Bank of Canada

Ottawa, August 14th, 1945

The Hon. Marriner S. Eccles,
Chairman of the Board of Governors,
Federal Reserve System,
Washington.

Dear Mr. Eccles,

A Conference between the Government of the Dominion and the Governments of the nine Provinces was recently held in Ottawa. On that occasion the Dominion Government gave the broad outlines of its post-war reconstruction policy, indicated quite specifically the course which it would wish to follow in respect of a social security programme, and made a number of proposals regarding arrangements which it would be desirable to conclude between the Dominion and the Provinces. All of these matters are dealt with in the brief presented by the Dominion. I believe that you may be interested in having a copy of this document, and I have therefore forwarded one to you under separate cover.

In addition to the brief mentioned above, the Dominion also placed in the hands of the Provinces a number of pamphlets containing information which would assist the Provinces in considering the proposals. A list of these publications is attached hereto. If you wish to obtain copies of any one of them, will you please advise me accordingly.

After hearing the Dominion proposals, the Conference adjourned until an unspecified date to give the Provinces time to formulate their views.

Yours sincerely,

G. F. Towers

DOMINION-PROVINCIAL CONFERENCE, 1945.

Reference Books

Comparative Statistics of Public Finance
Dominion of Canada, Provinces and
Municipalities, 1933, 1937, 1939
1941, 1943.
Dominion Subsidies to Provinces
Economic Controls
Agriculture
Personal Income Taxes
Succession Duties
Public Investment
Corporation Taxes
Dominion-Provincial Co-operative Arrangements
Health, Welfare and Labour
Capital Formation (not yet published)

August 23, 1945.

Dear Governor Towers:

This is to thank you for your letter of August 14 and for the copy of the Dominion brief, which you are sending me under separate cover, in regard to postwar reconstruction policy. I shall be particularly interested to see it because undoubtedly the problems confronting you are very similar to those which we are now facing.

If it is not too much of an imposition we would greatly appreciate having copies of the reference books or pamphlets which you kindly listed, for they cover subjects of great interest and concern to us and will, I am sure, be valuable source material for us and our staff.

I hope I may have the pleasure of seeing you soon in case you are paying a visit to Washington. In the meantime, let me thank you again for the material referred to in your letter.

Sincerely yours,

The Honorable G. F. Towers,
Governor,
Bank of Canada,
Ottawa, Canada.

ET:b

ECONOMIC CONTROLS

REFERENCE BOOK

FOR

DOMINION-PROVINCIAL CONFERENCE

ON RECONSTRUCTION

ECONOMIC CONTROLS

REFERENCE BOOK

FOR

DOMINION-PROVINCIAL CONFERENCE

ON RECONSTRUCTION

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FOREWORD

This reference book has been compiled under the direction of the Committee on Economic Controls of which F. P. Varcoe was Chairman and C. Stein, Secretary, and contains submissions from the Wartime Prices and Trade Board, War Industries Control Board, and the Department of Labour. The purpose of this material is to describe the situation which brought various wartime economic controls into being and to outline the kind of problems which probably will continue to exist in these fields during the transition period. The common genesis of all controls is, of course, war-created scarcities and a common purpose to prevent inflation. These controls are consequently of a temporary nature and adjustments are continually being made to meet the changing situation. As a result of this the material in this reference book differs somewhat from that in the other volumes, since it is concerned with the application of policy to a situation in day to day process of adjustment. A detailed account of the kind of problems which exist and which must be anticipated in the near future is provided in the Wartime Prices and Trade Board section and it was not thought necessary to give a similarly detailed account for the other types of control since they arise from the same causes, pursue the same objectives, and face fundamentally similar problems. Some distinctive features of the War Industries Control Board and the National War Labour Board controls are discussed in their respective sections. In addition, some account is given of the wartime agricultural controls in the reference book on agriculture.

PART I

WARTIME PRICES AND TRADE BOARD

1. INTRODUCTION

This reference paper is concerned with a survey of some of the economic problems which will or can be expected to concern the Wartime Prices and Trade Board during the transition period. Consideration is given to various measures which might be adopted to cope with these economic difficulties, while at the same time working toward the orderly removal of the controls now administered by the Board. It is against the background of these war-created and war-generated econnomic problems that the constitutional question should be viewed. Constitutional difficulties in coping with such transitional problems are not dealt with in the following pages.

The Prices Board is a temporary agency established to deal with certain economic problems which are a part of or which result from the war. Since it was set up as a result of emergency conditions and since it operates under the emergency powers of the Dominion, it is assumed that the activities of the Board will be curtailed and finally eliminated with the passing of the emergency conditions which it was created to meet. It does not follow, of course, that the Wartime Prices and Trade Board as a distinct organization should continue until all of the controls which it now administers have been wound up. It might be appropriate to transfer its remaining functions at an earlier date to other government agencies, such as the Department of Reconstruction.

It is perfectly clear, however, that the passing of the emergency conditions which gave rise to the controls administered by the Board will not coincide with the termination of hostilities. The pressures on prices and supplies generated by the war will not automatically cease when the fighting stops, even though many shortages may have been overcome or eased before all the fighting is over. A number of the controls (and particularly the price controls) are likely to be needed not only until the defeat of Japan, but for some time thereafter.

In the transition period, which is regarded here as the period in which the shift is made from war production to civilian production, roughly beginning at present and ending some time after the defeat of Japan, controls will continue to be needed to prevent rising prices and some controls will be required to safeguard the essential needs of civilians. Moreover, leaving aside possible constitutional difficulties, price policy in the transition period is taking on additional significance as an important element in the Government's plans to promote an effective and healthy reconversion of the economy to peacetime production. If prices and costs can be kept from rising suddenly, if the readjustment of the Canadian price level to higher price levels abroad can be managed in an orderly and gradual manner, the cause of high employment will be materially advanced. An inflationary spurt in prices, on the other hand, could do more than almost anything else to impede the forces of reconstruction. For these reasons, price control in the transition period is of vital importance to reconstruction and employment policies.

The major problems of concern to the Prices Board in the transition period fit into four categories—prices, supply and distribution, rental controls and consumer credit controls. This memorandum attempts to outline some of the broad questions which will arise and suggests approaches which might be adopted.

2. PRICES

RISK OF INFLATION

The danger of inflation has not disappeared with the defeat of Germany and may continue for some time after the defeat of Japan. Since it is not possible to forecast the precise course of events, both military and economic, it is not feasible to estimate how great the danger is likely to be. Nevertheless, it is worth while reviewing the nature of the forces which might foster inflation during the transition period, notwithstanding the deflationary effects of war contract cancellations.

