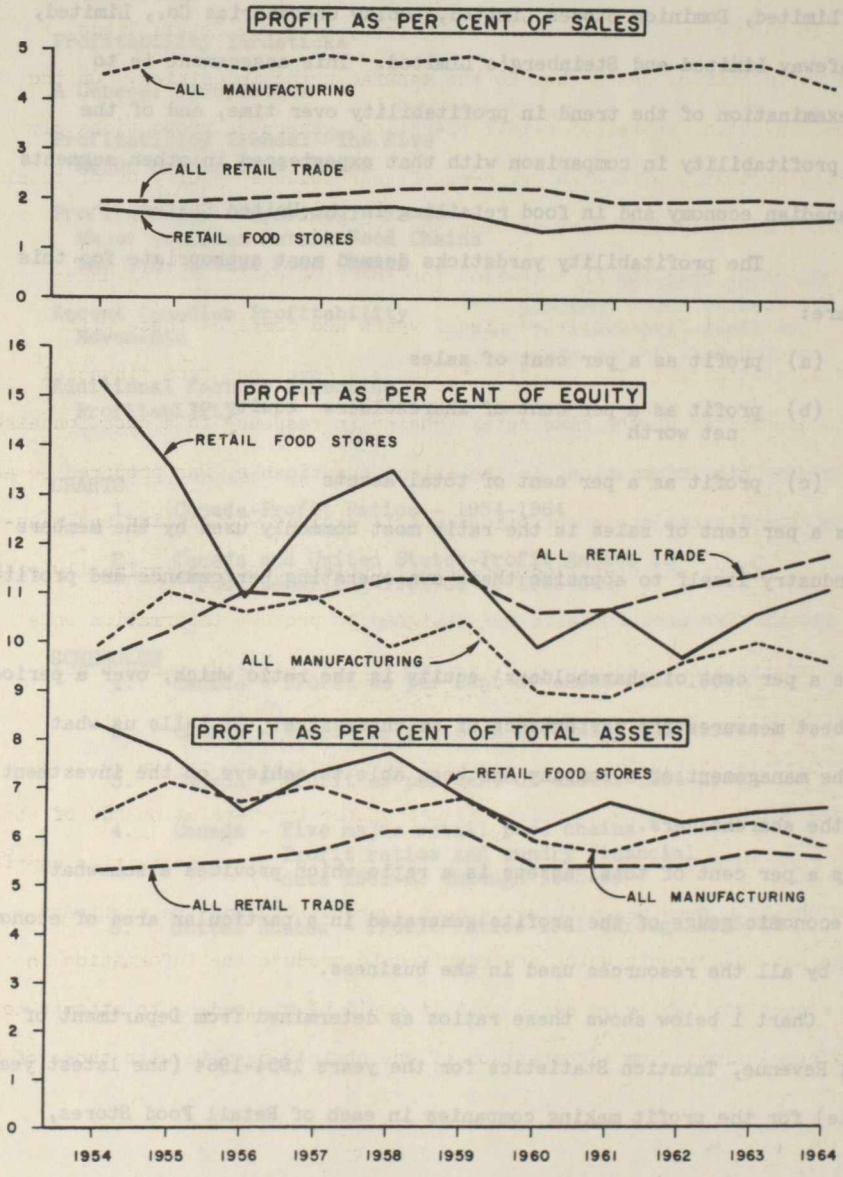
Chart 1 below shows these ratios as determined from Department of National Revenue, Taxation Statistics for the years 1954-1964 (the latest year available) for the profit making companies in each of Retail Food Stores,

CHART I

CANADA

PROFIT RATIOS

1954 - 1964



SOURCE: Department of National Revenue, Taxation Statistics, Annual Issues

All Retail Trade and All Manufacturing. The five retail chains under study comprise by far the major portion of the Retail Food Store category and accordingly this chart effectively illustrates their profitability trends throughout this period.

It can be seen that Retail Food Stores, like All Retail Trade, earn less per dollar of sales than do the manufacturing industries. On the other hand, invested capital of retail operations generates proportionately larger sales so that profit as a per cent of shareholders' equity or of total assets is not markedly different between the groups.

Chart 2 shows the three ratios for the five retail chains under study for their last five completed fiscal years and compares these with similar U.S. statistics. The Canadian ratios are developed from financial information submitted by the five retail chains in response to a questionnaire sent to them. This information, to the extent practicable, was prepared so as to include retail chain store operations but to exclude wholesaling and manufacturing operations and operations of retail outlets concerned primarily with non-food items. The questionnaire was designed to produce information on a basis as comparable as possible with that contained in the Harvard-Cornell studies from which the U.S. figures were drawn.

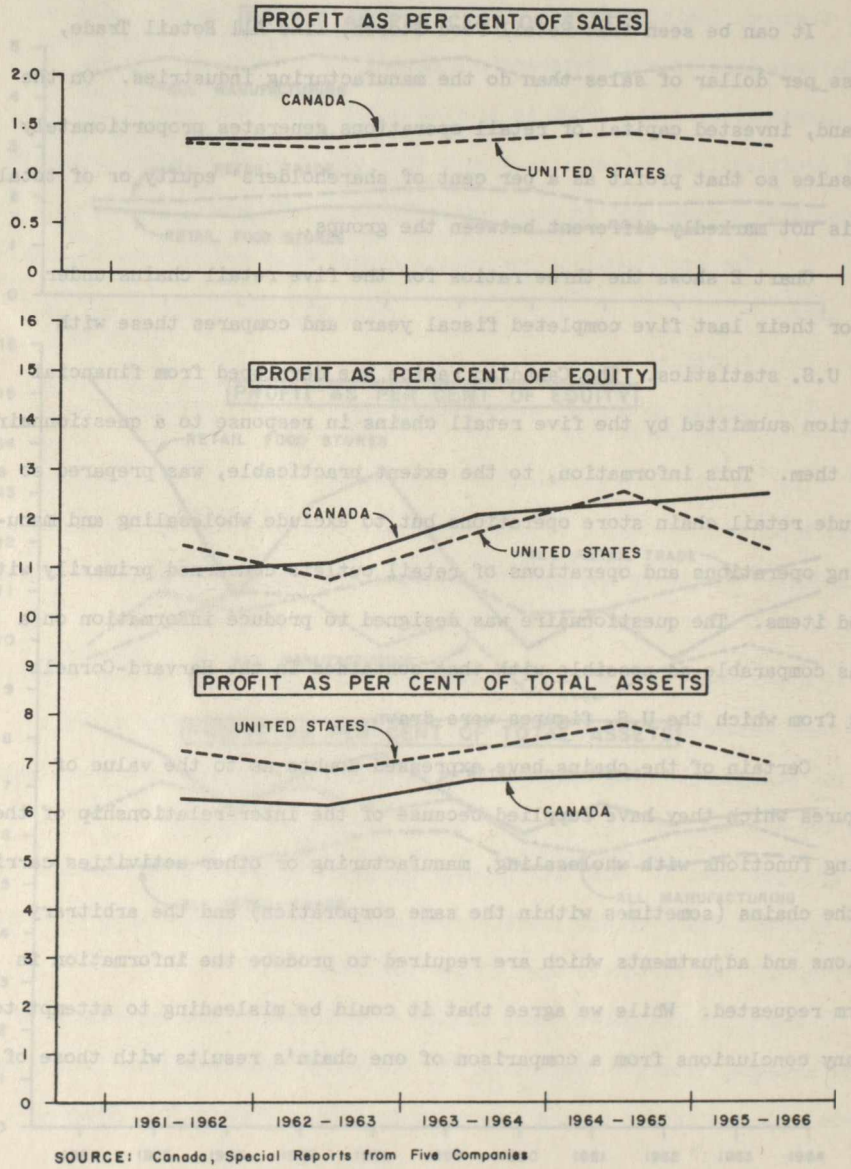
Certain of the chains have expressed doubts as to the value of the figures which they have supplied because of the inter-relationship of the retailing functions with wholesaling, manufacturing or other activities carried on by the chains (sometimes within the same corporation) and the arbitrary prorations and adjustments which are required to produce the information in the form requested. While we agree that it could be misleading to attempt to draw many conclusions from a comparison of one chain's results with those of its

CHART 2

CANADA AND UNITED STATES

PROFIT RATIOS IN FOOD RETAILING

1961 - 62 to 1965 - 66



SOURCE: Canada, Special Reports from Five Companies
United States, Cornell University, Operating Results of Food Chains, 1965 - 1966

competitors prepared on this basis, we believe that taken in the aggregate they provide useful yardsticks for comparison with U.S. experience.

Profit per sales dollar is higher in Canada than in the United States. In the U.S. it will be noted that profit per sales dollar has not changed appreciably during the five year period whereas in Canada an upward trend has been evident.

Profit as a per cent of equity - that is the profit accruing to the shareholders on their investment - has not differed appreciably between the two countries. Profit as a per cent of assets is lower in Canada.

As return on investment does not differ to the same degree as does profit per sales dollar, one can assume that capital turnover (i.e., sales per dollar of investment) is lower here. We have not carried out a detailed examination nor accumulated the data to enable us to comment on the reasons for this lower capital turnover.

We feel that the Committee would be particularly interested in recent profitability movements in Canada since, in large measure, it was the rising cost of living in 1966 which precipitated much of the interest in this subject.

Data available from the Dominion Bureau of Statistics by quarters indicates that profit as a per cent of sales for All Retail Trade was lower in the second and third quarters of 1966 (the latest statistics available) than for the corresponding periods in 1965. Recent financial information available from the five retail chains also discloses, in the aggregate, marginally lower profit per sales dollar.

The Committee has asked us to consider the effect of long term lease arrangements on the profitability ratios used in this study. We have done so and have concluded that to capitalize long term leases would not, in the aggregate, have a material effect.

INTRODUCTION

The purpose of this study is to assess the profitability of food retailing operations in Canada by The Great Atlantic and Pacific Tea Company, Limited, Dominion Stores Limited, Loblaw Groceterias Co., Limited, Canada Safeway Limited and Steinberg's Limited - including where applicable, their subsidiary and affiliated companies. This assessment is to include examination of the trend in profitability over time, and of the level of profitability in comparison with that experienced in other segments of the Canadian economy and in food retailing in the United States.

Such an assessment raises theoretical and practical accounting problems and - in the making of comparisons with other segments of activity in Canada and with similar activity in the United States - involves questions of the availability and comparability of data.

The form of this presentation is that considered most appropriate in the light of these circumstances. Matters of definition and comparability are referred to in the text where necessary for clarity.

PROFITABILITY YARDSTICKS

Before dealing with specific information it may be appropriate to discuss briefly the three profitability yardsticks which will be referred to throughout this report and to explain their uses and limitations.

Three sets of information are presented -

(a) profit as a per cent of sales

(b) profit as a per cent of equity or net worth

(c) profit as a per cent of assets

Except as otherwise indicated we have considered these terms to have the following meanings:

"Profit" is the net profit of the enterprise, that is, the amount remaining after deducting from revenues all reasonable and proper expenses including income taxes.

"Sales" are the revenues received from the sale of products, computed in accordance with practices normally followed.

"Equity" or "Net worth" is the investment by the shareholders in the enterprise represented by capital stock and reinvested earnings.

"Assets" are the total assets as shown on a balance sheet - accounts receivable, inventories, property, plant and equipment and so on.

Let us now examine the three ratios to determine what they mean and what they do not mean -

(a) Profit as a per cent of sales -

This is the ratio most commonly used by the members of the industry itself to appraise their own operating performance and profitability. A figure of 1% simply means that for every $1 of sales made by the company 99 cents are paid for goods, services, rent, interest, taxes and all other expenses and one cent remains for the owners which they may reinvest in the business or out of which they may pay dividends.

While consumer prices are an important factor in the operating results of any enterprise, there is not a direct relationship between consumer prices and the profit/sales ratio for individual companies. To illustrate this, let us look at three theoretical companies all charging the same price for their products.

	Company A	Company B	Company C
Sales	$1.00	$1.00	$1.00
Cost of goods sold	.75	.74	.75
	.25	.26	.25
All other expenses	.24	.24	.23
Net profit	.01	.02	.02

Company B has paid less than the others for the goods it sold, perhaps because of more efficient buying, economies of large quantity purchases or for some other reason.

Company C's expenses have been lower than those of Companies A or B. Perhaps Company C has been more efficient; perhaps it has provided its customers with fewer amenities; perhaps it has spent less on advertising and promotion.

In any event these figures illustrate that profit as a per cent of sales is not necessarily indicative of the prices passed on to consumers and it may be possible as in the above example for one company to retain twice as much as another of the sales dollar while maintaining competitive retail prices.

It might also be useful to illustrate what the profit/sales ratio might mean in terms of dollar profits to the chains in a period of sharply rising prices. In the three examples set out below we have assumed a short term increase in consumer prices of 10% - an increase larger than one might expect or than has actually taken place.

Example 1 -

Assume a 50% increase in the profit to sales ratio - from 2% to 3%

	January	December
Sales	$1.00	$1.10
Profit	$ .02	$ .033
Profit/sales	2%	3%

In this example 1.3¢ out of the 10¢ increase in prices would have ended up with the chains as additional profits and the remaining 8.7¢ would be paid to others for increased costs of goods and services.

Example 2 -

Assume a constant 2% profit to sales ratio -

	January	December
Sales	$1.00	$1.10
Profit	$ .02	$ .022
Profit/sales	2%	2%

In this example one-fifth of a cent out of the 10¢ increase would be additional profit to the chains and the remaining 9.8¢ would have been paid to others.

Example 3 -

Assume a decrease in the profit to sales ratio - from 2% to 1%

	January	December
Sales	$1.00	$1.10
Profit	$ .02	$ .011
Profit/sales	2%	1%

In this example 10.9¢ would have been paid to others for increased costs of goods and services whereas additional sales revenues would have been only 10¢.

(b) Profit as a per cent of equity or net worth -

This is the ratio which, over a period of time, best measures the performance of an enterprise. It tells us what return the management of a company has been able to achieve on the investment made by the shareholders and accordingly provides a yardstick against which alternative investments may be measured.

A word of caution would be in order at this point. The profit/equity ratio is virtually useless as a device to determine whether customers are paying more or less for their products from one company than from another. The return which a company may achieve results from a variety of management decisions and opportunities in addition to product pricing. For example companies may, for their own reasons, make different decisions on such diverse matters as geographic areas to be served, size and number of outlets, owning versus leasing of store properties, purchase of land for expansion, dividend policies, investment of surplus funds, mechanization, integration with captive suppliers, and use of borrowed money.

Let us illustrate this latter point by examining two hypothetical companies which charge identical prices for their goods and are equally efficient but which finance their operations differently.

	Company A	Company B
Balance sheet -		
Net assets	$10,000,000	$10,000,000
6% debentures	-	$ 6,000,000
Shareholders' equity	$10,000,000	4,000,000
	$10,000,000	$10,000,000
Income statement -		
Profit before interest and taxes	$ 2,000,000	$ 2,000,000
Interest	-	360,000
Profit before taxes	2,000,000	1,640,000
Taxes (say 50%)	1,000,000	820,000
Net profit	$ 1,000,000	$ 820,000
Profit as a per cent of shareholders' equity	10%	20.5%

This example shows the effect of "leverage" i.e., the use of borrowed funds which when employed in the business can earn for the shareholders a rate of return in excess of the interest cost. The extent to which use is made of borrowed funds depends on management philosophy, the credit standing of the company and the availability of funds. It should be emphasized that this is only one of the management decisions which will have an effect on the profit/equity ratio.

After considering the above example one might then ask why it would not be useful for comparative purposes to measure profitability by reference to all funds used in the enterprise and not just those provided by shareholders. This leads us to our next ratio.

(c) Profit as a per cent of assets -

This ratio could be looked on as a somewhat broader economic gauge of the profitability of an enterprise. It compares profits with the total of the assets employed in the business or, looking at it from the other side of the coin, the total of the funds available to the business from trade creditors, lenders and shareholders. It provides in effect, a measure of the returns generated in a particular area of economic activity by all the capital used in the business.

Returns to total capital is the sum of the returns to lenders and shareholders. Therefore the "profit" used in this ratio is the profit as previously defined to which has been added interest paid.

While profit as a per cent of assets is a very useful yardstick for comparison of different industries or different companies within an industry, we feel that it is of limited value in forming judgments as to the appropriateness of consumer prices.

A GENERAL PERSPECTIVE

Although the Committee's interest relates particularly to developments in the recent past, it is worthwhile as a preamble to examine the profitability of the Retail Food Industry in Canada in comparison with that in other industries over the longer period 1954 to 1964 (the latest year for which overall profitability data is available from publications of the Department of National Revenue).