War Inflated Costs.—For some time, rising costs of production and the threat of rising costs have been the most serious pressure on the price ceiling. There is no doubt that this type of pressure is continuing into the transition period. It is particularly great in respect to goods, the production of which has been restricted or eliminated as a result of war needs. It will be fortified in many industries by the decline in the volume of total production brought about by curtailed war production. So long as the demand for civilian goods remains strong and supplies of many articles are inadequate to meet it, business will be encouraged to press for recognition of higher costs in the form of price increases. It is true that many of the increases in costs which have occurred since the basic period (September 15th to October 11th, 1941) will prove to be temporary. It is also true that competition in many fields will in time become much keener, thereby helping to keep prices down. But these developments will occur gradually, affecting some industries quickly and others only slowly. During the early stages of the transition period at least, it seems highly probable that the pressure of higher production costs will remain a major threat to the maintenance of the price ceiling.

Pent-up or Deferred Demands.—The extent of the pressure for higher prices will depend in large measure on the size of accumulated consumer and business demands. After more than five years of war, large deferred needs have undoubtedly piled up, particularly in the field of durable and capital goods. These include housing and household appliances, automobiles, farm equipment and buildings, railroad equipment and trucks and a wide range of deferred repairs and replacements in industry and in public utilities such as highways. The buying power to support much of such deferred demands and to create new demands already exists in the form of cash, government obligations, and improved credit standing resulting from repayment of debt during the war (e.g. many farmers and corporations). Furthermore, public buying power will be sustained by the payment of soldiers' gratuities and credits and family allowances. The public's buying power would also be increased by any relaxation of the personal income tax, particularly in the lower income brackets. In other words, the financial basis exists for a buying and speculative spree of unexampled proportions. The extent to which financial claims will be translated into current demands for goods and services can only be guessed: much depends on the scale and duration of the continuing war against Japan, on conditions in the United States and Great Britain, on fiscal policy and price control, on reconstruction policies, and on the public's attitude toward the future. Such demands, however, should not prove unmanageable, although they will undoubtedly cause difficulty in certain respects, such as (for example) housing supplies and household appliances, and men's clothing and the like.

Relief and Export Demands.—In addition to pent-up domestic demands, the requirements of export markets and UNRRA may remain substantial for some time after war production has been curtailed. The impact of such requirements, both directly and in their effect of restricting supplies available to Canada from other countries, is already serious in regard to certain foods and textiles and may also have important repercussions on lumber, pulp and paper products and possibly certain capital goods. In addition, it should be noted that Canada's interest in establishing lasting export business may result in a further drain of goods which are not immediately plentiful from the domestic market.

Supply Bottlenecks.—Pressure for higher prices may also be accentuated by the continuance of war-created shortages and "bottlenecks", for the curtailment of war contracts will not immediately remove all shortages of civilian supplies. Some imported materials, such as rubber, tin and sugar, are likely to remain in short supply for a considerable time to come. It will not be feasible to get all the component parts used in the production of metal articles and obtained from the United States as quickly as they are needed in the early stages of transition. In the case of such articles as radios, electric refrigerators, and automobiles, Canadian production will be strictly limited by the availability of such U.S. components and thus by the reconversion policies of the United States. It may be a considerable time before the labour shortages in the lower-paid industries in Canada (e.g. bricks and knit goods) are overcome. Industries requiring large numbers of able-bodied men (e.g. forestry and farming) may continue for some time to have difficulty in getting enough workers. It is quite conceivable that because of low wages or the unattractiveness of the work, some industries may be affected by a shortage of help even when a considerable amount of unemployment exists.

Higher Prices Abroad.—Because of the efficacy of the Canadian stabilization program, the wartime increase in the price level has been somewhat less in Canada than in the United States and in Great Britain, after allowance for changes in exchange rates. While there are very important advantages in this position, a premature removal of price and other controls would rapidly raise the prices of a wide variety of commodities in Canada and have a marked effect on the whole Canadian price level. It should also be noted that without appropriate export controls domestic supplies of any Canadian article, the price of which was significantly lower than in the United States, would be seriously threatened.

Possible Removal of Subsidies.—The sudden and premature removal of subsidies would also operate to raise prices. Subsidies now being paid to keep prices down are the direct equivalent of roughly 6 additional points on the cost of living index—3 points being the equivalent of the subsidies paid through the Department of Agriculture and the Wheat Board, and 3 points of those paid through the Commodity Prices Stabilization Corporation, including consumer subsidies.

Speculation.—If the above factors were to lead to rising prices and if businessmen and the public got the impression that prices were getting out of hand, the resultant growth of speculation could seriously accentuate the increase. It is in such circumstances that a great volume of liquid financial claims might be rapidly translated into current demands for goods. Speculative activities, it will be remembered, greatly aggravated the inflation of 1919-20.

Deflationary Influences.—Against these inflationary factors will stand the major and pervading influence of sharply curtailed war contracts. This factor will reduce the stream of income payments since it will give rise to transitional unemployment, down-grading, transfers from higher-pay to lower-pay industries, and a sharp curtailment in overtime. Unemployment, and the fear of unemployment, would reduce and inhibit spending. It is, therefore, clear that the curtailment of war contracts could be relied upon *eventually* to break an inflationary boom. The difficulty is that it probably would not prevent an initial inflation of prices. Such an inflation, however short-lived, would be followed by an abrupt deflation which would gravely delay reconversion and produce wide-spread unemployment.

The problem of relaxing price control centres around the timing. The danger of a general upsurge in prices may not last for long but it is likely to be a very serious risk in the early stages of transition when the inflationary forces are at their maximum strength and before the influence of curtailed war production has had a chance to exert an opposing influence throughout the economic structure. As time goes on the risk of a general rise in prices will diminish but upward pressures on particular groups of prices will continue longer.

Experience in the Last War.—In this regard, the economic experience after the end of the last war is of particular interest. The price level and the cost of living which had risen markedly during the war levelled off for a few months and then rose more sharply than ever for over a year. The cost of living index, which in November 1918 was 54 per cent over July 1914, had risen to a point 92 per cent above the pre-war level by July 1920. Wholesale prices which had doubled during the war reached a point 155 per cent higher than the pre-war level in May 1920. The decline which followed this post-war inflation was even more abrupt and had widespread and disruptive consequences. By the latter part of 1921, the cost of living had dropped by 28 per cent from its peak, wholesale prices were down 41 per cent, and prices of farm products were practically halved (two of the main farm commodities, wheat and steers, were down about 60 per cent). This drastic decline in prices greatly increased the burden of debt (particularly to the farmers) and resulted in heavy inventory losses and widespread commercial failures. Factory employment dropped sharply—by 27 per cent from 1920 to 1921—and pay rolls decreased by 34 per cent.