We have selected for comparison three industries or groups of industries - Retail Food Stores, All Retail Trade and All Manufacturing. It should be noted that individual companies are assigned by the Department of National Revenue to the industrial class appropriate to the major part of their operations.

This means that Retail Food Stores for instance, will include the results of the non-retailing activities of certain "food" companies and will exclude the food retailing operations of other companies whose main area of activity is in another industrial class (wholesaling for example).

We might digress at this point to make clear that whenever we use an expression such as "food retailing" in this report we are referring to the activities of stores which are primarily engaged in the sale of foodstuffs even though these stores undoubtedly sell a variety of other household products as well.

One further point is that the Department of National Revenue data refer to incorporated companies only; it does not, therefore, include the results of many of the private voluntary food groups or unaffiliated independents.

On the basis of taxation statistics we have been furnished by the five chains under study, it is clear that they comprise the major portion of the Retail Food Stores category as classified by the Department of National Revenue. Since this is the case we believe that the figures shown for Retail Food Stores effectively illustrate the profitability trends throughout the 1954-1964 period for these five chains.

We particularly draw this to your attention as later in this report we comment on detailed information relating to the chains, which has been prepared on a basis designed to eliminate the results of their operations not related to food retailing and to effect certain other adjustments. The later data are therefore not completely comparable with the Department of National Revenue figures.

Chart 1 illustrates three sets of information for the profit making companies - profit as a per cent of sales, of equity, and of total assets - in each of Retail Food Stores, All Retail Trade and All Manufacturing. Schedules 1, 2 and 3 contain the figures from which these charts have been prepared as well as the results for profit and loss companies combined.

It will be seen that Retail Food Stores, like All Retail Trade, earn less profit per dollar of sales than do the manufacturing industries. On the other hand, invested capital of retail operations generates proportionately larger sales so that profit as a per cent of shareholders' equity or of total assets does not vary to the same extent. Looking at Chart 1, which shows the results for the profit making companies, (as distinct from results for profit and loss companies combined) it is evident that profitable companies in food retailing, all retailing and all manufacturing have earned much the same after-tax profit in relation to equity or total assets, particularly in recent years.

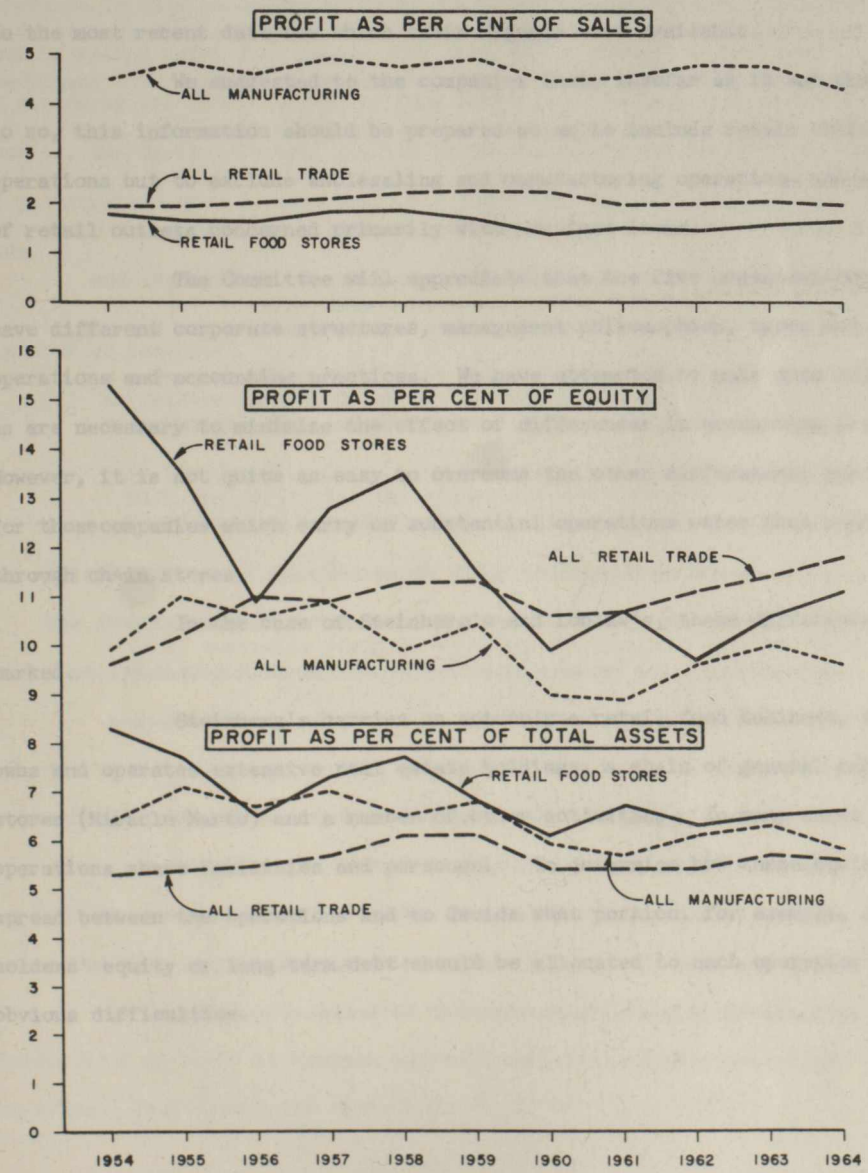
In examining the trend in profitability over time it might be helpful to note that, according to Dominion Bureau of Statistics and Department of Finance publications, Canada has experienced three periods of economic expansion during the last ten years (1954-1956; 1958-1959; 1961 to date) and two years or so of contraction (1957 and 1960). The most prolonged expansion

CHART I

CANADA

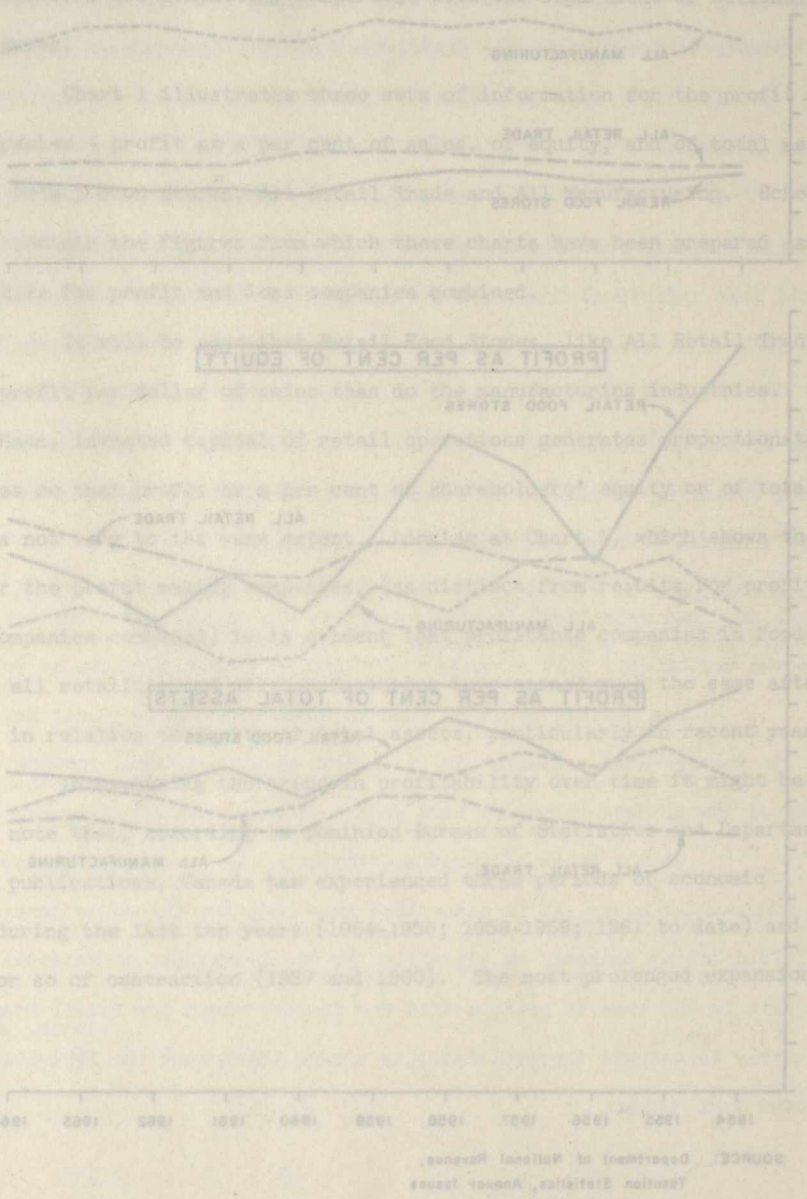
PROFIT RATIOS

1954 - 1964



SOURCE: Department of National Revenue,
Taxation Statistics, Annual Issues

has been in recent years, and profit as a per cent of sales, of equity and of total assets has increased somewhat over the years 1960-1964 in food retailing and all retailing (although there was some hesitation in 1964 in manufacturing).



PROFITABILITY TRENDS: THE FIVE MAJOR RETAIL FOOD CHAINS

At our request each of the five major retail food chains furnished us with certain financial information for each of their last five completed fiscal years and for the interim period from the beginning of their current fiscal year to the most recent date for which their figures were available.

We suggested to the companies that, insofar as it was practical to do so, this information should be prepared so as to include retail chain store operations but to exclude wholesaling and manufacturing operations and operations of retail outlets concerned primarily with non-food items.

The Committee will appreciate that the five organizations involved have different corporate structures, management philosophies, types and methods of operations and accounting practices. We have attempted to make such adjustments as are necessary to minimize the effect of differences in accounting practices. However, it is not quite as easy to overcome the other differences, particularly for thosecompanies which carry on substantial operations other than food retailing through chain stores.

In the case of Steinberg's and Loblaw's, these differences are most marked.

Steinberg's carries on not only a retail food business, but also owns and operates extensive real estate holdings, a chain of general merchandise stores (Miracle Marts) and a number of other activities. In many cases these operations share facilities and personnel. To determine how these costs should be spread between the operations and to decide what portion, for example, of shareholders' equity or long term debt should be allocated to each operation presents obvious difficulties.

Similar difficulties arise with the Loblaw's operations but these are multiplied several times over because of the much larger number of corporate entities involved.

On Schedule 4 we have set out the pertinent figures and ratios which have been developed from the information submitted to us by the chains under study. These are shown for each chain and in total for each of their last five completed fiscal years. We would like to point out to the Committee three very important things about this data.

1. Because of the exclusion of non-food retailing operations and other adjustments which have been made by us or at our request, the profitability ratios developed are not necessarily the same as those available from the annual reports of these companies to their shareholders, nor the same as those previously submitted to the Committee.

2. Despite the great care and substantial amount of time spent by each of the chains in preparing their financial data for submission to us - and we can assure you that the amount of time and effort was substantial - the results produced reflect arbitrary prorations and adjustments and can at best be considered to be informed estimates.

3. For these reasons it would be dangerous and perhaps misleading to attempt to draw many conclusions from the comparison of one chain's results with those of its competitors. We think, however, that these profitability figures taken in the aggregate are meaningful and provide a useful yardstick for determining trends and for comparison with other segments of the economy.

PROFITABILITY COMPARISON: FIVE MAJOR CANADIAN RETAIL FOOD CHAINS AND U.S. RETAIL FOOD CHAINS

The Committee is interested in the level of profitability of food retailing in Canada in comparison with that in the U.S. In this connection reference is made to Technical Study No. 7 of the U.S. National Commission on Food Marketing dated June 1966. This publication uses data from several sources in assessing the profitability of food retailing. We have selected one of these sources, the Harvard-Cornell studies on the Operating Results of Food Chains - as illustrative of U.S. experience for the comparison with Canada that is being made.

The Harvard-Cornell series has been taken as representative for a number of reasons:

(1) it relates to the operations of chains with multiple units, and not to unaffiliated independents;

(2) like the Canadian data we have accumulated, it attempts to deal only with the food retailing aspect and excludes wholesaling and manufacturing operations;

(3) figures are available up to the 1965-66 period;

(4) the results do not vary in any marked degree in recent years from other carefully prepared studies, such as that done by the First National City Bank of New York.

The results of the five retail food chains under study compared with U.S. chains with sales above $100 million are shown graphically in Chart 2. The supporting figures for the U.S. chains are shown in Schedule 5.

Profit per sales dollar in Canada is higher than in the U.S. In the U.S. it will be noted that profit per sales dollar has not changed appreciably during the five year period whereas in Canada an upward trend has been evident.

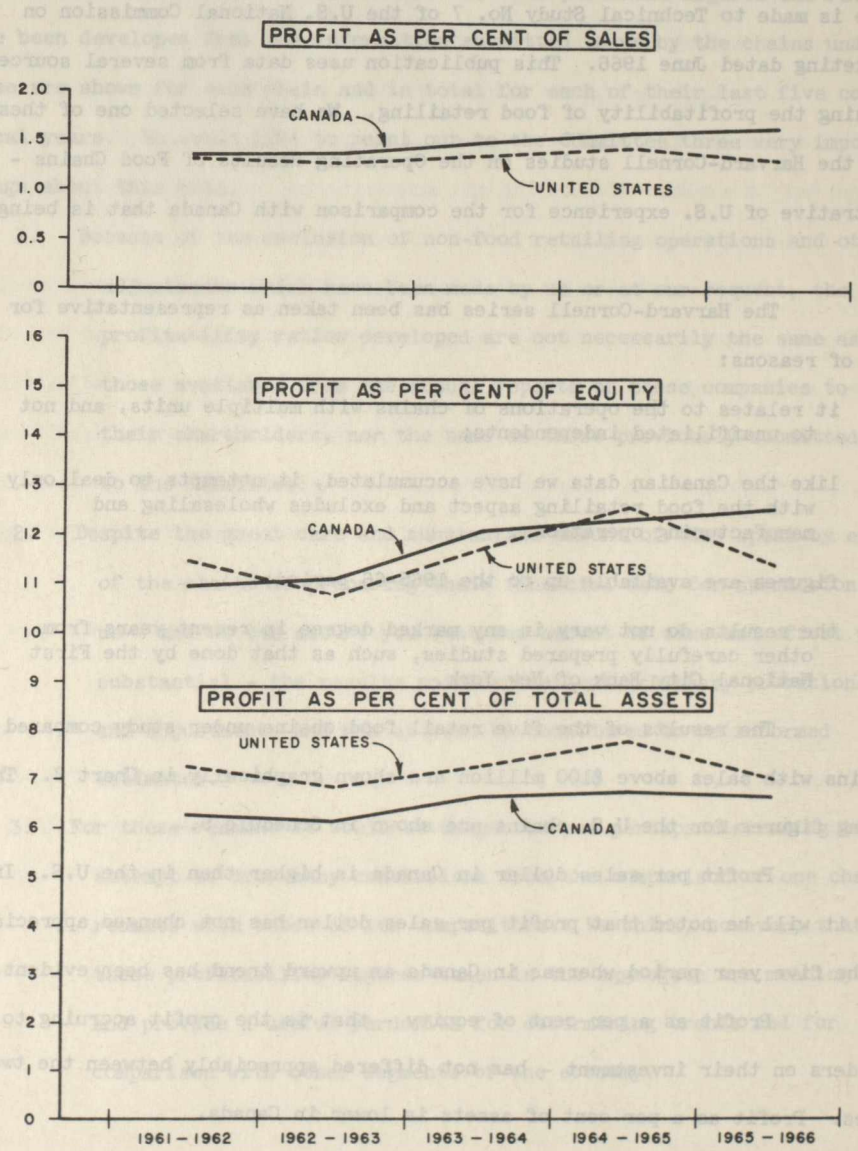
Profit as a per cent of equity - that is the profit accruing to the shareholders on their investment - has not differed appreciably between the two countries. Profit as a per cent of assets is lower in Canada.

CHART 2

CANADA AND UNITED STATES

PROFIT RATIOS IN FOOD RETAILING

1961 - 62 to 1965 - 66



SOURCE: Canada, Special Reports from Five Companies
United States, Cornell University, Operating Results of Food Chains, 1965 - 1966

As return on investment does not differ to the same degree as does profit per sales dollar one can assume that capital turnover (i.e. sales per dollar of investment) is lower here. We have not carried out a detailed examination nor accumulated the data to enable us to comment on the reasons for this lower capital turnover.