Conclusion.—It may be that the danger of inflation in the period of transition will not be as great as was the case after the last war. While it is true that the diversion of resources to war purposes has been much greater and while the pool of accumulated buying power is much larger to-day than in 1919, the techniques for controlling inflation (fiscal policy, price control, organization of supply, etc.) are much more highly developed and more widey accepted and understood. Moreover, the present war is ending in two stages which should facilitate an orderly transition both because the war stimulus to the economy will be cut off less abruptly and because a substantial amount of reconversion may be achieved before all hostilities have ceased. It is also possible that the memory of the last war and of the depression of the 'thirties is fresh enough to induce some feeling of caution on the part of the business community and the public. But too much reliance should not be placed in these possibilities: memories are short, there may be a general feeling of revulsion against anti-inflation controls, and plausible arguments will be advanced to prove that the times are different and that inflation is not a danger. It would be folly to assume that all would be well if the controls were to be removed as soon as the demands of war were curtailed. Even if a general inflation did not result, there would be a series of price increases based on temporary shortages and demands which would distort the price structure, reduce domestic and export opportunities and thus restrict production and encourage unhealthy development (unhealthy in the sense that it would have little chance of permanence). In summary, an inflation in the transition period would aggravate the problems of readjustment and accentuate the forces of subsequent deflation.

Price Policy in the Transition

To carry out the Government's intention of preventing inflation, it is clear that price control will be necessary for some time, probably for a period extending beyond the defeat of Japan. The advent of the transition period, however, is substantially changing the economic environment to which price control must be adapted and calls for a reassessment of price control policy and methods.

Altered Considerations of Policy.—The transition period, of course, does not change the primary purpose of price control. That purpose is still to prevent a war-generated inflation, the threat of which remains imminent and the consequences of which would be most harmful, and even disastrous, for the people of Canada. Effective control of prices can protect the economy from disruption and can greatly facilitate an orderly and effective reconversion to peacetime activities. To achieve this double objective, however, price control must be sufficiently adaptable to meet the changing needs and circumstances of an economic structure going through an enormous and difficult transition. It must give due emphasis to factors which were absent or less important when the economy was fully mobilized for war and at the same time it must be administered with a view to its ultimate removal at the earliest date consistent with the objective of preventing inflation and dislocation.

The decline of war production has added to the considerations motivating the administration of price control in two fundamental respects. The first is that employment considerations have become a major factor in economic policy. So long as the war program was at or close to its peak the Government's problems were not unduly complicated by questions of maintaining employment. Relief from the provisions of the price ceiling was necessary when the essential requirements of the civilian population and of the war program were threatened. Relief was not necessary to provide employment and, while the Board did not ignore employment considerations in particular circumstances, relief was generally confined to producers and importers of essential goods and services. But now that war production is declining sharply, it is no longer feasible to distinguish between essential and less essential or non-essential production. As the transition proceeds and as the leading objective of economic policy becomes a high level of employment, production which was regarded as non-essential becomes highly desirable and indeed essential from the point of view of employment. Thus relief must be provided when it is genuinely needed to permit production almost regardless of the nature of the product. Price ceilings must be set for the large variety of goods that have been out of production and non-essential during the height of the emergency so that reconversion may proceed as rapidly as materials, manpower and equipment become available.

The other respect in which the problems of price control have been altered is that the emphasis has now shifted to planning for a removal of controls. The ultimate objective is to remove price control as the danger of inflation passes in a manner that will not result in serious disturbance to the economic structure. That is to say that ceiling prices and "free" market prices should be fairly well in harmony when price controls are removed. This in turn means that major increases in costs which are likely to be of a lasting character and which are not offset by other reductions in costs will have to be gradually recognized in the ceiling price structure. Subsidies and other artificial means of keeping prices down should be gradually eliminated: in some cases this will occur automatically but in others price increases are likely to be necessary; for example, it may well be that higher costs of some imports will persist and may necessitate some price adjustments. Thus the Prices Board must give increasing consideration to such factors in the administration of price control and must make a deliberate effort to minimize subsidy payments even at the cost of some price increases. (The problems arising from the existence of higher prices in the United States and Great Britain, and the question of subsidies are discussed in the following sections.)

Importance of the "Basic Period" Principle.—In view of these additional considerations, it might be claimed that it would be more appropriate and realistic for the Government to abandon its present method of price control which is based in principle upon basic period prices (i.e. the highest price prevailing for the individual seller during the period from September 15 to October 11, 1941 with appropriate allowance for changes in quality and nature of the item concerned) and to establish in its place a system designed to give clear recognition to increased costs as grounds for price increases. In other words, instead of adhering to basic period prices and permitting adjustments only when financial need could be demonstrated, the Prices Board would be required to permit price advances as a matter of right whenever costs could be shown to have increased.

For a number of reasons, such a change would be highly undesirable. In the first place, general recognition of cost increases as justification for correspondingly higher prices would undoubtedly result in numerous and significant price advances. Such price increases would raise costs of producing other goods and services and would in turn become the justification for further and more numerous price increases. So long as inflationary pressures remain great, general recognition of increased costs in pricing might readily permit the development of the very sort of cumulative advance in prices and costs which it has been the Government's objective to avoid. Secondly, such a departure from the basic period principle would reduce the incentive to keep costs down, which is an important element in effective price control and is of particular significance in view of Canada's dependence on international trade. In the third place, in permitting higher costs to be generally translated into higher prices the basis of pricing policy would become less and less clear and the difficulty of setting new prices would become increasingly great. Costs are difficult to determine and they are even more difficult to forecast. They vary from one producer of the same product to another; they vary from month to month and in some respects are now inflated by factors which should prove to be temporary. General recognition of cost increases would gradually destroy the basic period anchor of price control and would substitute what would ultimately amount to a system of cost-plus pricing which would be both ineffective and administratively impracticable. Thus, the final objection to departing from the basic period principle is that the Prices Board would be steadily driven toward setting fair rates of profits in each branch of industry and trade—a task which would not only be impracticable from an administrative point of view but which would be inconsistent with the emergency character of the Government's responsibilities in this field.

Criteria for Relief.—It is true, of course, that some cost increases must be taken into account in the administration of a ceiling anchored to basic period prices. When an industry claims that part or all of its production is threatened or restricted by the maintenance of ceiling prices, the Prices Board must examine its case and determine whether or not relief (either in the form of a price adjustment or subsidy) is necessary. But while the Board has authorized a substantial number of price adjustments and subsidy payments in situations where needed production was involved, it has never accepted the mere fact of higher costs as justification for price increases.

It has never been feasible to set out precise formulae covering the standards which are used to determine whether or not relief should be granted and, if so, how much. Many considerations are involved and each case has its own peculiarities, and as pointed out earlier these considerations have been further complicated by the advent of the transition period. The Prices Board works on the principle that basic period prices are to be maintained and discourages applications for relief wherever feasible. Unless the industry concerned can demonstrate financial need, either present or developing, the Board cannot grant relief. Representations that costs have increased or are about to increase are not regarded as relevant except as supporting evidence that the industry is having, or is likely to have, difficulty in continuing its operations. Even when an industry's need of relief is recognized by the Board, it does not follow that sufficient relief will be given to compensate the industry for the full increase in its costs or to place it in a position where it can make "normal" or "standard" profits. In short, unless there are distinctly anomalous circumstances, the Board considers applications for relief in the light of the present or prospective financial position of the industry as a whole, and not on the basis of particular costs or of the profitability of particular types of production within the industry. The difficulty of judging the need for relief has been much increased by the changing considerations of the transition period. In the final analysis, most decisions as to whether or not relief is needed and as to its extent are matters of judgment. This has been the case in the past and will be even more the case in future. Even if all the facts concerning the existing position of an industry are available, and they seldom are, the outlook can only be estimated and the production outlook is more relevant to the case for relief than the current position. That being so, decisions as to relief involve appreciable risks. It is often argued, for example, that failure to provide relief will result in curtailing production. But the mere statement to this effect by the industry concerned, even when supported by detailed operating statistics, is not necessarily conclusive, since it may be used as a bargaining point and may underestimate the ingenuity of the business or take too conservative a view of the outlook for sales volume.

Special Problems of Reconversion Pricing.—The most difficult problems of price fixing are those of determining appropriate ceiling prices for goods whose production has been suspended or sharply restricted by the war program, particularly capital and durable consumers' goods. The problem centres in those industries which have been heavily engaged in war production, many of which are experiencing sharp declines in war contracts. These industries have little or no recent operating experience in making civilian goods on which price fixations may be based, and they frequently claim that the basic period ceiling prices for such goods are no longer relevant. They point to substantial wartime increases in costs, especially in regard to labour, and to the marked reduction in their volume of production resulting from curtailment of war contracts with a consequent increase in burden of overhead charges.

While such considerations cannot be disregarded, they can readily be over-emphasized. It is true that cancellation of war contracts may have the immediate effect of raising unit costs in a number of industries, and its impact will be particularly apparent during the changeover when war production has ceased and civilian production has not yet reached a substantial volume. For some industries, of course, there is no possibility of fully replacing war business with civilian business, though in the majority of these cases the additional investment has been largely financed by the Government or given special depreciation allowances with the result that much of the overhead is not a charge on the business concerned. On the other hand, the curtailment of war output will reduce costs in a number of important ways. Though general reductions in wage rates are not anticipated, real labour costs may be expected to decline, as more skilled and proficient workers from the armed forces and munitions plants return to their civilian occupations, as labour turnover and absenteeism decrease, and as overtime work becomes unnecessary. Furthermore, as was pointed out in the Prices Board's last Annual Report: "cost of some materials, inflated by the necessity of using substitutes or by war risk insurance on shipping, should also decline, and bottlenecks and delayed deliveries of supplies will be overcome. In addition, it is reasonable to expect some reductions in the costs of management, as business gets the opportunity to re-examine its operations and purchasing in the less urgent atmosphere of peace".

In these circumstances, the Government has continued to adhere to the principle of basic period pricing for "reconversion" goods as well as for other goods and services, fully realizing that a considerable number of price adjustments may have to be made without precise or satisfactory criteria on which to base them. Basic period prices are the only practicable anchor for price control short of a system of cost-plus pricing, and the objections to this latter system are particularly great in industries where present costs are frequently inflated and where future costs are so difficult to determine.

It has been claimed that adherence to the principle of basic period prices is too rigid a form of price control to fit the needs of reconversion in that it may hamper business in the development of new and resumed lines. The experience of the Prices Board does not support such arguments. Procedures for relief have provided for flexibility and there is little evidence to support the view that the producer's genuine difficulties have been disregarded. While it is much more difficult to apply these procedures to new and resumed production than to goods that have been produced throughout the war and while the area of judgment is necessarily much wider, the Government is strongly conscious of the necessity of achieving an orderly reconversion and it is fair to say that the tendency is to give the applicant for relief the benefit of reasonable doubt.

Conclusion.—There is no question that the transition has added to the difficulties of administering price control. The Prices Board has to steer a course between the menace of inflationary price advances and the danger of undue price rigidity. It must adhere to the basic period principle for lack of any other workable standard and yet it must permit sufficient relief from the rigid application of the price ceiling to facilitate a smooth and rapid reconversion. It must protect the interests of the consumer without retarding the expansion of civilian production. In the view of the Government, the danger of undue rigidity is not a serious one. Though the needs of the transition and high employment do require a reasonable degree of flexibility, those needs would be badly served by a serious weakening in price control. "To keep up employment in the postwar, the volume of production and sales of civilian goods must be greatly enlarged. To assure a large and continuing volume of civilian production in turn means that prices must be kept at reasonable levels. This is particularly true in a country like Canada which depends heavily on export trade, both directly and indirectly in the sense that the buying power of her domestic market is closely related to the export demands for farm products and for the products of the other extractive industries. To attain a sufficient volume of exports, prices must be competitive. To enlarge the domestic market, for durable goods in particular, prices must not get seriously out of proportion to the income of farmers and other producers whose returns depend so heavily on external demands."[1]

RELATION OF CANADIAN PRICES TO PRICES IN OTHER COUNTRIES

The task of price control in the transition period is further complicated by the fact that the Canadian price level is, on the average, relatively lower than the price levels of the United States and the United Kingdom. Taking the relationships between price levels in the three countries prevailing in 1935-39 as the basis of comparison, it appears that the Canadian price level to-day is roughly 10 per cent lower than that of the United States and considerably more than 10 per cent lower than that of the United Kingdom.

A rough calculation comparing the wholesale price indexes and cost of living indexes, adjusted for changes in exchange rates since the period before the war, is given below for the year 1944. (There has been no major change since.)