RECENT CANADIAN PROFITABILITY MOVEMENTS

We feel the Committee would be particularly interested in recent profitability movements in Canada since in large measure it was the rising cost of living in 1966 which precipitated much of the interest in this subject.

As indicated earlier, the Department of National Revenue publication "Taxation Statistics" does not contain information subsequent to 1964. More recent information is available from the Dominion Bureau of Statistics publication "Corporation Profits". These are quarterly estimates of sales and profits which are based on a sample survey of Canadian companies and differ somewhat in definition from the data reported by the Department of National Revenue and are therefore not strictly comparable. However, the sample coverage is extensive, particularly for larger companies, and the Dominion Bureau of Statistics estimates can be considered to be a reasonable indication of recent trends in corporate profits in Canada.

It is to be noted that the Dominion Bureau of Statistics publication shows sales and profit data only; no investment information is provided which would permit recent return on investment ratios to be derived. However, variations in profit margins in 1961-1964 have been a greater influence on return on investment than have variations in the level of sales generated by the investment; hence recent movements in profit margins alone permit an assessment of the direction, although not a precise measure of the magnitude of changes in return on investment.

Two other limitations of the Dominion Bureau of Statistics data for present purposes should be mentioned. Profit data for all manufacturing activities are provided, but in the trade area no subdivisions of All Retail Trade are given - there are no data for Retail Food Stores. This, again, is not a serious limitation. As was seen earlier, the profit margin trend for Retail Food Stores corresponds generally with the trend for All Retail Trade, though with a difference in the level, and hence

the recent trend in the profit margin of All Retail Trade can be taken as indicative of the direction and magnitude of the trend for Retail Food Stores. The second limitation is that the profit data areonly available on an "all companies" basis and there is no separate calculation which excludes companies which have incurred losses.

The Dominion Bureau of Statistics data by quarters for the period from the beginning of 1964 to the end of the third quarter in 1966 (the latest figures available) are shown below:

	Profit as Per Cent of Sales		
	1964	1965	1966
All Retail Trade			
1st quarter	.90	.90	.95
2nd quarter	1.25	1.33	1.05
3rd quarter	1.03	1.25	.96
4th quarter	1.84	1.61	
Full year	1.26	1.29	
Manufacturing			
1st quarter	3.40	3.27	3.24
2nd quarter	4.28	4.04	3.59
3rd quarter	3.56	3.60	2.74
4th quarter	3.49	3.40	
Full year	3.69	3.58	

It will be noted that profit margins in the second and third quarters of 1966 were lower than for the corresponding periods in 1965. Margins in manufacturing appear to have begun to decline somewhat earlier than those in retail trade.

On the basis of the previous ten years' experience regarding the relative movement in profit margins in Retail Food Stores it can be presumed that the profit margins in Retail Food Stores have behaved similarly in more recent periods to margins in Manufacturing and Retail Trade generally.

More specific evidence in this respect is available from information obtained from the five retail food chains under study.

The profit per sales dollar for the most recent period available is shown below and is compared with the results for the previous full fiscal year.

Company	Fiscal year ended	Profit/sales	Subsequent period ended	Profit/sales
A & P	February 1966	1.85%	November 1966	1.63%
Dominion	March 1966	2.07	September 1966	2.02
Loblaw's	May 1966	1.29	No results available	
Safeway	December 1965	2.02	December 1966	2.05
Steinberg's	July 1966	1.37	No results available	

Although Steinberg's half-year results were not available at the time of their submission to us their published figures subsequently became available. The published results did not exclude the non-food retailing figures and are not therefore on the same basis as those shown in this report. However, it may be of interest to note that the results provided to shareholders disclosed a drop in profits compared with the corresponding period in the previous year and a decline in the profit to sales ratio.

ADDITIONAL FACTORS AFFECTING PROFITABILITY

At this point some reference should be made to the prevalence in food retailing of long term lease arrangements and their effect upon the profitability yardsticks used in this study. Earlier, we have referred to the ratio of profit to total assets as being a useful measure of the returns generated in a particular area of economic activity. The total assets used in this ratio are equal to the total capital provided by the owners of equity and long term debt and by trade creditors. Similarly, the returns or "profit" used in this ratio should be the sum of the returns to lenders and shareholders. Therefore, as mentioned in the section "Profitability Yardsticks", the "profit" for the purposes of this ratio is the net profit after taxes to which has been added interest paid.

Since long term leases are in many respects an alternative source of capital, the proposal is sometimes made that the value of property rights acquired under lease arrangements should be measured and included as part of the total assets in the profit to total assets ratio. To be consistent with the philosophy outlined above, the interest element included in rental payments should also be measured and added to the "profit" figure.

The suggestion to include the capitalized value of leases in the assets of an enterprise raises many theoretical as well as practical problems of definition and measurement.

While there is substantial authoritative support for this treatment in cases where it is clearly evident that a lease is in substance a purchase, we should point out that this whole subject is an extremely controversial one and it is difficult to find any unanimity of views among accountants, economists or business executives. In practice only a handful of business enterprises have chosen to reflect lease arrangements in their balance sheets and none of the five chains under study is among them. Even those who subscribe to the general principle support a variety of techniques for making the necessary calculations.

To illustrate the complexities of this problem, we have taken two hypothetical lease arrangements which illustrate the wide range of leases found in our study.

	Lease A	Lease B
Term of the lease	30 years (estimated useful life of the property)	5 years
Option at termination	Lessee may purchase at a nominal price.	None (may renew at an economic rent).
Taxes, insurance and maintenance	Paid by lessee	Paid by lessor
Rent	Based upon amortization of cost plus a fair return to lessor.	Based upon rents for comparable accommodation.

It could well be argued that Lease A is similar to a long-term financed purchase, and that the value of the rights acquired under the lease equals the present value of the series of rental payments plus the option price, discounted by an appropriate interest factor. Thus, the calculation of the

capital value of the leasehold interest would appear to be relatively straightforward.

In cases similar to Lease B however, a large part of the rental payment is applicable to services, such as taxes, maintenance, light and heat which will be provided by the lessor, rather than to the acquisition of a property right. In order then to calculate the value of the property right acquired under the lease, one should first exclude the value of services to be rendered by the lessor from the total rent payment. But since the total rent payable is frequently determined by reference to competitive rentals in the area rather than to costs to be incurred by the lessor plus a known rate of return, an accurate capitalized value is frequently difficult, if not impossible, to calculate.

In practice, most of the leases entered into by the five retail food chains under study fall somewhere between the two examples above. Wide variations were found as to the original terms of the leases, the options available to the lessees, as well as to other rights and conditions. As a result, an exact determination of the value of property rights acquired under all leasehold arrangements could only be accomplished by a careful examination of each lease outstanding. Such an examination was clearly not possible in the time available for this study, nor did we consider it appropriate that such an examination should be made.

We did however, wish to provide the Committee with some idea of the significance of this problem upon the profitability ratios used in the study. Accordingly, we asked each of the five chains to prepare an estimate of the

capitalized value of leased properties which would be required at the end of each of the last five fiscal periods if their accounting records were to be adjusted to reflect such leases. As we have indicated, the type of lease arrangements varies widely among the companies. Also, their methods of calculation varied to some extent. Our object, however, was not to obtain precise figures on a completely consistent basis (which would have involved an unreasonable expenditure of time and effort) but rather to determine the range of adjustments which might be required to the profitability figures discussed earlier in this study.

One company has informed us that they do not have any "net-net" leases (such as is illustrated by Lease A above) and further, they do not believe that their leasing arrangements represent an alternative source of capital. They concluded therefore that no adjustment should be made to their total assets to reflect the capitalized value of long term leases. A substantial majority of the company's leases were for 10 year terms or less which would tend to confirm the view that the rents payable are in large measure for services to be rendered under normal commercial leases rather than for the acquisition of property rights. Accordingly, we did not attempt to calculate a capitalized value for this company's leases.

The four other chains provided us with an estimate of the capitalized value of their leases, calculated in each case by applying an appropriate discount factor to total future rental commitments. Because of the inclusion of a number of normal commercial leases (such as Lease B above) in each case, reservations were expressed by two of the chains as to the accuracy of their calculation as an expression of the capitalized value of leasehold property for balance sheet presentation purposes. This reservation is probably applicable as well to the other two chains.

The information given us indicates that if the principle of capitalizing leases and reflecting them in the financial statements was followed there would be a substantial increase in the dollar value of the total assets. At the same time, the profits would have to be adjusted, as previously explained, to include the interest element contained in any rental payments. In addition, the appropriate amortization of the capitalized lease rentals would have to be compared with the capital element contained in the rentals to determine what additional adjustment if any is required.

Based on the information supplied to us by the chains, which is subject to the reservations previously described, and the calculations and judgment decisions we have made in respect to such information, we have concluded that to capitalize long term leases would not, in the aggregate, materially affect the profit to total assets data set out elsewhere in this report.

SCHEDULES

CANADA SCHEDULE 1

PROFIT AS PER CENT OF SALES

1954-1964

	Profit companies only			Profit and loss companies		
	Retail Food Stores	All Retail Trade	All Manu-facturing	Retail Food Stores	All Retail Trade	All Manu-facturing
			Pre-tax			
1964	2.72	2.94	6.98	2.48	2.35	5.70
1963	2.64	3.01	7.53	2.34	2.26	6.18
1962	2.40	2.94	7.66	2.08	2.08	6.07
1961	2.50	2.94	7.46	2.15	2.07	5.73
1960	2.24	3.09	7.39	2.00	2.20	5.90
1959	2.71	3.38	8.15	2.40	2.70	6.59
1958	2.95	3.32	7.55	2.64	2.54	5.98
1957	3.02	3.23	7.87	2.50	2.48	6.38
1956	2.75	3.18	7.98	2.56	2.52	7.12
1955	2.85	3.11	8.43	2.59	2.29	7.51
1954	2.99	3.19	8.02	2.68	2.16	6.48
			After-tax			
1964	1.64	1.99	4.33	1.46	1.51	3.38
1963	1.59	2.06	4.79	1.35	1.42	3.77
1962	1.45	2.01	4.80	1.19	1.28	3.58
1961	1.51	1.97	4.56	1.24	1.24	3.29
1960	1.37	2.02	4.50	1.17	1.30	3.39
1959	1.70	2.26	4.94	1.47	1.71	3.80
1958	1.86	2.23	4.78	1.61	1.59	3.56
1957	1.83	2.11	4.90	1.43	1.51	3.75
1956	1.61	2.02	4.60	1.47	1.50	3.98
1955	1.65	1.95	4.84	1.46	1.31	4.17
1954	1.79	1.94	4.49	1.48	1.15	3.39

Source: Taxation Statistics, Department of National Revenue

CANADA SCHEDULE 2

PROFIT AS PER CENT OF EQUITY

1954-1964

	Profit companies only			Profit and loss companies		
	Retail Food Stores	All Retail Trade	All Manu-facturing	Retail Food Stores	All Retail Trade	All Manu-facturing
			Pre-tax			
1964	18.4	17.4	15.5	17.4	14.5	12.2
1963	17.6	16.7	15.8	16.5	12.8	12.7
1962	16.1	16.2	15.4	14.6	12.2	12.3
1961	17.6	16.0	14.6	16.0	11.9	10.7
1960	16.1	16.3	14.8	14.8	12.7	11.8
1959	18.2	16.9	17.1	16.4	14.2	13.4
1958	21.5	16.7	15.6	19.9	13.5	11.9
1957	21.1	16.7	17.6	18.6	13.5	13.7
1956	18.7	17.3	18.3	17.5	13.8	16.5
1955	23.5	16.2	19.2	21.7	12.3	17.0
1954	25.6	15.8	17.6	23.1	11.6	14.4
			After-tax			
1964	11.1	11.8	9.6	10.2	9.3	7.2
1963	10.6	11.4	10.0	9.5	8.1	7.8
1962	9.7	11.1	9.6	8.4	7.5	7.3
1961	10.7	10.7	8.9	9.3	7.1	6.2
1960	9.9	10.6	9.0	8.7	7.5	6.8
1959	11.5	11.3	10.4	10.1	9.0	7.7
1958	13.5	11.3	9.9	12.2	8.5	7.1
1957	12.8	10.9	10.9	10.6	8.2	8.1
1956	10.9	11.0	10.6	10.0	8.2	9.2
1955	13.5	10.2	11.0	12.2	7.0	9.5
1954	15.3	9.6	9.9	12.8	6.2	7.5

Source: Taxation Statistics, Department of National Revenue

CANADA SCHEDULE 3

PROFIT AS PER CENT OF TOTAL ASSETS

1954-1964

	Profit companies only			Profit and loss companies		
	Retail Food Stores	All Retail Trade	All Manu-facturing	Retail Food Stores	All Retail Trade	All Manu-facturing
			Pre-tax			
1964	10.5	8.1	9.1	9.7	6.4	7.1
1963	10.3	8.2	9.6	9.2	5.6	7.5
1962	9.9	7.8	9.5	8.7	5.5	7.4
1961	10.5	7.9	9.1	9.1	5.5	6.7
1960	9.5	8.2	9.4	8.5	6.0	7.3
1959	10.4	9.0	10.9	9.1	7.2	8.3
1958	11.7	8.9	10.1	10.6	6.8	7.4
1957	11.6	8.7	11.0	9.8	6.7	8.3
1956	10.7	8.6	11.2	9.8	6.7	9.9
1955	12.9	8.5	12.1	11.4	6.2	10.5
1954	13.6	8.5	11.1	11.8	6.0	8.9
			After-tax			
1964	6.6	5.6	5.8	5.9	4.2	4.4
1963	6.5	5.7	6.3	5.6	3.6	4.7
1962	6.3	5.4	6.1	5.3	3.5	4.5
1961	6.7	5.4	5.7	5.6	3.4	4.0
1960	6.1	5.4	5.9	5.3	3.7	4.4
1959	6.8	6.1	6.8	5.8	4.7	5.0
1958	7.7	6.1	6.5	6.7	4.4	4.6
1957	7.3	5.7	7.0	5.8	4.2	5.1
1956	6.5	5.5	6.7	5.9	4.1	5.7
1955	7.7	5.4	7.1	6.7	3.7	6.0
1954	8.3	5.3	6.4	6.7	3.3	4.9

Source: Taxation Statistics, Department of National Revenue

Note: "Profit" has been adjusted by adding interest paid for this ratio only.

CANADA

SCHEDULE 4

FIVE MAJOR RETAIL FOOD CHAINS

PROFIT RATIOS AND SUNDRY FINANCIAL DATA

FOOD STORE OPERATIONS

1961-62 THROUGH 1965-66

	Sales ($ thousands)	Number of stores	Sales per store ($ thousands)	Shareholders' equity ($ thousands)	Total assets ($ thousands)	Profit after tax ($ thousands)	Profit ratios		
							Profit/Sales	Profit/Equity	Profit/Total assets (note)
A & P									
Year ended February 1966	$ 218,390	190	$1,149.4	$ 41,292	$ 53,204	$ 4,050	1.85%	9.81%	7.71%
1965	216,604	188	1,152.1	36,234	47,216	3,378	1.56	9.32	7.26
1964	216,494	179	1,209.5	32,075	42,937	2,713	1.25	8.46	6.44
1963	195,946	170	1,152.6	28,576	39,660	2,188	1.12	7.66	5.65
1962	195,219	165	1,183.1	25,557	36,124	1,800	.92	7.04	5.12
Dominion									
Year ended March 1966	513,657	378	1,358.9	66,949	104,349	10,656	2.07	15.92	10.81
1965	477,663	380	1,257.0	61,873	97,809	9,679	2.03	15.64	10.55
1964	459,346	368	1,248.2	56,780	93,453	9,326	2.03	16.42	10.71
1963	427,017	358	1,192.8	51,479	86,690	8,132	1.90	15.80	10.24
1962	408,173	355	1,149.8	48,482	84,288	7,505	1.84	15.48	9.87
Loblaws									
Year ended May 1966	613,000	568	1,079.2	49,088	161,139	7,196	1.17	14.66	5.10
1965	580,000	547	1,060.3	43,680	145,293	6,353	1.10	14.54	5.08
1964	552,000	405	1,363.0	41,668	114,599	5,504	1.00	13.21	5.65
1963	522,000	396	1,318.2	41,871	114,532	4,735	.91	11.31	5.07
1962	498,000	382	1,303.7	43,709	99,374	5,398	1.08	12.35	6.51

Forward -

CANADA

FIVE MAJOR RETAIL FOOD CHAINS

PROFIT RATIOS AND SUNDRY FINANCIAL DATA

FOOD STORE OPERATIONS

1961-62 THROUGH 1965-66

	Sales ($ thousands)	Number of stores	Sales per store ($ thousands)	Shareholders' equity ($ thousands)	Total assets ($ thousands)	Profit after tax ($ thousands)	Profit ratios		
							Profit/Sales	Profit/Equity	Profit/Total assets (note)
Forward -									
Safeway									
Year ended December 1966	394,119	244	1,615.2	66,896	84,398	8,067	2.05	12.05	9.56
1965	349,400	235	1,486.8	57,530	71,072	7,065	2.02	12.28	9.94
1964	323,992	227	1,427.3	49,163	62,843	6,172	1.90	12.55	9.82
1963	289,767	218	1,329.2	41,993	55,380	4,831	1.67	11.50	8.72
1962	261,462	214	1,221.8	36,866	48,003	4,008	1.53	10.87	8.35
Steinberg's									
Year ended July 1966	341,926	157	2,177.9	51,552	158,615	4,669	1.37	9.06	3.59
1965	325,770	148	2,201.1	54,985	141,617	4,808	1.48	8.74	4.06
1964	293,356	143	2,051.4	50,637	137,344	4,153	1.42	8.20	3.43
1963	268,825	141	1,906.6	48,024	120,863	3,526	1.31	7.34	3.11
1962	260,116	138	1,884.9	46,228	118,249	3,235	1.24	7.00	2.96
Total - all chains									
1965-66	2,081,092	1,537	1,354.0	275,777	561,705	34,638	1.66	12.56	6.65
1964-65	1,949,437	1,498	1,301.4	254,252	503,007	31,283	1.60	12.30	6.75
1963-64	1,845,188	1,322	1,395.8	230,323	451,176	27,868	1.51	12.10	6.67
1962-63	1,703,555	1,283	1,327.8	211,143	417,125	23,412	1.37	11.09	6.12
1961-62	1,622,970	1,254	1,294.2	200,842	386,038	21,946	1.35	10.93	6.25

Note: "Profit" was adjusted by adding back interest paid in computing the ratio "profit as a per cent of total assets".