COMPARATIVE PRICE INDEXES

(Base 1935–39 average = 100)

—	Canada	United States in Can. $ equivalent	Great Britain in Can. $ equivalent
Wholesale Prices...	133	142	151
Cost of Living.....	119	138	120

It will be noted that, in relation to pre-war, the Canadian index of wholesale prices is 6 per cent lower than that of the United States and the index of the cost of living is 13 per cent lower. The comparison with Great Britain shows a wide difference on wholesale prices and only a small difference on the cost of living. The latter comparison, however, greatly understates the true difference because of the small coverage of the British cost of living index and of the very large subsidies paid to keep down index items in the United Kingdom.

The Broad Problem.—The existence of relatively higher prices abroad is already exercising strong upward pressure on the Canadian price level and in some respects that pressure is likely to increase. If export controls

[1] Quotation from Report of Wartime Prices and Trade Board, January 1-December 31, 1944.

were suddenly removed, and if imports were generally permitted to come into Canada at higher-than-ceiling prices, the pressure of higher external prices would probably wreck the existing Canadian price ceiling. Nevertheless, while recognizing that an immediate adjustment of Canadian prices would have most undesirable results and should be avoided, it must also be recognized that it will eventually be necessary to permit an adjustment of the Canadian price level to the realities of costs and prices abroad in order to permit a removal of controls and greater freedom of trade.

The Canadian position would be particularly difficult if external prices should rise sharply during the transition period. The existing differential is concentrated in the sphere of primary production and, at any event, is not large enough to prove unmanageable. But a 10 per cent or 15 per cent spread as between domestic and external price levels is one thing and a 25 per cent or 30 per cent spread would be quite another. The following comments are made on the assumption that external prices will not get seriously out of hand, i.e. that such a wide differential between domestic and external price levels will not develop. They also assume that the exchange rate will remain at its present relationship with the U.S. dollar and sterling.

General Policy.—In the interests of maintaining an effective system of price control for the time being and of facilitating reconversion and re-employment, a planned and gradual adjustment to external costs and prices is clearly desirable. Such a policy is not only necessary to the maintenance of price control but it also places Canada in a position to utilize more fully the benefits which its relatively lower price structure may offer in the development of export trade. Even more important, the fact that the price level is relatively low in relation to other countries can serve to minimize the depressive effects on the domestic economy of declining prices in other countries if and when such a tendency were to develop.

These contingencies are much more than theoretical possibilities. They are immediately related to the needs and problems of the transition period. There is no doubt that Canada is faced with the necessity of developing larger export markets for civilian goods. Keeping costs and prices down will help. Secondly, there is the possibility that external prices will ultimately decline, perhaps following a short period of rising prices in the early stages of the transition. The readjustment of economic activity from wartime to peacetime conditions has usually been followed, sooner or later, by a decline in prices. It is true that the techniques for preventing such a decline have been greatly developed in recent years and that the will to use them is greater than ever before. It is also true that prices and costs have been less inflated in this war than in any former war. But it would be dangerous to assume that the external price level will not decline to some extent. If that should happen Canada could ease the impact of any such deflation to the extent that she found herself with a relatively lower price level.

For all these reasons any initial and upward readjustment of Canadian prices to external prices should be allowed to take place only gradually and should be consciously planned. To make such a gradual and controlled adjustment involves the continued use of physical controls over exports; it inevitably produces difficult pricing problems with regard to both exports and imports; and it calls for a high degree of judgment and skill. It is, of course, impossible to lay down a blueprint for such a readjustment in advance; decisions will have to be made in the light of circumstances as they develop. The administrative problems involved in pursuing such a policy are discussed briefly under the following three sub-headings.

Export Controls.—The existence of higher prices abroad (particularly in the United States) presents a serious and continuing threat to the maintenance of adequate domestic supplies of a variety of commodities. The U.S. market is so large that it could easily drain away the total supply of many Canadian products, when a significant price differential exists, to the detriment of the civilian economy and, possibly, of other export markets which offered greater prospects of permanence. For this reason, some of the existing controls over the physical movement of exports will have to be continued or newly applied, as the occasion demands. Failure to do this would not only result in depleting domestic supplies but would make price control quite impracticable for the commodities concerned. The Prices Board has cooperated with the Department of Trade and Commerce in removing or relaxing certain export permit restrictions where these have become unnecessary, and the procedure with regard to existing controls has been simplified and improved. It is clear, however, that the Board will have to continue to make recommendations to the Department of Trade and Commerce as to the coverage of export controls so long as the requirements of the civilian population are seriously threatened by the attraction of export prices as compared with controlled domestic prices.

Export Price Problems.—The fact that some external prices are higher than domestic ceiling prices raises some difficult problems of price control. The price ceiling regulations exempt from the provisions of the ceiling all sales made for export by the seller or his agent. This means that the direct or final exporter can sometimes obtain a higher price than the domestic ceiling. In the case of the more or less standardized products of the primary industries, this situation has created strong demands for a sharing of the benefits of higher export prices among all the producers of the commodity concerned, including those individual producers whose output is sold entirely in Canada. As a result, pooling arrangements and other devices, usually combined with control of exports, have frequently been adopted to eliminate the difficulties inherent in a two-price structure and to share the benefits of higher export prices among all producers of the product in question. Technically, such arrangements could be continued in the transition period and present techniques may suffice to meet this kind of situation, though strong pressure will undoubtedly develop to permit the export price to determine the price for the total Canadian output in cases where this has been the traditional state of affairs. Ultimately, the revival of normal international trade, the resurgence of competition, and gradual price adjustments will reduce or remove such discrepancies between domestic and external prices.

Import Price Problems.—The difference between Canadian and external price levels also produces difficult problems in regard to imports. The strict maintenance of existing price ceilings would increasingly have the effect of preventing the importation of a number of imported items that would be purchased if the Canadian importer were allowed to sell in Canada at higher prices. Imported goods are subject to basic-period ceilings in the same way as domestic goods. Since many prices in the United States and the United Kingdom have risen more than Canadian prices it may be difficult and even impracticable for the importer to pay such higher prices and still sell the goods under the domestic ceiling. Up to the present, essential consumer goods have generally been eligible for subsidy in such cases, so that essential supplies have not been excluded by the operation of the price ceiling. At the same time, the supply of goods ineligible for subsidy has not been large because of scarcity conditions in the supplying countries with the result that comparatively few imports have in fact been excluded by the operation of the price ceiling. Now, however, that the war in Europe is concluded and our former suppliers are resuming and expanding production of peacetime goods and are anxious to re-establish their products in the Canadian market, the pricing problem may become more serious.