UNITED STATES

SCHEDULE 5

PROFIT RATIOS
1961 THROUGH 1965-66

Year	Number of firms	Profit as a per cent of sales	Profit as a per cent of equity	Profit as a per cent of total assets (Note)
All food chains				
1965-66	60	1.31	11.48	7.04
1964-65	58	1.41	12.33	7.66
1963-64	67	1.31	11.51	7.13
1962-63	52	1.24	10.74	6.79
1961	51	1.26	11.25	7.20
Sales below $20 million				
1965-66	12	.94	11.85	5.75
1964-65	15	1.10	13.72	6.64
1963-64	18	.77	11.97	5.44
1962-63	11	.38	4.67	2.41
1961	15	.85	10.17	5.40
Sales $20-$100 million				
1965-66	21	1.03	12.29	7.06
1964-65	19	1.13	11.61	6.59
1963-64	25	.89	8.91	5.56
1962-63	19	1.04	11.16	6.87
1961	18	.97	9.28	5.87
Sales above $100 million				
1965-66	27	1.33	11.41	7.02
1964-65	24	1.44	12.36	7.79
1963-64	24	1.37	11.74	7.29
1962-63	22	1.27	10.78	6.82
1961	18	1.31	11.46	7.24

Source: Operating Results of Food Chains 1965-66, Cornell University

Note: "Profit" as shown by the Cornell study has been adjusted by adding "interest paid" in computing the ratio "profit as a per cent of total assets".

UNITED STATES SCHEDULE 9

PROFIT RATIOS
1961 THROUGH 1965-66

Year	Number of Firms	Profit as a per cent of sales	Profit as a per cent of equity	Profit as a per cent of total assets (Note)
All food chains				
1965-66	60	1.31	11.48	7.04
1964-65	62	1.41	12.45	7.66
1963-64	67	1.31	11.51	7.13
1962-63	68	1.24	10.74	6.74
1961	64	1.26	11.03	7.20
Sales below $50 million				
1965-66	13	.94	11.45	5.75
1964-65	15	1.10	13.72	6.84
1963-64	18	.77	11.97	5.44
1962-63	11	.40	4.87	2.41
1961	15	.82	10.17	5.60
Sales $50-$100 million				
1965-66	21	1.04	12.28	7.06
1964-65	24	1.12	11.61	7.54
1963-64	25	.89	8.91	5.66
1962-63	29	1.04	11.16	6.87
1961	28	.97	9.26	5.87
Sales above $100 million				
1965-66	26	1.46	11.41	7.02
1964-65	23	1.54	12.36	7.79
1963-64	24	1.41	11.14	7.39
1962-63	28	1.47	10.78	6.82
1961	21	1.55	11.46	7.24

Source: Operating Results of Food Chains 1962-66, Cornell University

Note: "Profit" as shown by the Cornell study has been adjusted by adding "interest paid" in computing the ratio "profit as a per cent of total assets".

First Session—Twenty-seventh Parliament

1966-67

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 41

TUESDAY, APRIL 25, 1967

JOINT CHAIRMEN:

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

PROGRESS REPORT

EDMOND CLOUTIER, O.A.E., C.M.G., B.A., L.Ph.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

First Session—Twenty-seventh Parliament

1966-67

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PROGRESS REPORT

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25788—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Cook,	Inman,	Thorvaldson,
Croll,	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,	Irvine,	Morison,
Asselin (*Charlevoix*),	Leblanc (*Laurier*),	O'Keefe,
Basford,	Lefebvre,	Olson,
Boulanger,	Macdonald (*Rosedale*)	Otto,
Choquette,	MacInnis,	Rideout,
Code,	Mandziuk,	Saltsman,
Crossman,	McCutcheon,	Smith,
Horner (*Acadia*),	McLelland,	Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;"

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

Extract for the Votes and Proceedings of the House of Commons, December 20, 1966:—

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Third Report of the said Committee, which is as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

Mr. Basford, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented the Fourth Report of the said Committee, which is as follows:

(For text see interim Report in Committee Proceedings No. 27.)

LÉON-J. RAYMOND,
Clerk of the House of Commons.

25788—1½

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, December 20, 1966:—

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, presented their second Report as follows:—

MONDAY, December 19, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living makes its second Report, as follows:

Your Committee recommends that it be authorized to adjourn from place to place.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C., that the Report be adopted now.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Honourable Senator Croll, from the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living tabled the Third Report of the aforementioned Special Joint Committee.

With leave of the Senate,

The Honourable Senator Croll moved, seconded by the Honourable Senator Benidickson, P.C.:

That the Third Report of the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living, tabled today, be printed as an Appendix to the Debates of the Senate and to the Minutes of the Proceedings of the Senate of this date and form part of the permanent records of this House.

The question being put on the motion, it was—

Resolved in the affirmative.

(For text see interim Report in Committee Proceedings No. 27.)

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, April 25, 1967.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit (Prices) met this day at 10.00 a.m.

Present: *For the Senate*: The Honourable Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*), and Thorvaldson.—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Boulanger, Choquette, Macdonald (*Rosedale*), MacInnis (*Mrs.*) McCutcheon, O'Keefe, Olson, Saltsman, Smith and Whelan.—12.

In attendance: Dr. R. Warren James, Special Assistant.

A draft Progress Report, submitted by the Joint Chairmen, was read, amended and adopted.

At 12.45 p.m. the Committee adjourned to the call of the Joint Chairmen.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

APPENDIX

April 25th, 1967.

The Special Joint Committee of the Senate and the House of Commons on Consumer Credit and Cost of Living makes its Sixth Report as follows:

1. *Introduction*

Your Committee met in Ottawa on 42 occasions in the period September 28 to December 13, 1966. It tabled an Interim Report on December 20 outlining its findings based on this first series of hearings. For ease of reference, this Interim Report is included as Appendix D. It resumed public hearings on January 17, 1967 and met 17 times in Ottawa in the period up to February 16. Immediately following this, two subcommittees were established and these subcommittees began a series of public hearings in most of the major centres of Canada. Several additional meetings of your Committee were held in Ottawa after their return from their field trip.

Your Committee found that many organizations and individuals were eager to express their views on the cost of living in Canada and on many other aspects of consumer welfare. Your Committee was a forum for the expression of consumer complaints, ideas and suggestions and provided a useful means of informing the public on current economic issues. Men of business, the academic community and members of the public services gave your Committee a great deal of valuable information which has a direct bearing on public policy. The submission of this report does not mean that parliamentary concern for the well-being of consumers can now be suspended even temporarily.

Much of the attention of your Committee has been devoted to factors influencing the cost of food. To a lesser extent your Committee has concerned itself with housing. Your Committee recognizes that price changes have been very important in other fields of consumer expenditure. This is clearly indicated by the behaviour of the various components of the Consumer Price Index published by the Dominion Bureau of Statistics. The change in the principal components is illustrated by the following index numbers (1949 = 100).

	Component Weights	March 1967
All-Items	100	146.5
Food	27	143.3
Housing	32	148.4
Clothing	11	130.8
Transportation	12	155.6
Health and Personal Care	7	185.2
Recreation and Reading	5	163.7
Tobacco and Alcohol	6	127.5

Your Committee is well aware of the importance of those areas which it has not investigated but its time was almost completely absorbed by issues to which it assigned a higher priority. There remain many issues affecting consumers requiring continuing investigation which can be usefully carried out by a parliamentary committee. With this in mind your Committee again recommends that it be continued as a standing committee preferably for the life of a parliament to maintain surveillance over the welfare of consumers. It is particularly important to extend the Committee's life until the forecast department of the government responsible for consumer affairs is in full operation.

Your Committee is very conscious of its debt to many people for their helpful assistance during the course of its hearings. It recognizes that the preparation of some of the information asked for from corporate witnesses was burdensome and costly and it gratefully records its appreciation of the co-operation which was universally displayed both by them and by other witnesses. The list of witnesses appearing before your Committee is shown in Appendix B and Appendix C.

Recommendation:

That a standing committee of the House of Commons and Senate be appointed, preferably for the life of a parliament, to concern itself with the problems of consumer welfare.

2. *Price Trends in Canada*

Your Committee heard from many sources of the social and economic advantages of relative price stability and had presented to it a variety of statistical material on price trends. It must be clearly appreciated that the problems associated with rising prices exist in other countries and also that the recent Canadian experience has been relatively favourable. The following table, showing the trend of consumer prices in 27 countries from 1958 until late 1966, indicates that Canada has not fared badly in comparison.

Change in the cost of Living in Twenty-Seven Countries
(From 1958 to November, 1966)

	Percentage Change
United States	14
Canada	16
Australia (to September, 1966)	19
Belgium	20
Greece	20
South Africa	21
Germany	22
Mexico	24
New Zealand (to third quarter, 1966)	24
Switzerland	26
United Kingdom	27
Portugal (to October, 1966)	28
Austria	29
Ireland	29
Pakistan	29
Norway	31
Italy	34
Sweden (to October, 1966)	34
France	37
Finland	43
Denmark (to October, 1966)	44
Japan	50
Israel	60
India (to October, 1966)	65
Spain (to September, 1966)	65
Turkey	77
Yugoslavia	167

Source: International Financial Statistics February 1967.

Much of the expert testimony of both academic and government economists emphasized that the increase in the cost of living which has been observed in Canada in the recent past is a complex phenomenon. There have been many influences at work and these in turn set up chain reactions which ultimately permeate the economy and have a buoyant influence on particular prices and on the price level in general. One fact to bear in mind is that the Canadian economy is strongly influenced by the prices of imported commodities which fluctuate in response to world market conditions. In other cases, there was evidence that the price of some foods had increased because of a fall in farm output attributable to lower prices in an earlier period.

While your Committee observed erratic increases in the prices of some farm commodities, it noted that farm prices are subject to a complex of market and technical influences. Farm prices have been affected by short-term cyclical movements as well as by changing agricultural technology not to mention changes in taste, weather and erratic fluctuations in world supply and demand. Your Committee found it difficult to arrive at any generalization concerning farm prices in view of the different patterns which were observed. Nor did it make any judgment on the trend of farm income in Canada, an issue which fell outside its terms of reference.

In general, it is to be expected that prices will rise in response to high levels of demand arising from larger amounts of money that people have to spend on consumption. An increase in consumer prices will in turn generate demands for higher wages which affect costs and so the whole process is a self-reinforcing one.

This complicated process is sometimes oversimplified and an attempt made to attribute a general price increase solely to some particular group such as trade unions, business, financiers, farmers, profiteers or even consumers themselves. The evidence presented to your Committee did not support any such unsophisticated view. It is instructive to note that the trend of consumer prices in Canada and the United States has exhibited a similar pattern. The table below shows the course of the Consumer Price Indexes since 1949. Although the absolute levels of these indexes differ the close correspondence in their movement is remarkable.

CONSUMER PRICE INDEXES
(1949=100)

	Canada	United States
1949	100	100
1952	116.5	111.5
1955	116.4	112.5
1958	125.1	121.3
1961	129.2	125.9
1962	130.7	127.0
1963	133.0	128.5
1964	135.4	130.6
1965	138.7	132.8
1966	143.9	136.6

Your Committee heard on several occasions about certain statistical investigations which had analyzed the relation between unemployment and price changes. The general conclusion seemed to be that once unemployment reached

some critical level attempts to reduce it further would lead to price increases. Such statistical analyses throw interesting light on the problems of price stability but the validity of the precise relations appear to depend heavily on a number of special assumptions. Your Committee has some concern that an oversimplified version of the so-called "trade off" relationship showing the statistical relation between unemployment and price changes might foster the view that an increase in unemployment is essential if excessive price increases are to be curbed. Price stability which is achieved at the expense of increased unemployment is not an acceptable policy in the opinion of your Committee. It believes, on the contrary, that reasonable price stability and reasonably full employment levels are compatible, assuming that both the government and the public are well informed and act accordingly.

On numerous occasions, expert witnesses before your Committee stressed the importance of timing in any actions taken by the government to counteract either inflationary of deflationary trends. However, changes in fiscal policy are usually tied to federal budgets whose timing is strongly influenced by administrative considerations. Correspondence between short-run economic fluctuations and the presentation of a budget may be erratic and this raises the question whether it would be practical to introduce some additional flexibility in fiscal policy. The suggestion has been made that some discretionary authority be given to the government to modify tax rates within specified limits. Some of the discretionary features embodied in the legislation relating to the five per cent refundable tax on corporations introduced in the spring of 1966 will serve as an example. Your Committee believes that the feasibility of greater discretionary fiscal authority is worth exploring.

Recommendation:
That consideration be given to the feasibility of providing the government with greater discretionary fiscal authority.

3. *The Third Annual Review of the Economic Council of Canada*

In March, 1965, the Economic Council of Canada was asked by the Government to undertake a special study of economic conditions in Canada. Specifically the Council was requested:

1. To study factors affecting price determination and the interrelation between movements in prices and costs and levels of productivity and incomes.

2. To report on their relationships to sustained economic growth and to the achievement of high levels of employment and trade and rising standards of living.

3. To review the policies and experiences of other countries in this field and their relevance to Canada.

The results of the Council's work were published in November, 1966 with the title "Prices, Productivity and Employment." It was a fortunate coincidence that this valuable and timely analysis became available to your Committee in the course of its deliberations. The Chairman of the Economic Council supplemented the published report with oral testimony to your Committee. Following this, the Senate formally referred the Third Annual Review of the Economic Council of Canada to your Committee. In consequence, many of the hearings of your Committee in the early part of 1967 were in the form of commentaries and elaborations on some of the conclusions of the Economic Council. A number of distinguished academic and other economists gave testimony on different aspects of the Economic Council's report. Since the number of witnesses was limited, it

was not possible to ascertain whether there was any consensus among Canadian economists on the main conclusions of the Economic Council's report by the evidence presented to your Committee indicated that there was a substantial measure of agreement among the expert witnesses. Your Committee is aware that differences of opinion on the Economic Council's report exist among professional economists but its general conclusion was that these differences are not sufficiently important to cast doubts on the validity of the Economic Council's findings and recommendations.

A detailed assessment by your Committee of all the Economic Council's conclusions is not called for but your Committee does have some comments on a few specific topics. These are:

(*a*) The need for improved economic statistics;

(*b*) The encouragement of economic research;

(*c*) Public information on economic affairs.

(*a*) The need for improved economic statistics

Your Committee became aware, early in its hearings, of the need for reliable, comprehensive and timely statistical information in order to form a judgment on the state of the economy. These views were formed before the issuance of the Third Annual Review of the Economic Council but the following observation in the Review summarizes the conclusions of your Committee:

> Questions of high policy are decided on the basis of the presumed accuracy of our economic statistics. If the statistics are inaccurate, the policies may well be wrong. Good information is required for good decision-making at all levels—business firms, governments, labour unions, and private individuals. In the light of this, it is clearly of fundamental importance to consider Canadian price measures from the standpoint of their reliability and usefulness for economic analysis and policy decisions.

In its interim report, your Committee recommended "both a greater degree of interdepartmental co-ordination in the compilation of price statistics and the diversion of professional staff to expand and improve the statistical information on prices throughout the public service, and particularly in the Dominion Bureau of Statistics." Your Committee reaffirms this recommendation.

Any general and persistent increase in the price level has a profound effect on both the economic and social fabric of a country. When the rate of increase exceeds some critical level it produces unrest and inequities and may create economic problems which have a high social cost. Parts of the population may be able to adapt to rising prices but in general these will be those who have economic or market power and whose earnings increase sufficiently fast to maintain their real income. That part of the population which is disadvantaged and economically weak will usually suffer. The handicapped, the aged, the pensioners, the underemployed and the unskilled workers bear an undue share of the burden of rising prices. One major contribution which could be undertaken by the federal government would be to carry out surveys of family expenditure patterns at frequent intervals to provide some objective assessment of the impact of rising prices on the disadvantaged. While it was not your Committee's duty to enquire in detail into incomes policy, your Committee feels that one aim

of such studies would be to facilitate studies of the feasibility of establishing guaranteed minimum annual incomes for all citizens.

Your Committee has also been made aware, through testimony submitted to it, of the pressing requirement for more and more factual information about social demographic and economic trends both regionally and for Canada as a whole. It recommends that this whole area of activity within the public service be kept under continual review by the government to ensure that the necessary manpower and financial resources are available to support a vigorous and coherent program.

(b) The encouragement of economic research

Your Committee was particularly impressed by the recommendation of the Economic Council for the creation of "an independent research institute, specializing in the analysis of current economic developments—" This would be a counterpart of a number of similar agencies in other countries which have contributed so outstandingly to the understanding of economic problems. Your Committee concurs in this view concerning the need for such an agency and is also in agreement with the views of the Economic Council concerning its organization and independence.

In the opinion of your Committee, such a research institute should have four principal functions. The first would be the issuance at frequent intervals of bulletins on economic developments designed primarily for government and business. The second would be the dissemination of information to the general public. This would be intended to promote greater popular understanding of economic issues. The third would be to provide a training ground for academic and other students of economics. This visualizes the establishment of a number of internships or fellowships which would be open to graduate students, business economists or representatives of the press or other media. The fourth function would be to sponsor and stimulate research on economic problems in Canadian universities. This would be an attempt to remedy the present deficiencies in funds available for academic research in applied economics in Canada.

(c) Public information on economic affairs

Your Committee called attention in its Interim Report to the desirability of a much wider dissemination of information about the prices of consumption goods. It reiterates its views on this subject and emphasizes the importance of detailed price information if the market place is to be competitive. The extent to which the government can publicize information about individual prices is necessarily limited because of the wide variation among local markets. Consumers must follow the trend of prices in their own locality if they are to exercise rational and informed choices. Your Committee, however, believes that the newspapers and other media of public information should devote even greater attention to the presentation of factual and interpretive information about price movements in order to stimulate informed public discussion on economic affairs. The object would be not only to assist consumers in shopping

more carefully, but to improve the level of public understanding of a variety of developments in the economy including trends in wages, income, interest rates and other economic indicators.

Recommendations:

(*a*) That efforts be made to achieve a greater degree of inter-departmental co-ordination in the compilation of price statistics and that more professional staff be diverted to expand and improve statistical information on prices throughout the pulic service;

(*b*) That the federal government should carry out surveys of family expenditure patterns at frequent intervals to provide some objective assessment of the impact of rising prices on the disadvantaged;

(*c*) That a vigorous and coherent program of research on social, demographic and economic trends in Canada be undertaken;

(*d*) That an independent research institute specializing in the analysis of current economic developments be established;

(*e*) That the government, newspapers and other media devote greater attention to the dissemination of information on price movements and economic affairs.

4. *Regional Committee Hearings*

During the fall of 1966, it became evident from the letters and submissions to your Committee that public concern over the rising cost of living was widespread and that the problems of diverse regions could not all be dealt with during the Committee's sessions in Ottawa. For one thing, it was not practical for many groups and organizations in the provinces to travel to Ottawa to present briefs. Consequently, it was decided that sessions of your Committee should be held in a number of centres outside Ottawa. It was the opinion of your Committee that regional views might yield useful information on trends in the cost of living generally and on the costs of housing in particular.

Having received the authorization on December 20 1966, from the Senate and House of Commons "to adjourn from place to place," your Committee scheduled public hearings in twelve cities selected primarily to represent the various regions in the country. To save time, two subcommittees were formed which covered eastern and western Canada simultaneously between February 20 and March 1. During the hearings outside Ottawa the subcommittees heard 197 witnesses who spoke on behalf of 90 groups and organizations. A list of the cities visited and the witnesses appearing before each subcommittee is given in Appendix C.

This report makes no attempt to summarize the vast amount of written and oral information presented. The written submissions of the witnesses have been printed as a part of the proceedings of your Committee (No. 39, March 21, 1967). It is the hope of your Committee that this body of testimony will be of continuing value for study and research by various government departments, and in particular by the Department of Consumer Affairs which it is hoped will be established.

The subcommittees found without exception that public interest in the cost of living was keen in every part of the country. This was demonstrated repeat-

edly both by the number of witnesses and spectators in attendance at the hearings and the extent of public interest in the sessions. Most impressive, however, was the degree of concern shown on the part of the witnesses. It was evident that considerable research and thought had been devoted to the written and oral testimony. In view of the very short notice that was given, most of the submissions were exceptionally well prepared. The Committee wishes to record its appreciation to all the participating individuals, groups and organizations for their valuable testimony and co-operation.

A good deal of useful information on various aspects of food costs was presented and most of it substantiated the earlier findings of your Committee. However, your Committee noted that there did not appear to be complete unanimity among Canadian consumers on specific consumer problems. The range of opinion on certain advertising and promotional practices, for example, was so wide that few conclusions could be drawn about their acceptability to the average consumer. On the other hand, the consumer was unanimous in her appeal for more informative labelling on packaged goods. There was also a widespread opinion that the proliferation of package sizes was excessive and that size standardization was needed for numerous products.

In many instances consumer groups were well aware of the previous work and findings of the Committee. Many presentations did no more than emphasize the findings and recommendations tabled in the Interim Report of December 20, 1966. It is the conclusion of your Committee that national and regional publicity given to its sessions in Ottawa had provided useful information to many consumers.

In line with a recommendation in the Interim Report, several organizations called for more and better consumer education and information services. Nearly all consumer groups expressed the view that a government body was needed to protect their interests on a continuing basis.

Both subcommittees were impressed by the high calibre of the testimony presented on the subject of housing. Treatment of this complex subject was often very thorough and extensive.

5. *Department of Consumer Affairs*

Your Committee has been pleased to note from statements in the House of Commons that consideration is being given by the government to the establishment of a Department of Consumer Affairs. Testimony presented to your Committee indicates that there is widespread public support for such an agency and it urges that the necessary legislative and administrative action be taken as quickly as possible.

Your Committee believes that a centralization of government responsibility for consumer problems would be beneficial to the general welfare. At the present time, inadequate recognition is given to the growing importance of consumer protection. Present responsibilities in this field are spread over several departments and the lack of a completely co-ordinated approach is evident. Consumer protection is a technical field involving legal and technical specialization and there would be great advantages in assembling in one agency the expertise necessary to deal with a wide range of consumer matters. Above all, a depart-

ment would clearly assign responsibility to a minister and his staff to do all in their power to improve the lot of the Canadian consumer.

While your Committee is not in a position to make specific recommendations concerning the way in which a Department of Consumer Affairs should be organized it does suggest that the components of the department concerned with consumer affairs should have three principal functions or aims: (*a*) consumer standards; (*b*) consumer protection; (*c*) consumer information.

(*a*) Consumer standards

Great progress has been made in Canada in the development of grades and standards for consumer goods, particularly for food. Nevertheless, your Committee feels that much remains to be done in the extension of the grading system to include a much higher proportion of the items in the family budget. The development of grades often involves technical difficulties and would clearly require the co-operation of industrial or producing groups. However, your Committee is strongly of the opinion that the grades that are established should reflect the tastes and preferences of well-informed consumers. Your Committee also feels that a standard method of designating grade standards would help the consumer. The present system which makes use of numbers, colours, letters and adjectives for different commodities is confusing to the uninitiated and would be more informative if the grade designations were standardized and simplified. Standards should not apply only to specific commodities, but where feasible, packaging and weights and measures should be designed to inform the consumer as fully as possible.

Although your Committee is reluctant to become involved in the technical aspects of grade labelling, it did conclude that the consumer would benefit by the establishment of standard grades at the retail level for such foods as beef, bacon and sausages. Your Committee noted the use of a stamp "Canada Approved" on certain products processed in plants inspected by the Department of Agriculture. The wording of this stamp is easily subject to misinterpretation and your Committee suggests that a different form of words would be more suitable.

(*b*) Consumer protection

Your Committee perceives the need for an expert group within the Department to investigate any merchandising practices which take advantage of or mislead consumers. This group should have the responsibility for looking into consumer complaints and for undertaking legal or other action to rectify legitimate grievances. One example of an area which would merit attention is Section 306 of the Criminal Code dealing with misleading advertising. Evidence before your Committee has shown that this section is used very little, in part because the Attorneys-General of the provinces are absorbed with more immediate matters, and in part because the wording of the section is open to differing interpretations. Your Committee is of the opinion that the Department of Consumer Affairs should investigage complaints and undertake specific studies of

advertising practices which tend to mislead consumers so that appropriate legal or administrative action could be taken to eliminate abuses in advertising and selling practices.

(c) Consumer information

In its Interim Report, your Committee called attention to the need for additional efforts by government departments "to distribute as widely as possible attractive and informative material which will help the Canadian housewife to be a well informed and careful shopper." The formulation of an information program should be centralized in the Department of Consumer Affairs. Without disputing the value of informative and attractive pamphlets for distribution to schools, consumer groups and the general public, your Committee believes that increasing attention should be devoted to television programs of interest to consumers. The impact of information conveyed in this fashion is likely to be greater, provided the material is well-conceived and well-executed.

Your Committee was favourably impressed during its hearings in Ottawa and in other parts of the country by the valuable work being done in continuing consumer education by the Consumers' Association of Canada. This organization has been effective in sponsoring many changes beneficial to the health and pocketbook of the consumer. Its periodical publication "Canadian Consumer" (Le Consommateur) contains a great deal of useful information on consumer products. Your Committee believes that the program of product testing which the Consumers' Association of Canada has undertaken would be of great value to a much larger group of Canadian consumers. In addition to the Consumers' Association of Canada, your Committee wishes to acknowledge the vigour and initiative of other consumer organizations, both local and national, who drew attention so forcefully to the problem of rising food prices during 1966.

Your Committee heard expert testimony on the question of the control of domestic commerce through the criminal law and was impressed by the views expressed by Lord Atkin for the Judicial Committee of the Privy Council in the case of *Proprietary Articles Trade Association v. A.-G. for Canada,* (1931) A.C. 310.

> "if Parliament genuinely determines that commercial activities which can be so described are to be suppressed in the public interest, their Lordships see no reason why Parliament should not make them crimes. 'Criminal law' means 'the criminal law in its widest sense': *A.-G. for Ontario v. Hamilton Street Railway Company,* (1903) A.C. 524. It certainly is not confined to what was criminal by the law of England or of any Province in 1867. The power must extend to legislation to make new crimes. Criminal law connotes only the quality of such acts of omissions as are prohibited under appropriate penal provisions by authority of the State. The criminal quality of an act cannot be discerned by intuition; nor can it be discovered by reference to any standard but one: Is the act prohibited with penal consequences?..."

Despite this, your Committee feels that too much reliance has been placed on criminal law in controlling or prohibiting practices which are injurious to the welfare of consumers. The fact that federal jurisdiction for consumer welfare has depended so heavily on criminal law has made it difficult to regulate some practices which are undesirable from an economic point of view but which do not

seem to be "crimes" to a layman. Your Committee believes that more reliance should be placed on the federal powers to regulate trade and commerce to impose standards of good behaviour in the marketplace. There appears to be a need for a commission or board under the aegis of the Department of Consumer Affairs which is empowered to hear public testimony and to enjoin persons from conducting business in a manner which, through misrepresentation, incorrect labelling, misleading advertising or fraudulence, is injurious to the public welfare.

Recommendations:

(*a*) That a Department of Consumer Affairs be established to undertake the discharge of federal responsibility for consumer standards, consumer protection and consumer information;

(*b*) That simplified and standardized methods of designating grade standards be established for the widest practical range of consumer commodities;

(*c*) That packaging and weights and measures be designed to inform the consumer as fully as possible;

(*d*) That the stamp "Canada Approved" on certain products be replaced by a less ambiguous designation;

(*e*) That the Department of Consumer Affairs undertake studies of advertising practices with a view to eliminating abuses in advertising by appropriate legal or administrative action.

(*f*) That a consumer information program be centralized in the Department of Consumer Affairs;

(*g*) That more attention be devoted to television as a means of informing the consumer;

(*h*) That a commission or board under the ægis of the Department of Consumer Affairs be established and empowered to hear public testimony and to enjoin persons from conducting business in a way that unfairly or adversely affects the welfare of consumers.

6. *Housing*

Your Committee heard testimony on the factors which were increasing the cost of housing in Canada. It was emphasized by some witnesses that the many new houses embodied changes which reflected higher quality or greater convenience. Your Committee found difficulty in distinguishing between the increased costs associated with higher quality housing and other aspects of increased costs of building houses. The attention of your Committee was directed to many elements which tended to increase the cost of residential housing including the cost of serviced land, interest rates, fluctuations in the availability of mortgage credit, higher labour rates, increased sales taxes and rising material costs.

The National Housing Act, since its inception, has undoubtedly contributed to the improvement of housing conditions in Canada. This legislation clearly recognizes the importance of good housing in the betterment of social conditions and in the creation of a satisfactory family environment. However, your Committee has concluded that the division of jurisdiction in the housing field among the municipal, provincial and federal authorities has proved a serious bar to action. This is particularly true in the field of public housing where the regional distribution of expenditures leaves much to be desired. Your Committee feels that the lack of progress in public housing in some areas of the country reflects a need for vigorous and decisive action by all levels of government. It was pointed

out by the President of the Central Mortgage and Housing Corporation that during 1966 about 60 per cent of the total federal grants of $100 million for public housing went to Ontario. This fact appears to establish a lamentable lack of geographic balance in the public housing program because of the failure of some of the provinces to take advantage of the relevant provisions of the National Housing Act. Your Committee suggests that there should be an annual federal-provincial conference on housing whose principal purpose would be to assess the housing requirements of each province in the short-term future. This would permit an up-to-date review of housing conditions and it is hoped would stimulate the appropriate levels of government to improve the effectiveness of the provisions of the National Housing Act.

In one other area your Committee is of the opinion that there is an unacceptable lack of symmetry in the National Housing Act between the treatment of new and existing housing. Recent changes in the Act concerning existing housing were referred to in testimony by the President of the Central Mortgage and Housing Corporation:

> The recent legislation to bring lower priced existing homes under the insured loan provisions of the National Housing Act is also part of the effort to remould our arrangements to meet the circumstances of the future. This legislation is intended to remove the inequity that existed in the past in terms of ease of access to home-ownership as between those in the lower income groups and those of higher income groups. It will, at the same time, help to bring about a more efficient use of our housing stock and add to the incentives for the better maintenance of the older part of that stock.

Your Committee's view is that the amendments to the National Housing Act providing for guaranteed loans on existing housing, introduced in 1966, was a major step forward. However, it feels that the double-barreled requirement involving both buying and improving a property as well as the maximum guarantee of $10,000 is unsatisfactory. Your Committee is of the opinion that there should be no difference in the maximum loan between new and existing housing. Apart from this, your Committee believes that such loans should be available for the purchase or the improvement of the existing stock of housing. This proposal is made because of the recognized difficulty of adding to the amount of housing available in the short run. Any action which can be taken to use existing stocks more effectively should be encouraged.

Your Committee reached the conclusion that a significant contribution to the improvement of the quality and quantity of the housing now available could be achieved by an increase in the upper limit of home improvement loans made under Section 24 of the National Housing Act.