The Government is naturally concerned to avoid the restriction of such imports. An increase in imports will help to reduce the shortage of civilian supplies. Moreover, the Government had no intention of having price control act as a factor restricting and excluding imports, particularly in view of the two-way character of external trade and the urgent need of sustaining export business. This consideration is of special importance in the case of British imports, taking into account the deficiency in the sterling balance of payments with Canada and the fact that British costs of production appear to have undergone a considerable increase during the war. At the same time, the Government cannot simply exempt imports from the price ceiling since that would gravely weaken, if not destroy, effective control of prices in Canada.

There is no simple method of resolving this dilemma. The increasing use of import subsidies can be ruled out; to pay subsidies to permit the importation of non-essentials would conflict with the policy of minimizing and gradually reducing subsidies, and would give cause for complaints of unfair competition from the domestic producers of similar products. It would be more reasonable to raise import price ceilings, where they were genuinely restricting or excluding imports, than to pay subsidies, not only because of the clear objections to adding to the subsidy bill but also because domestic producers would not be placed at an unfair competitive disadvantage. This latter course, however, might represent a significant breach in the price ceiling even if it were carefully administered and it would obviously add to the already heavy burden of administration. Though it would not result in much increase in the basic cost of living—since the prices affected would be largely for non-essentials—it would undoubtedly add to the demands of domestic producers of similar products for relief from domestic ceilings and would create a precedent which might be difficult to resist.

At the present moment the available supply of imported goods affected by price increases is not significant. It is possible that as conditions abroad become more normal and the supply of goods available for Canada increases, the price disparities which now exist may lessen. The problem, however, is one which is receiving continuous study by the Government.

THE PROBLEM OF SUBSIDIES

Subsidies have been used to a substantial degree to prevent prices, and particularly the cost of living, from rising. At the present time, they are running in the neighbourhood of $200 millions per annum including those paid by the Department of Agriculture and the Wheat Board, as well as those paid by the Commodity Prices Stabilization Corporation. This is a substantial figure, equivalent to more than two-fifths of the Dominion's average pre-war revenues. Assuming that subsidies are the alternative to corresponding price increases, they directly represent the equivalent of nearly 6 points on the cost of living index. The use of subsidies explains in part why the wartime increase in the cost of living index has been considerably less than that in the wholesale price level. There is no doubt, however, that their payment has avoided a much greater increase in the cost of living since, by their use, cumulative advances in prices and costs have been prevented both in the sense that they have been largely paid at the earlier stages of the productive process, and in the broader sense that they have been the emergency weapon which prevented the spiral of higher prices, higher wages, higher costs, higher prices and so on from gaining momentum. Furthermore, by their contribution in checking an inflationary spiral of costs and prices, they have helped to reduce the money costs of financing the war by much more than the expenditures involved in their payment.

The Nature of the Problem.—While subsidies have been a useful and, indeed, indispensable means of preventing inflation, their use on a large scale creates serious problems, both from a short-run and from a longer-range point of view. In the first place, they encourage the false impression that inflation can be prevented in a painless fashion: that particular groups can get larger incomes without prejudicing the stabilization program and without affecting the position of the rest of the community. The facts are, of course, that subsidies add to purchasing power and thus increase pressure on the price ceiling; that, if not carefully limited in application and amount, they would set a damaging precedent which would multiply demands for assistance; and that since the total supply of civilian goods is limited by shortages of materials, facilities and manpower, they only add to one group's buying power at the expense of other groups. In the second place, they create artificial price and income relationships which it may not be feasible or desirable to maintain indefinitely. By holding prices to the consumer down and by keeping income to the producer up, the effect of subsidies may be to give both groups an unreasonable idea of what to expect in future. While the subsidy technique may have some longer-range utility, its use on anything like the present scale involves major interference with the competitive price system and government regulation of a variety of international transactions. In the third place, subsidies like tariffs create strong vested interests. They are therefore difficult to decrease or remove, and the longer they are maintained the greater the difficulty. Finally, their existence obviously complicates the problem of price decontrol.

Proposed General Policy.—It is for such reasons that subsidies should be held down and reduced just as promptly as is feasible now that the transition period has begun. While it is quite easy to state this policy in such general terms, its application is difficult and calls for careful timing. On the one hand, a sudden removal of subsidies in the present circumstances would undoubtedly result in a substantial increase in living costs and in combination with the various other pressures on the price ceiling might make it impracticable to maintain a workable system of price control at all. On the other, undue caution in removing subsidies would delay decontrol and might result in very strong pressures to continue many subsidies indefinitely.

If subsidies were taken off too soon, their removal would encourage or precipitate inflation, but if taken off too late the result might be to aggravate deflation. To take the subsidies off when the general demand for goods is strong would mean that most of the formerly subsidized commodities would rise substantially in price, which in turn would raise costs, with further effects on prices. But to take them off when demand is contracting would mean that the recipients would have little chance of recouping this loss in income by raising their prices. Therefore, the time to reduce and remove subsidies is when the inflationary pressures are beginning to ease. It would not matter greatly if the removal of subsidies caused some price increases provided that prices generally were not pushing strongly upward and provided, of course, that such increases were limited by the fixing of appropriate new price ceilings. Again, it is quite apparent that the removal of subsidies will be a question of timing in which good judgment must play a major role. The choice of the particular time for the removal of the particular subsidy depends upon a variety of considerations and must largely be left to the appropriate administrative agency. The probable conditions and problems vary with particular kinds of subsidies, and are briefly discussed in the following notes.

Import Subsidies.—Such subsidies, including trading losses on bulk purchases of imported commodities, have been running at about $60 millions per annum. They are paid mostly on materials, of which cotton and petroleum involve the largest payments, but which include a variety of other industrial raw materials, foodstuffs and fuels. The need for them arises from war-inflated shipping costs, from having to turn to more expensive sources of supply because of shipping shortages and enemy conquest of territory, and from rising prices in the countries of origin. These higher costs are at least in part temporary. Shipping costs have already declined substantially as war-risk rates have been reduced and removed, and the probable surplus of shipping following the defeat of Japan may have a strong depressing influence on rates. The opening up of sources of supply which have been or still are occupied by the enemy may be a slower process but as soon as shipping becomes more freely available a number of less expensive sources of supply for a number of materials will become accessible. The extent to which raw material prices may be expected to fall is a more difficult question on which to hazard a guess. In the case of some commodities relief and reconstruction demands will be large, which will help to maintain prices. Nevertheless, as more shipping becomes available and more distant supplies enter the market, competition for markets will increase and some raw material prices may be expected to fall.