In its argument for greater stability in the construction industry in its Third Annual Review, the Economic Council of Canada lists two factors which have impeded successful governmental action:

> (1) An excessively short-term, intermittent, and one-way approach to the problem. A policy for stabilizing the growth of construction expenditure that manifests itself chiefly as an attempt to cut back spending in

years when a boom situation and numerous pockets of excess demand have already developed is unlikely to stem the momentum greatly in the short run. Its main effect may well be deferred somewhat, involving some risk of administering a depressant to a patient that has begun to need a stimulant.

(2) An excessive concentration of attention on the instability of construction spending in the private sector of the economy, as compared with that in the public sector, some of which is inherently more susceptible to stabilizing action.

The heavy impact of fiscal policy on the volume of residential construction results in fluctuations which impair the efficiency of the construction industry and lead to intermittent housing shortages. These bring with them serious economic and social problems.

Your Committee feels that there is an overwhelming need for a national housing plan based on the premise that every Canadian deserves a decent place to live in. Good intentions in this field have abounded but progress has been unsatisfactory. Local planning has, with few exceptions, been inadequate but the chief obstacle has been the lack of local or municipal financial resources. This difficulty is not likely to disappear. After hearing testimony on the subject your Committee concludes that housing has been a neglected poor relation for far too long.

The objective of a viable housing plan is not likely to be achieved so long as responsibility rests unevenly with municipal, provincial and federal authorities. To clarify the federal responsibility and to assign to housing the importance it deserves, your Committee recommends that a much higher priority be assigned to the housing problem by the federal government.

Recommendations:

(*a*) That there should be an annual federal-provincial conference on housing to assess the housing requirements of each province in the short-term future;

(*b*) That the maximum loans available under the National Housing Act for existing housing be no less than for new houses, and that such loans be available either for purchase or improvement;

(*c*) That the upper limit of home improvement loans under Section 24 of the National Housing Act be increased;

(*d*) That the federal government assign a higher priority to the problems of housing in Canada.

7. *Concentration in the Food Processing and Distribution Industries*

Monopolistic control of any significant part of food processing or distribution in Canada is inimical to the national interest. Your Committee has therefore been most eager in the course of its hearings and investigations to detect any instances of undue market power. In its Interim Report your Committee recommended:

That a thorough assessment should be made of the organization of the food industry with the object of publicizing any monopolistic tendencies which may exist, of determining whether the market power of any group or groups is sufficient to impair the workings of a competitive market and whether there are any undue barriers to entry.

Some preliminary investigation in this field was sponsored by your Committee but it became evident that any firm conclusions would have to be based on detailed research, which could not be carried out in the time available. Your Committee agrees with the conclusions of the Economic Council of Canada in its Third Annual Review.

> It is clear that a continuous approach, to the extent that it is possible, is likely to be more effective than, say, an approach which consisted only of sporadic ripostes to those more obvious exercises of market power which readily attract public attention.

One witness in speaking before your Committee and referring to the National Commission on Food Marketing in the United States said:

> The Commission did not find a general case for opposing vertical integration and conglomeration. It did conclude, however, that the good conduct of firms of this kind would be more nearly assured if they were required to disclose to the public the financial results of their operations in each major field in which they were engaged.

Your Committee strongly espouses the doctrine of visibility in corporate affairs. It feels that many more intimate details of the way particular markets work should be exposed to the public view. The argument that the competitive position of a firm would be damaged by the revelation of information must be balanced against the possibility that its actions may be damaging to other members of the industry or to the public. As an example, your Committee feels that more information should be made public on advertising, selling and promotional expenses and the way these costs are shared by the different levels of the food industry. The precise method by which this should be done is outside the province of your Committee but it nevertheless feels that the information is essential to anyone studying the impact of market power in Canada.

In the course of dealing with the question of market power and consumer protection, the Economic Council of Canada concluded that market power could not "be assigned sole or principal responsibility for the kind of rising price phenomenon which the economy typically experiences as it moves through a business-cycle expansion." Your Committee subscribes to this conclusion but it has at the same time noticed a tendency in both Canada and the United States toward increasing concentration in the manufacture and distribution of consumer goods. Such trends are not readily assessed and it is not possible to measure the increased concentration with precision or to predict its impact on market behaviour. Your Committee feels that the question of concentration, particularly in areas affecting the consumer, should be the subject of continuous review and examination. Such an examination might well include corresponding analyses of price behaviour to determine whether there is any identifiable relation between price trends and the degree of concentration in particular areas of the economy. A judgment about the social consequences of market power does not, of course, depend solely on the course of prices but may involve many other aspects of economic behaviour which might affect the welfare of the community. For example, your Committee would be greatly concerned if increasing concentration were associated with barriers to entry of any other restrictive practices which would diminish the effectiveness of competition.

Your Committee noted that the Director of Investigation and Research under the Combines Investigation Act reported the discontinuance of a study of concentration in the food retailing industry in Canada on March 15, 1963 (Report of the Director of Investigation and Research, Combines Investigation Act for the year ended March 31, 1963). Your Committee recommends that this study be resumed on a continuous basis and broadened to cover both food retailing and

manufacturing in Canada with a particular view to examining concentration, market power and trade practices in the relations between retailers and suppliers.

Your Committee also reiterates the conclusion of its Interim Report that the differences in the disclosure requirements of public companies and private companies whose operations significantly affect the public should be abandoned.

Recommendations:

(*a*) That the government, as a matter of policy, encourage the publication of data concerning detailed corporate operations which affect consumer welfare;

(*b*) That the discontinued study of concentration in the food retailing industry conducted by the Director of Investigation and Research under the Combines Investigation Act be resumed and broadened to cover both food retailing and manufacturing;

(c) That the differences in the disclosure requirements of public companies and private companies whose operations significantly affect the public be abandoned.

8. *Commodity Taxes and Tariffs*

Your Committee has observed a number of instances where new or increased taxes on commodities have had the effect of increasing consumer prices. It did not undertake to explore this question in detail partly because of the anticipated release of the Report of the Royal Commission on Taxation (1966). Your Committee noted with interest and approval the comments of the Royal Commission on Taxation on the regressive characteristics of the present sales taxes and its recommendation that "necessities" and goods and services required to produce "necessities" be exempt. Low income groups which are particularly susceptible to economic damage by rising prices are also hurt by fiscal policies which rely unduly on commodity taxes.

The federal sales tax on margarine was complained of frequently by consumer groups before your Committee during its hearings across the country. Representatives of margarine manufacturers also gave testimony recording their opposition to the retention of this tax and indicated that the benefits of repeal would be completely passed on to the consumer.

The Royal Commission on Taxation (1966) referred to this question in the following terms:

> Before leaving the subject of food, mention must be made of an anomaly which does not create administrative difficulties under a manufacturer's tax but which nevertheless amounts to discrimination of such flagrant character that it cannot be ignored. Butter is exempt from sales tax, but magarine, butter's direct competitor and inexpensive substitute, is taxable in nine of the ten Canadian provinces. Only Newfoundland consumers are allowed to purchase tax-exempt margarine. . .
>
> Hence not only is there discrimination between competing products but there is also discrimination between Canadian consumers, depending on their province of residence. From a neutrality standpoint, it is imperative that both butter and margarine receive the same sales tax treatment.

Your Committee agrees with this conclusion.

Some evidence was also presented to your Committee concerning the impact of tariffs on consumer prices. The fundamental impact of tariffs is on the pattern of utilization of domestic resources and it is clear that abrupt changes in such

patterns may lead to unwanted dislocations. Canadian tariff policy in recent years has been moving in the direction of reducing trade barriers and it seems obvious to your Committee that the process must be a gradual one and must also involve time-consuming international negotiations. On the other hand, there are certain existing tariffs which are a burden to consumers and whose protectionist characteristics are either negligible or redundant. They provide some revenue to the federal government but, in general, the amounts are not large and the incidence may be erratic. In the opinion of your committee, the prospective Department of Consumer Affairs should carefully study the problems associated with tariffs in this category.

Recommendations:

(*a*) That the discriminatory tax treatment of margarine be modified;

(*b*) That the Department of Consumer Affairs should undertake studies of tariffs on certain classes of food items which may be unduly burdensome to consumers.

9. *Advertising*

A considerable volume of evidence was accumulated by your Committee on the economic and other effects of commodity advertising. There is clearly a wide spectrum of opinion on the social benefits of advertising and on the impact of advertising expenditures on the cost of consumer goods. Although it does not wish to make any recommendations respecting the control of advertising expenditures, your Committee was concerned about the volume of advertising whose sole or primary purpose is to create consumer preference for a particular brand of some staple product on the basis of trivial variations. Your Committee's opinion is that an extensive program of compulsory grade labelling for established and common consumer goods would encourage some reduction in socially wasteful advertising costs.

10. *Co-operatives*

Since the beginning of 1967, your Committee heard testimony from a variety of representatives of co-operatives in Canada including the Co-operative Union of Canada (Ottawa), Maritime C-ooperative Council (Moncton), Federated Co-operatives Ltd. (Saskatoon), Co-op Wholesale Society of British Columbia (Vancouver) and the Newfoundland Co-operative Union (St. John's). The views presented covered a wide range of issues affecting the cost of living but your Committee did not feel it appropriate to expres a judgment on the actual or potential benefits to consumers to be achieved through the techniques of the co-operative movement. Your Committee did, however, conclude that federal legislation governing the incorporation of co-operatives is long overdue. This recommendation is totally unrelated to the question of the taxation of co-operatives, an issue which was outside the purview of your Committee.

Recommendations:

That federal legislation governing the incorporation of co-operatives be introduced as soon as possible.

11. *Behaviour of Food Prices over the Christmas Season*

Early in November, your Committee became aware of the view that food stores normally raised the prices of many foods during the Christmas rush. It announced publicly that it had enlisted the help of the Consumers' Association of Canada in conducting a survey of prices to determine whether this was so.

A list of 34 food items was drawn up and representatives of the Consumers' Association of Canada in 14 cities were asked to record the prices on November 15, December 1, December 15, December 23, 1966 and January 15, 1967. Each

shopper kept a record of the prices in a particular store, often a supermarket, in her locality. The cities included in the survey were: Charlottetown, Edmonton, Halifax, Hamilton, Montreal, Moose Jaw, Nanaimo, Ottawa, Quebec City, St. John's, Nfld., Toronto, Vancouver and Winnipeg.

No attempt was made to simulate a food basket which reflected the pattern of expenditure on foods and therefore no conclusions can be reached about changes in the total cost of buying food for a family over this period. However, many common types of food purchases such as bananas, bread, hamburgers, pork chops, eggs, margarine, butter, tomato juice and sugar were included along with some others which are often bought at Christmas such as cranberries, turkey, raisins and walnuts. Nationally advertised, private labels and unbranded foods were on the list.

Altogether, 71 stores were covered by the survey but in a few cases not all the stores were covered in each survey. Similarly, not all the products, particularly brand name merchandise in a particular size, were available in each store. There were therefore some gaps in the data and item by item comparisons could not always be made.

When the results of the survey were completed they were mailed to Ottawa and turned over to the International Business Machines Co. Ltd. for analysis. The analysis was carried out on an electronic computer and it was possible to summarize the results in this way. To avoid the presentation of large masses of statistics it seemed easiest to compare the total cost of an identical basket of goods in each store in successive surveys. The identical basket of goods, of course, varied between stores. The percentage change in each store from one survey to the next was calculated. This yielded the following comparisons:

Survey 1 to Survey 2 (November 16—December 1)

Survey 2 to Survey 3 (December 1—December 12)

Survey 3 to Survey 4 (December 12—December 23)

Survey 4 to Survey 5 (December 23—January 13)

An examination of the results did not provide any evidence of a trend to increased prices in the 1966 Christmas season. In fact, between December 12 and December 23, there was a preponderance of stores where prices dropped. The nature of the survey was such that precise measurements of the trend of prices were not practical but the bulk of the stores in the sample showed declines in the aggregate cost of the sample of foods beginning on December 1. On the basis of this evidence, the Committee concluded that there was a downward trend for the sample of prices in the stores covered by the survey over the 1966 Christmas season.

12. *Trading Stamps and Related Issues*

In accordance with the findings of its Interim Report your Committee undertook further investigations of the impact of trading stamps on consumer prices. Representatives of the Canadian Association of Stamp Companies testified before your Committee and a review of many of the studies on the subject was carried out. The findings of these studies, none of which applied specifically to Canada, indicated that prices were normally higher in stores that gave stamps compared to stores that did not. The differentials, however, were small. There is little doubt that many consumers like trading stamps but it is also true that any

competitive advantage resulting from the introduction of stamps tends to decline as they come into general use. Your Committee has observed that, in the recent past, the use of trading stamps in Canada has diminished. Your Committee still believes, as it stated in its Interim Report, that the food retailing industry should adopt reasonable and fair standards in its non-price promotional activities in order to give consumers the benefits of vigorous price competition.

Recommendation:

That the food retailing industry should adopt reasonable and fair standards in its non-price promotional activities in order to give consumers the benefit of vigorous price competition.

13. *The Profits of the Major Food Retail Chain Stores*

In the early fall of 1966, there was widespread criticism of the major food retail chains because of rising food costs. Accusations were made that recent price increases were a result of profiteering. After hearing testimony from the principal corporate retail chains and a number of important food wholesalers your Committee decided that additional information was necessary and undertook to commission a detailed study of profit levels in the corporate food chains. This study was carried out on behalf of your Committee by Clarkson, Gordon & Co. and the results were tabled on April 11, 1967 and ordered to be printed as a part of the proceedings of the Committee.

The significant profit ratios for the food retailing operations of the five corporate chains (The Great Atlantic & Pacific Tea Company Limited, Dominion Stores Limited, Loblaw Groceterias Co. Ltd., Canada Safeway Limited and Steinberg's Limited) are summarized in the table below.

All Chains	Sales ($ Thousands)	Profit Ratios (per cent)		
		Profit/Sales	Profit/Equity	Profit/Total Assets
1965-66	2,081,092	1.66	12.56	6.65
1964-65	1,949,437	1.60	12.30	6.75
1963-64	1,845,188	1.51	12.10	6.67
1962-63	1,703,555	1.37	11.09	6.12
1961-62	1,622,970	1.35	10.93	6.25

The competition of these ratios involve severe difficulties since the accounting systems of the chains do not readily yield such ratios for food retailing by itself. The necessary qualifications are carefully set out in the study prepared by Clarkson, Gordon & Co. The written submission and oral testimony indicated that the behaviour of profit ratios in the major food retail chains did not support the opinion that any very significant component of the rising trend of food prices during 1966 could be explained by changing profit levels in food retailing.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

APPENDIX A
PROGRESS REPORT
SPECIAL JOINT COMMITTEE ON CONSUMER CREDIT (PRICES)
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APPENDIX B

List of Hearings and Witnesses in Ottawa

No. 28 January 17, 1967

Canadian Consumers Protest Association (Mrs. L. Wilson, President; Mrs. S. Hammond, National Director, Hamilton; Mrs. B. Gelinas, National Director, Montreal). Professor L. Skeoch, Department of Economics, Queen's University.

No. 29 January 19, 1967

Canadian Construction Association (Mr. M. Stein, National Vice-President-elect; Mr. S. D. C. Chutter, General Manager). Canadian Welfare Council (Mr. M. Wheeler, Director, Special Project on Housing; Dr. M. A. Malik, Associate Director, Research and Special Projects; Dr. P. Geisel, Associate Director of Research).

No. 30 January 24, 1967

Mrs. A. F. W. Plumptre, Past President, Consumers' Association of Canada.

No. 31 January 26, 1967

Mr. H. W. Hignett, President, Central Mortgage and Housing Corporation. Dr. G. E. Brandow, Professor of Agricultural Economics, Pennsylvania State University.

No. 32 January 31, 1967

Dr. O. Thür, Department of Economics, University of Montreal, Dr. Walton Anderson, Agricultural Economics Research Council of Canada.

No. 33 February 2, 1967

Co-operative Union of Canada (Dr. A. F. Laidlaw, General Secretary; Mr. R. S. Staples, President; Mr. D. F. MacDonald, Director; Mr. J. MacDonald, Executive Secretary, National Labour Co-operative Committee).

No. 34 February 7, 1967

National House Builders Association (Mr. W. G. Connelly, President; Mr. W. M. McCance, Director of Research; Mr. L. C. Gundy, Chairman, Economic Research Committee). Mr. W. A. Beckett, President, W. A. Beckett Associates.

No. 35 February 9, 1967

Mr. J. A. Scollin, Criminal Law Section, Department of Justice, Dr. G. L. Reuber, Department of Economics, University of Western Ontario.

No. 36 February 14, 1967

Dr. D. Smith, Department of Economics, Queen's University. Dr. D. Slater, Department of Economics, Queen's University.

No. 37 February 16, 1967

Canadian Association of Stamp Companies (Mr. M. West, Chairman, Dr. B. Dixon, Assistant Professor, Commerce and Business Administration, McGill University.)

No. 40 April 11, 1967

Clarkson, Gordon & Company (Mr. Donald C. Scott, C.A., Mr. Marcel Camirand, C.A., Mr. Fred S. Mallett, C.A., Mr. John H. O'Callaghan, Senior Consultant, Woods, Gordon & Co.)

APPENDIX C

List of Hearings and Witnesses outside Ottawa

Eastern Canada

No. 1 February 20, 1967 Halifax, N.S.

Mr. C. W. McAllister, Manager, The Housing Authority of Halifax. Mr. Ralph M. Medjuck, President, Centennial Properties Ltd. Maritime Co-op Services Ltd., Mr. W. H. McEwen and Mr. Keith Russell. Consumers' Association of Canada (Nova Scotia), Miss Theresa NacNeil. Consumers' Association of Canada (P.E.I. Branch), Mrs. P. B. Butt. Mr. Duncan McIntyre, Saint Francis Xavier University. Professor Milton Moore, Department of Economics, Dalhousie University.

No. 2 February 21, 1967 Saint John, N.B.

Saint John Consumer Protest Committee; Mrs. Lola Mitton, Mrs. Margaret Roy, Mrs. Anna Hebert. Urban Renewal Commission; Mr. B. R. Doucet, Mr. Donald Buck, Re-development Officer, Mr. E. F. Charlton, Chairman, Saint John Housing Authority, Mr. W. M. Hazen, Manager, Saint John Housing Authority, Mr. Bernard Elliot, Shamrock Realty Ltd. Miramichi-Ease-the-Squeeze Committee; Mrs. F. Balser, Mrs. G. W. Yates. The Oromocto and Fredericton Protest Group; Mrs. E. M. Doerksen. Saint John Board of Trade; Mr. George Robinson, Mr. Wallace Trynbull, Mr. J. Watts, and Mr. G. H. Lummis.

No. 3 February 22, 1967 Montreal, Quebec.

Retail Merchants Association of Canada Inc., Mr. D. W. Rolling, General Manager. Consumers' Association of Canada (Quebec); Mrs. R. Brander, Provincial President, Mrs. N. W. Duck, Mrs. Pierre Lemerise, Mrs. Lucille Forget. Le

Federation des Consommatrices du Quebec Inc., Mrs. Helene Meynaud, Provincial Secretary, Mrs. Georgette Grenier, Mrs. Nicole Mougeau, Mrs. Madeleine Plamondon. N.D.G. Angry Consumers; Mrs. Norma Myer. Inflation Fighters of Montreal, Mrs. Veronica Morissette. Inflation Fighters of Laval, Mrs. Pat Ball. Montreal Diet Dispensary; Mrs. Agnes Higgins, Executive Director. La Ligue des Femmes du Quebec; Mme. Blanche Gelinas, Mrs. Bernadette LeBrien. East End Price Protestors; Mrs. L. A. Munday, Mrs. Veronica Morissette. Chateauguay Valley Consumers League; Mrs. J. D. Sizaire, Mrs. Ellen Harnest. Mr. Adrien Letourneau, Letourneau et Freres.

No. 4 February 23, 1967 Quebec City, P.Q.

L'Association Canadienne des Consommateurs, Quebec City Section; Mrs. Lucien Farrell, Mme. Paul Demers, Mme. J. T. Lamontagne, Mme. G. Goulet. Le Federation du Quebec des Unions Regionales des Caisses Populaires Desjardins; Mr. Andre Morin, Senator C. Vaillancourt, Mr. I. Bonnier, Mr. Henri Louis Marier, Mr. Jean-Paul Langlois, Mr. Rene Croteau, Mr. Paul Emile Charron, Mr. Harry French. The Canadian Construction Association; Mr. Armand Trottier, Immediate Past President. Dr. Roger Dehem, Laval University. Mr. Jean-Claude Allard, Manager, Yves Germain Inc., Building Contractors.

No. 5 February 27, 1967 London, Ontario.

Consumers' Association of Canada (London); Mrs. H. S. Tennant, Mrs. W. A. Shepherd, Mrs. A. Vogelsang, Mrs. J. Askew, Mrs. R. E. K. Pemberton. Catholic Family Centre; Mr. F. P. Martin, Mr. A. McEchearn, Director Family Services Bureau. Kitchener-Waterloo C.A.C., Mrs. B. M. Jackson, President, Mrs. K. E. MacIntosh. Consumer Protest Shoppers Association of London and District; Mrs. G. E. Ball, Mrs. Irma Reid, Mr. Andrew A. Chrisholm, Windsor C.A.C.; Mrs. Eleanor Haddow, Mrs. John Durrent, Mrs. W. H. McDowell, Mrs. W. P. Augustine. Consumer-Producer Association of Windsor; Mrs. Nelson Dearing, Mrs. Mary McCallum, Mrs. Rose Marie Warren, Mrs. Barbara Ellis, Mrs. Bernice Lasorda. Sarnia C.A.C.; Mrs. L. J. Archibald, Mrs. E. M. McAlpin. London and District Labour Council; Mr. Roland Parris, Mr. Vern Crawford, Mr. R. Sexsmith. Hamilton and District Consumers Protest Association; Mrs. Susan Hammond, Mrs. Betty Bridgewood, Mrs. Peggy Robertson, Mrs. Alice Pow.

No. 6 February 28, 1967, Toronto, Ontario.

Ontario Housing Coporation; Mr. P. E. H. Brady, Mr. R. W. R. Riggs. Cadillac Development Corporation Ltd.; Mr. E. A. Diamond. Bramalea Consolidated Development Ltd.; Mr. A. F. B. Taylor, Mr. A. S. Armstrong, Mr. H. D. Smith, Mr. S. Edwards, Toronto, Humber, Oakville and St. Catharines C. A. C. and C. A. C. (Ontario); Mrs. Gordon B. Armstrong, Mrs. W. Brechin, Mrs. S. B. Karim, Mrs. R. J. O'Donnell, Mrs. G. B. Barrick. Women Against Soaring Prices; Mrs. Grace Hartman, Mrs. M. Ruble, Mr. Peter Homenuch. Ontario Federation of Labour; Mr. David Archer, Mr. D. F. Hamilton, Mr. Henry Weisback, Mr. John Eleen, Mr. J. H. Craig. The Canadian Economic Foundation; Mr. George J. Rogers, Mr. Walter Huebbischer. Edible Oil Foods Institute; Mr. T. S. Snowden, Mr. David Scott Atkinson, Mr. John Heggie. Urban Development Institute; Mr. Grant L. Duff. Corporation of the Municipality of the Borough of Scarborough; Mr. A. Kellerman, Mr. Allan Johnson, Director of Purchasing, Mr. Karl Mallette, Controller.

Western Canada

No. 1 February 20, 1967, Port Arthur, Ontario.

Mayotte Construction Co. Ltd.; Mr. E. L. Mayotte, President, C. A. C., Fort William Branch, Mrs. C. E. Wachter. Consumer's Action Committee, Fort William; Mrs. Alice Peck, President, Mrs. D. K. Dickey, Home Economist. Headway Builders Limited; Mr. R. D. Kennan, President. Mr. Don MacLeod, Welfare Administrator, City of Fort William.

No. 2 February 21, 1967, Winnipeg, Manitoba.

Housing and Urban Renewal, Metropolitan Corporation of Greater Winnipeg; Mr. E. G. Simpson, Director, Mr. J. G. Thomas, Assistant Director. Home Development Co. Ltd.; Mr. Phil Young. Canadian Association of Consumers, Manitoba Branch; Mrs. D. M. McLean, President, Mrs. M. W. Menzies, Research Director, Mrs. E. Thiheridge, Convenor of Investigations. Canadian Consumers Protest Association; Mrs. Gail Pearase, President, Mrs. E. Heber, Recording Secretary, Mrs. Doreen Plowman, Corresponding Secretary, Mrs. Donna Hagnor, Treasurer, Mrs. Barbara Gommerman, Publicity Chairman, Mrs. Jackie Senhow, Mrs. Eva Reeves, Mrs. Frances Hall. Mr. C. W. Gonick, Department of Economics, University of Manitoba. Mr. O. P. Tangri, Assistant Professor, Department of Agricultural Economics, University of Manitoba. Winnipeg Chamber of Commerce; Mr. Evan McCormick. Age and Opportunity Bureau; Dr. C. Earle Gordon, President, Mrs. A. S. R. Tweedie, Executive Director, Mr. Scott.

No. 3 February 22, Regina, Sask.

Cairns Homes Ltd.; Mr. R. Gerla, General Manager. C.A.C. Saskatchewan Branch, Mrs. Gordon Moxley. Regina Food Suffragettes; Mr. Bonney Petruic, Treasurer, Mrs. Betty Marzek, President, Federated Co-operatives Ltd.; Mr. L. L. Lloyd, President, Mr. L. J. Doucet, Chairman, Managers' Advisory Committee, Mr. J. E. Trevena, Director of Information, Mr. W. Bergen Controller, Mr. A. V. Kroll, Research Director.

No. 4 February 23, 1967, Edmonton, Alberta.

Chartered Investments Ltd., Mr. J. L. Harris. Canadian Cattlemen's Association; Mr. Fred Newcombe. Edmonton Welfare Council; Mr. L. D. Hyndman, Mr. E. S. Bishop, Executive Director. Mr. S. C. Rodgers, Chief Planner, City of Edmonton, National Farmers Union, Mr. Atkinson, President, Mr. Paul Baby, Vice-President. Lethbridge Consumers Protest Assoc.; Mrs. Ruth Truant, President. Consumer Protest Association; Mrs. K. Swinton, President, Mrs. Proserloe, Mrs. N. Lampton. Dr. T. L. Powrie, Dr. M. D Stewart, Department of Economics, University of Alberta.

No. 5 February 24, 1967 Vancouver, B.C.

C.A.C., Vancouver Branch; Mrs. S. Ettinger, President, Mrs. T. D. Stout, Mrs. L. van Blankenstein. Co-op Wholesale Society of B.C.; Mr. K. F. Harding, Vice-President, Mr. R. L. Simpson, Assistant General Manager, Mr. A. E. Pershick, Manager, Retail Services Division, Mr. Corbin King, General Manager Terrace Co-op, Mr. Hans Hanston, General Manager, Dawson Creek Co-op Union. B.C. Federation of Labour; Mr. R. C. Haynes, Secretary-Treasurer, Mr. Paul Phillips, Research Director. Mainland Dairymen's Association; Mr. F. V. Bradley, Secretary Manager. Women Against Soaring Prices; Mrs. Carol Millan, President. C.A.C., Victoria Branch; Mrs. R. P. A. Coombs. Women Against High Prices; Mrs. Elaine Podovinnikoff, Chairman. B.C. Federation of Agriculture; Mr. R. B. Stocks, Manager. Mr. W. E. Graham, Director of Planning, City of Vancouver. West Coast Land Development Ltd., Mr. James Houston, Vice-President.

Newfoundland No. 6 March 1, 1967 St. John's, Nfld.

Mr. A. Vivian, Commissioner of Housing, Department of Municipal Affairs and Housing, Government of Newfoundland and Labrador. Newfoundland Co-op Union; Mr. G. Haggett, President, Mr. D. Garland, Managing Director. Newfoundland Fish Trades Association; Mr. Eric Harvey, Secretary-Treasurer, Mr. H. Lake, Mr. G. Etchegary, Mr. P. Russell, Mr. P. K. McGrath. C.A.C., St. John's, Nfld. Branch; Mrs. G. M. Walsh, Provincial President. Women's Club, Memorial University of Newfoundland; Mrs. Evelyn Barton, Chairman, Mrs. E. T. Kelly, Member. Mrs. J. A. McKim.

APPENDIX D

INTERIM REPORT

(Tabled in both Houses of Parliament
Tuesday, December 20, 1966)

1. Preamble

During the first two weeks of September, 1966, the Senate and the House of Commons agreed to expand the terms of reference of the Joint Committee which had been appointed earlier to enquire into the problems of consumer credit. The added responsibility given to your Committee was "to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months." Because of the public concern over increases in food prices, your Committee decided to concentrate its attention initially on the reasons for the upward movement in food prices. It also undertook to present an interim report to Parliament sometime during December. Your Committee met on forty-two occasions in the period from September 28 to December 13, 1966 and heard testimony from a representative cross-section of individuals and organizations. The list of hearings and witnesses during this period is shown in an appendix. Because of the pressure of time, many of the witnesses appeared on very short notice and your Committee wishes to record its appreciation to them for their invaluable assistance in its efforts to throw light on the factors influencing consumer prices.

Recently, Parliament has also referred to the Joint Committee on Consumer Credit (Prices) the Third Annual Review of the Economic Council of Canada entitled "Prices, Productivity and Employment." This important and complex report obviously requires detailed study and because of the shortness of time, it has not been possible to do more than refer briefly to some of the conclusions of the Economic Council of Canada which impinge directly on the work of your Committee.

This interim report is necessarily brief. It is not and could not be expected to be an exhaustive analysis of the evidence. The limitations of time meant that the report could deal with a limited number of issues. Many other problems referred to during the Committee hearings require additional evidence, study and research before useful conclusions can be drawn.

2. General Observations

The economic experts both from the public service and the academic community who gave evidence to your Committee made it obvious that the factors influencing the cost of living in Canada were many and varied. Some changes could be explained by the increased price of import. Canada's trading relations with other countries are intimate and important and it is therefore natural that the general increase in price levels in the recent past in most western countries has had a contagious effect on Canadian prices. In addition, domestic changes in the price of goods and services interact and reinforce each other. A great deal of the evidence presented to your Committee emphasized the fact that consumer prices moved in response to changed market conditions in other sectors of the economy or in markets outside Canada. These changing market conditions, in turn, affected the share of the national income going to labour, to farmers, to business and to others, but there was nothing to indicate that the recent changes in the cost of living in Canada arose out of unusual or unwarranted increases in

the sizes of their respective shares. Your Committee's review of the evidence has not yet revealed any group or sector of the economy which could be singled out and blamed for the recent increase in consumer prices. Its general conclusions were that there have been many factors contributing to the changes in the cost of living, particularly the price of food.

While there are many groups in the economy which are able to protect themselves against the rising costs of living, your Committee must recognize there are many such as, the handicapped, the aged and the unemployed upon whom the burden of price increases falls most heavily.

Since your Committee commenced its hearings on September 28, food prices as reflected in the food component of the Consumer Price Index have declined slightly and it is believed that the information which reached the housewife through the Committee hearings has had a stabilizing influence. The hearings have had a significant educational value for the members of your Committee, for the housewives and for the business community. Public attention has been focussed on the importance of the price and quality of consumer goods and it is the earnest hope of your Committee that Canadian housewives will shop both selectively and carefully.

For the first time, full public disclosure of the business practices and affairs of companies appearing before your Committee was requested. This applied to Canadian companies as well as to subsidiaries of non-Canadian corporations. In some instances, new light was thrown on extensive inter-corporate relationships which had not been made public before. In one case, one newspaper reported "For the first time, amazing extent of holdings revealed" and a press service referred to the "Stunning scope of food empire". All the proceedings were open and no information was given to your Committee in confidence. There was extensive coverage of the work of your Committee in the newspapers and on the radio and television.

3. *The Need for Improved Statistical Information*

Your Committee experienced some difficulty in obtaining satisfactory statistics on the prices of a number of important commodities at the farm, wholesale and retail levels. This was particularly true of meats. In part, this arose from the division of responsibility between the Department of Agriculture and the Dominion Bureau of Statistics. It is the view of your Committee that there will be continuing interest in the trend of prices. For purposes of economic analysis and studies of distribution, improved statistics concerning prices at all distributive levels are essential. For this reason, it recommends both a greater degree of interdepartmental co-ordination in the compilation of price statistics and the diversion of professional staff to expand and improve the statistical information on prices throughout the public service, and particularly in the Dominion Bureau of Statistics. While the quality of the work performed by the Dominion Bureau of Statistics is very good, your Committee firmly believes that its work in some fields was being impeded by shortages of professionally qualified staff.