Import subsidies and bulk purchasing losses are therefore declining and may be expected to decline further. It cannot be anticipated, however, that they will all automatically disappear. Some will tend to stick and, indeed, the more successful Canada is in keeping prices down the larger will be the residual import subsidy problem. With this in mind, the Government has advised the Prices Board to attempt to eliminate import subsidies just as promptly as possible when the pressures on the price ceiling begin to ease, in some cases at the cost of upward price adjustments. It will be readily apparent, however, that some subsidies must be maintained in the interest of price control for some time.

Agricultural Subsidies.—These subsidies, including the Wheat Board's losses in reselling wheat for domestic consumption, have been running at an annual rate of roughly $100 millions. They include large subsidies on milk, butterfat, feed grain transportation, hogs, and the rebate on wheat for domestic use. They are mainly under the jurisdiction of the Department of Agriculture and the Wheat Board. The Prices Board's interest in them lies principally in their effects and potential effects on prices and living costs. Since they apply to some of the most important foods in the family budget, increases in the price of which would have a marked inflationary effect, changes in such subsidies will require careful consideration.

Consumer Subsidies.—These are the special subsidies paid to reduce the cost of living, instituted in December, 1942. At the present time their annual cost is running at something over $20 millions. Milk is the principal item, costing about $20 millions per annum and trading losses of something less than $2 millions are involved for coffee and tea. The Prices Board has already removed the orange subsidy, which was part of the original scheme, on the grounds that United States prices were under control and that sufficient leeway existed in the cost of living to permit the small increase involved.

The milk subsidy is difficult to administer, covering as it does payments to many thousands of operators, and its removal would have no secondary effects on production costs provided that other factors were not increasing the cost of living. On the other hand, the removal of the subsidy would have an unfortunate effect on the cost of living, unless other prices were beginning to decline.

Other Domestic Subsidies.—These are of many kinds, though the majority of them are traceable to higher costs of primary materials, e.g., those on canned fruit and vegetables, leather, footwear, lumber, woodenware, wood fuel, and coal. They cost about $20 millions per annum. Each one is a separate problem and no one of them is so large as to raise insuperable difficulties in its removal. It is hoped that it will be feasible to remove most of these subsidies fairly early in the transition period—as soon as a little slack occurs in the cost of living and the particular circumstances of each subsidy permit. Indeed, some such subsidies have been removed already and others are receiving special study with a view to their early elimination.

The Form of Price Decontrol

The most important aspect of price decontrol is the task of reaching a position in which ceiling prices are fairly well in line with "open market" prices without permitting any serious inflation in prices and costs. This aspect of the problem has already been discussed in considerable detail in the foregoing pages. It remains to survey briefly the manner in which the price ceiling might be removed.

The Over-all Ceiling versus Selective Control.—At the outset, it should be emphasized that the Government believes that the over-all ceiling method of control should not be abandoned for the time being. It could be suggested, for example, that price control might be confined to a narrower field now that the war in Europe is over, concentrating on the items which bulk large in the current cost of living. While the Prices Board has always given special attention to such important items, the Government does not believe that the time is appropriate for any major departure from the over-all ceiling. To maintain a firm system of control over industries designated as producing the essentials of life and at the same time to allow other industries freedom to bargain for higher prices would involve serious discrimination between one industry and another. All business benefits from price control and it is reasonable that business generally should accept the limitations on freedom of bargaining which price control necessitates. Moreover, because of the discrimination involved in such a change, the administration of price control would become extraordinarily difficult. Indeed, it may be questioned whether it would be possible to pursue a firm control of some prices if control were to be taken off many other prices, at least so long as widespread opportunities to obtain higher prices existed. Finally and of greatest importance, the removal of price control on non-essential goods and services would open the door to a large number of price increases based on temporary conditions of shortage, which would limit future domestic and export market opportunities and, because of the rigidity of the prices of many durable goods, aggravate the problem of subsequent readjustment.

Possibilities of More Flexibility.—Without changing the general character of price control it may still be feasible gradually to introduce more flexibility into the price structure by relying more on the retail or "final purchaser" ceiling and less upon formal ceilings at the manufacturing, primary industry, and importing levels. The retail or final purchaser ceiling has always been the ultimate and most important line of defence against inflation and a variety of adjustments and "squeezes" have been permitted in the earlier stages of the production process. While it would be inadvisable to permit general freedom of bargaining below the retail price level at the present time, there are some cases where this policy might be followed without undue risk and may indeed be the only feasible course from an administrative point of view.

The Difficulty of Piecemeal Decontrol.—The decontrol of prices will involve some risks. This is particularly true of retail or "final purchaser" ceilings since these represent the ultimate line of defence. It is not easy to judge when price control over a single commodity can be safely removed—the appearance of some unforeseen obstacle to the expansion of production or some unexpected increase in demand, possibly resulting from a shortage of another commodity used for similar purposes—might result in a substantial price increase. Moreover, the removal of price control over a particular article is likely to lead to prompt demands for freedom of bargaining on the part of producers of similar or competitive articles, which would obviously become very strong if the price of the released article rose above its former ceiling while manufacturers of competitive products were still held to their ceilings. Even if there were no significant price increase for the released article, the freedom to rearrange the price structure concerned, untrammelled by basic period prices, would be regarded by many manufacturers still subject to price control as a very real advantage. There is the further difficulty that ceilings once removed would be extremely difficult to reimpose both from an administrative and public relations standpoint.

For these reasons, the Government believes that it should move carefully in eliminating price ceilings. Where price increases are clearly necessary, price adjustments will be permitted but in most cases ceilings should be raised and not removed. If ceilings for particular commodities were continued longer than ultimately proved necessary, no harm would result since if the ceiling were not needed it would mean that prices were "afloat" and not significantly restricted by it. When ceilings are removed, it will frequently be desirable to take them off for whole groups of commodities at once: indeed, a theoretical case can be made for not removing any of the important ceilings until the whole structure can be eliminated. Though that is an extreme view, it would clearly be more feasible to judge whether, for example, the whole textile position has reached a point where ceilings are no longer needed than it would be to decide upon the appropriate times for removing ceilings item by item. Such a procedure would also greatly reduce charges of discrimination. Furthermore, it would provide for more flexibility because it would not be necessary to wait until the danger of price increases was overcome for every last item. When, for example, it is reasonably clear that textile prices *on the average* are unlikely to increase over the ceiling levels, then freedom of bargaining for the whole group could be restored even though in a few instances price increases were to be expected. On the other hand, there may be instances where for administrative reasons, it will be necessary to remove a particular commodity or service from ceiling control before other related items can be released. In this sphere, as elsewhere, the Prices Board will have to feel its way experimenting with various techniques and guided by the broad objectives of preventing inflation and facilitating reconversion.