The principal way of informing the public of the changing level of prices is the monthly Consumer Price Index issued by the Dominion Bureau of Statistics. This is a sophisticated and valuable economic measuring device but it is nevertheless difficult for an ordinary consumer to interpret it as it applies to her normal purchases for her family. While the existing published consumer price

indexes provide a very useful measure of price movements affecting consumers nationally and in major urban centres, additional statistical indicators are required. In particular, there is a pressing need for the Dominion Bureau of Statistics to broaden the scope of its retail pricing program to encompass a wider range of qualities of goods and services and to allow more useful item price averages to be derived, by cities, on a continuing basis. It is recognized that an expansion of available retail price statistics along these lines will require additional resources, both in the field collection of price data and in its evaluation, processing and analysis. A good deal of information on various aspects of consumer prices is published by the Dominion Bureau of Statistics but it is not usually easily available to the consumer. The consumer appears to be less well served in this respect than some other groups in the community. For example, her ability to detect seasonal and other trends in food prices is impaired by a lack of information. Your Committee recognizes that there are technical problems in compiling accurate price statistics but nevertheless believes that it is an appropriate governmental function to disseminate price information as widely as possible to the consuming public.

Although your Committee's primary concern was with prices, it necessarily became involved on several occasions with other kinds of economic statistics. Specific evidence was given, notably by the Chairman of the Economic Council of Canada, that there were serious deficiencies in the government system of collecting, analyzing and issuing statistics relating to economic conditions. Moreover, your Committee was impressed by the urgent need for comprehensive, accurate and timely statistics in the formulation of government economic and fiscal policy. Because of the importance of having good and current information about short-run economic changes, your Committee proposes that a detailed review of the government statistical system be undertaken with a view to modernizing, improving and co-ordinating the whole process of collecting and compiling economic data.

Recommendations:

(*a*) That additional staff resources be provided to the Dominion Bureau of Statistics to improve the collection of urgently needed statistical information on price movements.

(*b*) That more information concerning consumer prices be made available to the public in as simplified a form as possible.

(*c*) That a thorough review be made of the governmental system of collecting, analyzing and issuing other types of economic statistics in addition to price statistics.

4. *Parliamentary Responsibility for Consumer Affairs*

The experience in Canada and in many other western countries demonstrates the need for Parliament to be informed on both general and specific economic developments. Economics cannot properly be the exclusive province of experts, even though it has aspects which are technically complex. The study of particular legislation or special problems by ad hoc parliamentary committees does not meet the continuing need of Parliament to become familiar with the issues of current economic policy. For this reason, your Committee has concluded that it would be desirable to establish a Joint Committee of the Senate and House of Commons whose primary aim would be to keep under continuous

review the whole field of consumer affairs. In addition to this, the proposed Committee should have the responsibility for surveying economic developments in the Canadian economy which affect employment, income and consumption levels. A Committee of Parliament would be immediately responsive to parliamentary or public concern over problems affecting the consumer.

It is recommended further that such a Joint Committee be established for the life of a parliament in order to provide continuity to its work and that it should act on problems referred to it by Parliament.

It is essential to provide the Joint Committee with the services of a professional staff. It is of interest to note that the Third Annual Review of the Economic Council makes a somewhat similar suggestion and outlines some specific tasks which a Joint Committee might undertake.

Recommendation:

That a Joint Committee be established to review consumer affairs and the state of the Canadian economy.

5. *The Influence of Consumer Demand on Food Prices*

It was brought out in testimony before your Committee that there is an increasing tendency for consumers to buy convenience foods. Such foods require a minimum of preparation before cooking and in some cases merely need to be thawed. In part, this is a consequence of the increasing number of married women in the labour force and the unwillingness or inability of many consumers to devote much of their time to food preparation. Your Committee has no views on the cultural aspects of this development but does recognize the fact that the price of convenience foods must inevitably include some allowance for the costs of preparation. If consumers prefer partially or completely prepared foods, they should be perfectly free to exercise their choice. However, if their time spent in the kitchen is reduced, it is to be expected that the cost of eating will be increased.

In the past few months, there has been widespread publicity and controversy concerning rising food costs. Public interest has been stimulated by the formation of consumer protest organizations, by the hearings before the Joint Committee on Consumer Credit (Prices) and by discussions in the press and on the radio and television. Your Committee has gained the impression, based partly on the volume of its mail from the public, that consumers are looking at prices more carefully. There are quite acceptable substitutes for many types of food and consumers can affect the prices of particular items simply by not buying them if they think the price is excessive. It is also true that some consumers could reduce their food budgets by shopping carefully provided the retail food markets available to them are truly competitive. The conclusion of your Committee is that if consumers are well informed and discriminating in their shopping practices they can reduce their food bill appreciably in many cases. Consumer education is a matter of such importance for the welfare of individuals and families that increasing attention should be devoted to it in the

Canadian educational system beginning in the secondary schools. A vast amount of information useful to consumers is available through newspapers, magazines and the publications of government departments. Your Committee's opinion is that increased efforts should be undertaken by the government departments involved to distribute as widely as possible attractive and informative material which will help the Canadian housewife to be a well informed and careful shopper.

Recommendation:

That increasing attention be devoted to consumer education both through the educational system and by the wider distribution of information useful to consumers through government channels.

6. *Consumer Standards and Consumer Protection*

The problems of the consumer in the market place are accentuated by the changing nature of retailing itself. The rise of the supermarket has meant that for a wide range of commonly purchased items retailing has become impersonal. At one time the retailer was a source of information about the products he sold but the modern supermarket offering many thousands of products usually relies on the consumer to select her own purchases on the basis of her own knowledge.

Product information must be provided. Consumers must be informed about physical properties or products they are buying such as weight, volume, quality and number of units and this information should be immediately available at the time of purchase and should be expressed clearly and unequivocally.

Your Committee could cite many examples taken from letters received from dissatisfied consumers about merchandising and packaging techniques which annoy the consumer and make it difficult if not well nigh impossible for the consumer to compare price and quality of different products effectively and quickly.

Facts should be presented in a prominent place on the package or container in a form which is legible and free from graphic distortion. Where applicable, the ingredients should be revealed both by name and percentage of composition, and the consumer should also know about the quality of the product.

In particular:

(1) the product should be described by its generic name where this is meaningful;

(2) where products are of a certain type, variety and quality, they should be graded;

(3) packages should be designed in terms of size, shape or dimension in a way that will not deceive or mislead retail purchasers;

(4) the net quantity of the contents in terms of weight or measure should be expressed as simply as possible and in terms which be easily interpreted;

(5) the essential information about a packaged product and its physical contents should be stated in a prominent place on the label.

It is essential for the government to take all measures within its power to foster the welfare of the consumer. In particular, the government has a responsibility for protecting the consumer against all forms of exploitation.

One aspect of this responsibility was referred by the Government in July, 1966 to the Economic Council of Canada for investigation. The terms of reference of the study to be carried out are:

"In the light of the Government's long term economic objectives to study and advise regarding:

(*a*) the interest of the consumer particularly as they relate to the functions of the Department of the Registrar General;

(*b*) combines, mergers, monopolies and restraint of trade;

(*c*) patents, trade marks, copyrights and registered industrial designs."

In the normal course of events the findings of the Economic Council of Canada will not be available until late 1967. Your Committee, however, feels that the function of consumer protection is of such urgency as to require the establishment of a Department of Consumer Affairs. Because of the special responsibility of the Department of Health and Welfare, the Department of Agriculture, the Department of Fisheries and the Department of the Registrar General, your Committee is not prepared to recommend the nature of the administrative structure for such a department until the Economic Council of Canada reports. However, because of the need for consumer protection, for coordination of existing legislation and for the immediate establishment of machinery to receive and investigate consumer complaints, the Economic Council of Canada should be asked to report on item (a) of their reference as soon as possible.

Additional legislative authorization may be necessary ultimately for the protection of the consumer but this should not stand in the way of immediate action which could be carried out under existing regulations. Your Committee reached certain specific conclusions, which are:

(*a*) with particular respect to food, that the establishment of standards and grades should be extended to cover all commonly purchased foods for which standards or grades would be useful to the consumer.

(*b*) that a standardized nomenclature for designating grades for different classes of food should be developed as quickly as possible and that an intensive campaign should be undertaken to acquaint consumers with the meaning of the grades;

(*c*) that manufacturers of consumer products should be required to modify their packaging techniques so that, where applicable, the weights or contents are expressed in terms which minimize the difficulties of calculating and comparing prices.

Recommendations:

(*a*) That a Department of Consumer Affairs headed by a Minister be established.

(*b*) That immediate steps be taken to promote standardization and simplification of grades, nomenclature and packaging for commonly purchased consumer items.

7. *The Promotion of Retail Sales*

Your Committee noted, with interest, the variety of promotional schemes which had been introduced by the major retail chains to encourage customer loyalty. One senior executive of a corporate chain expressed the view:

"A lot of people are anxious to play games and have these contests. It is all part of their present-day life to engage in these adventurous things. It is a challenge. . . Have you ever considered how dull it would be for a housewife to go into a store and see nothing but price tickets and a display of produce."

The competitive significance of promotional devices was emphasized by another chain store executive when he said, "If stamps are in fashion, then you had better be in style yourself."

The impact of stamps, premiums, games and contests on the retail price level is difficult to assess and clear differences of opinion were expressed by responsible officials of the chain and other stores. Your Committee did not have sufficient evidence at this time to reach any final conclusions about the effect of promotional devices on prices but it did conclude that the different forms of promotion should be used with restraint. Its opinion was that competition not based on price should not be allowed to diminish unduly the healthy effects of vigorous price competition at the retail level. It is your Committee's intention to conduct further investigations for the purpose of making final recommendations on promotional devices such as trading stamps, games and contests.

Your Committee, however, saw at least one example of a technique of price competition which it considered to be objectionable. This was the system, evidently sponsored by manufacturers or processors, of labelling packages to imply that the product was being sold below the regular retail price. The use of the so-called "cents-off" labels seems to be of fairly recent origin and now to be quite common for such classes of commodities as detergents and processed foods. Your Committee feels that this device tends to create uncertainty about what the regular retail price is, particularly in a period of change. Cents-off labels therefore, confuse the consumer and lead to abuses. Anything which smacks of deception in advertising and merchandising is unacceptable. Competition or promotion on the basis of price or quality is a desirable goal but competitive methods which create doubt or confusion should be prohibited.

Your Committee learned much about the methods used by chain stores to attract customers. On the other hand, it observed some actions by food retailers which were poor from the viewpoint of their public relations. Your Committee's attention was repeatedly drawn to the practice of remarking goods on the shelves with a new and higher price without removing the old price. Whatever the reason for the practice, your committee's view was that some adjustment in the method of inventory management and more care in marking prices on containers would eliminate this irritant to consumers.

Recommendations:

(*a*) That non-price competition by retail food outlets should not be allowed to become sufficiently important to outweigh price competition.

(*b*) That cents-off labels, in view of their tendency to cause confusion and to distort price relationships, should be prohibited.

(*c*) That the Minister to be responsible for consumer affairs undertake a review of the effectiveness of the investigation and prosecution procedures under existing statutes relating to misleading advertising.

(*d*) That more care should be used in re-marking the prices of goods in the inventories of retail food stores.

8. *Public Disclosure*

In times of both depression and prosperity, Canada has in the past resorted to a series of Royal Commissions or parliamentary inquiries on prices and price spreads, each of which has had to compile its own information on costs, profits and return on investments. Your Committee was no different, and used its parliamentary privilege to ask for and receive from corporate witnesses information never before made public. However, your Committee feels strongly that if those responsible for or concerned about the management of public affairs are to be properly informed, such information should be available publicly on a continuous basis for the scrutiny of parliamentarians, public officials, consumer groups, investment analysts and the academic community. Such public disclosure would also be a spur to greater efficiency and productivity by preventing inefficient entrepreneurs from hiding their inefficiency from shareholders or public scrutiny. Further, your Committee sees no reason why large public companies should be compelled to compete in the market place against other large private competitors whose operations are almost wholly secret and many of which are privately held wholly-owned subsidiaries of non-Canadian parents.

Recommendations:

(*a*) That the distinction between disclosure requirements for private companies of significance to the public and public companies be eliminated.

(*b*) That the disclosure requirements for both public and such private companies be enlarged to assure full and complete disclosure of corporate activities to give to the public sufficient information for meaningful continuous analysis and comparison.

9. *Profits of Corporate Food Chains*

The Joint Committee on Consumer Credit (Prices) asked for and received detailed statistical information concerning the experience of the companies which appeared before it. One of its principal purposes was to determine if there had been any significant recent changes in the levels of costs, prices or profits which would help to account for the upward movement of the cost of living. In particular, your Committee concerned itself with the profit levels of the corporate food chains. This whole question was looked into by your Committee.

One way of measuring profitability is to examine net profit after taxes as a percentage of gross sales. Your Committee is aware that this method of comparing profit levels has some deficiencies and that an analysis should also be made of profits in relation to invested capital. Such an examination raises theoretical and practical accounting problems and while the necessary research has been started, the results are not available for this interim report. Your Committee has retained the services of a firm specializing in management consulting and accounting which has undertaken to conduct a study in this field.

The level of profits in the Canadian economy as a whole was discussed by several expert witnesses who testified before your Committee. Their opinion was that in the late stages of an expansionary period there tended to be a squeeze on profit margins. This resulted from rising costs and the inability of sellers in

competitive markets to raise prices sufficiently to offset them. Although statistical evidence was not conclusive, it did appear that profit levels or ratios had not risen generally and that one would have to look elsewhere to explain the changes in the cost of living after a long uninterrupted period of prosperity.

10. *Advertising*

Your Committee heard lengthy arguments concerning the economic consequences of advertising. It also accumulated a considerable amount of information relating to advertising expenditures and the way in which advertising costs are shared among different distributive levels in the food industry. There was evidence that the market power of the retail level of the food industry was sufficiently strong to shift some of the burden of advertising costs to food processors or manufacturers. In the time available to your Committee, it was not possible to ascertain all the facts necessary to reach any firm conclusion. However your Committee decided that more information was needed.

11. *Concentration and Cost Levels in the Food Industry*

The terms of reference of the Joint Committee on Consumer Credit (Prices) necessarily meant that primary attention was focussed on factors influencing recent changes in consumer prices. Your Committee was not, as a result able to devote more than passing attention to some of the longer run influences at work in wholesale and retail food distribution.

Although the preliminary judgment of the Committee was that profits in the different levels of food processing and distribution had not increased substantially or generally in the recent past this does not answer a very relevant question, namely, whether the cost levels in the industry were reasonably low in the light of Canadian conditions.

Your Committee uncovered specific evidence of great concentration of market power. It came to public attention as a result of questions by your Committee and disclosed more particularly the so-called Weston Empire.

This disclosure was an astonishing revelation and the enormity of the Weston complex surprised even the sophisticated. The far-reaching implications will take some time to assess. The Weston Empire reveals for the first time vast holdings and control over food and other related aspects of the economy which will need further investigation to reveal all the implications and to do this, more specific information will of course, be required.

The detergent and soap industry, it appears from the evidence, is controlled by three giants which among them have between 85 and 90 per cent of the total business.

The five great corporate food chains and the voluntary chains control more than 75 per cent of the grocery business in urban areas and their percentage is increasing.

In one part of the food processing industry, one firm controls 100 per cent of the market in the Maritimes and Western Canada and at least 80 per cent of the market in Ontario and Quebec.

The domination of a few large corporations in some sectors of the Canadian economy is clearly evident and gives rise to the question, "Is this in the public interest?" Your Committee feels that the implications of this question must be fully examined.

In view of this, your Committee recommends that a thorough assessment should be made of the organization of the food industry with the object of publicizing any monopolistic tendencies which may exist, of determining whether the market power of any group or groups is sufficient to impair the workings of a competitive market and whether there are any undue barriers to entry.

Recommendation:

That the Joint Committee on Consumer Credit (Prices) continue with its investigation of concentration in the food industry.

12. *Price Control*

The view is sometimes expressed that price control by government edict is an easy answer to price stability. All the witnesses who were questioned on this matter disagreed with the opinion and demonstrated clearly that this was an unworkable and unrealistic solution. Your Committee concurs in the conclusion that price control is a fallacious method of attempting to control any general increase in prices. It notes, furthermore, that the federal government does not have the constitutional power to enter this field.

13. *Co-operatives*

In order to meet its self-imposed deadline of an interim report in December, your Committee did not have an opportunity to call witnesses on co-operative organizations, but recognizing the importance of the movement intends to do so.

All which is respectfully submitted.

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Joint Chairman.