3. SUPPLY AND DISTRIBUTION

The Nature and Development of Supply and Distribution Controls

As an integral part of the task of preventing inflation and economic dislocation, the Government has the additional responsibility of ensuring that the essential requirements of the civilian population are met. To make sure that enough of the essential goods needed by the public are actually produced or imported, and that goods in short supply are equitably distributed, the Prices Board has had to develop a variety of supply and distribution controls. Such measures, which were necessary in themselves, are closely related to control of prices since without sufficient production to meet the essential needs of the population and an appropriate distribution of materials and finished goods in short supply, price control would be out of the question.

Types of Control.—Through the agency of the Prices Board, the Government administers the following general types of control:

(*a*) Some imported and domestic materials in short supply are allocated by the Board in such a way as to ensure that producers of the more necessary civilian goods have priority. This sometimes takes the form of a developed allocation or priorities scheme and in some instances is carried out informally by the Administration concerned.

(*b*) Specific arrangements are made for the bulk-purchasing of needed imports. Arrangements are also made with various international agencies for the Canadian share of world supplies of scarce foods and materials.

(*c*) The production of adequate minimum supplies of certain important civilian items (notably textiles and clothing) is assisted by a system of production directives.

(*d*) When essential production of civilian goods is impaired or threatened by shortage of labour, the Prices Board acts as a claimant agency for special assistance before National Selective Service and has also advised manufacturers as to methods of improving the use of existing labour and of reducing labour turnover.

(*e*) In the sphere of distribution, both at the trade level and at the consumer level, Government regulations are designed to ensure that available supplies are equitably and effectively distributed. The policy of equitable distribution, sometimes supported by directives, and the various forms of consumer rationing are the chief instruments used.

(*f*) The production of essential civilian goods and of munitions has also been supported by a number of purely restrictive measures which limit or prohibit certain less essential activities and restrict the establishment and extension of businesses. This kind of control has included regulations restricting or prohibiting the production of specified finished goods, particularly in the metals field, standardizing or simplifying the types of production, and eliminating "frills" and unnecessary forms of services.

Extent of Government Responsibility.—Apart from the last-named type of control, the Government's activities have been of a positive rather than a negative character. It is the responsibility of the Prices Board to take all feasible steps to assure a sufficient supply of goods and services to meet the *essential* needs of the civilian population. It is not the Prices Board's responsibility to say what shall not be produced except when it is clear that the production of non-essentials is preventing the output of a sufficient supply of essentials. Thus, the bulk of the Board's work in the sphere of supply takes the form of actions designed to facilitate needed production, through the allocation of materials, through procurement of materials from abroad, through application to National Selective Service for labour assistance, and sometimes through specific direction of production.

The Prices Board's responsibilities for civilian supply have never been defined in detail, and it is probably impossible to do so. But because there is no precise definition of responsibility, there is often a tendency to assume that the Government is responsible for civilian supply in all its manifold aspects and particulars. This is not the case. The Government's responsibility is limited to assuring sufficient supplies to provide for the *essential needs* of the civilian population. It is true that these essential needs cannot be expressed in exact amounts, because there are a variety of ways in which they can be met—e.g. people can do with less pork if there is sufficient beef and they can get along with fewer rayon stockings if cotton stockings are available—and because the amount of production required depends in part on the way in which it is distributed—e.g. if a strict rationing scheme is in force less production might be required than if the product concerned were freely distributed. It is also true that essential needs vary to some degree with the particular circumstances of the times; for example, the production of materials for housing could scarcely be regarded as a prime essential when manpower was so desperately needed for the munitions factories and for the armed services whereas at present such production has a very high degree of essentiality. But, though the border line of the Government's responsibility cannot be clearly defined, it does not extend to seeing that people get exactly what they want or all they want. The Prices Board has no mandate to plan all civilian production or to devise schemes for apportioning supplies which are not genuinely needed.

Recent Changes in Controls.—Since the latter part of 1944, the Prices Board has progressively relaxed or rescinded many of its supply controls, particularly those of an essentially negative character which had largely been imposed in the almost desperate circumstances of 1942 and had frequently become redundant with the development of more direct controls over the use of materials and labour. A number of controls were removed in the late Summer and Fall of 1944 and many more eliminated just after V-E day.

As early as last Summer, the Prices Board announced, with Government sanction, that it would remove and relax restrictive measures just as promptly as feasible with a view to assisting producers to plan for reconversion and permitting them to resume and to expand civilian production as soon as materials and labour were available. Thus a variety of orders restricting and prohibiting production of particular articles and kinds of articles has already been removed, especially in the sphere of metal goods where the most severe restrictions had prevailed and where the reduction in war contracts had the most significant effect in releasing metals and plant facilities. The removal of such restrictions, of course, did not assure increased civilian production—that depended upon the availability of labour and materials and upon the controls exercised over them.

In addition, the controls over commencement and expansion of business enterprises were greatly relaxed in 1944. Under present arrangements applicants are given permits to commence business except in those cases where the proposed activity is still prohibited by other regulations or where necessary materials are extremely short and a strict quota system is in force. Again, this does not mean that new entrants will avoid supply difficulties. Indeed, where shortages exist the equitable distribution policy (based generally on the pattern of distribution in 1941) applies, which means that new enterprises are not entitled to a share of many scarce items.

The more important of the supply and distribution controls still in operation are in such form that they are largely self-liquidating; that is, since they are concerned with the allocation or distribution of raw materials and finished goods in scarce supply, they will cease to be necessary or significant just as soon as supplies become adequate to meet demands. Allocation and distribution regulations and direction of production have no purpose when shortages are overcome and, similarly, at the consumer level rationing is unnecessary when the supply situation improves to the point where consumer demands can be met reasonably well.

Supply and Distribution Controls during the Transition

While supply controls are being steadily reduced, and the purely negative controls rapidly eliminated, some controls will have to be continued until the end of the Pacific war, and a limited number may have to be maintained even longer. Since the duration of shortages cannot be accurately determined, it is not possible to specify in detail which commodities or services are likely to remain under control, though it is worth noting that there is no present indication of an early solution to the existing shortages of textiles and foodstuffs. However, it is feasible to outline the considerations which should determine whether particular kinds of control are continued or shortly removed.

The allocation of materials and component parts.—Though the decline of war production will progressively release large quantities of certain materials (especially metals) and will more gradually make available component parts for civilian production, some shortages remain acute and some may even continue after the defeat of Japan. The shortage of certain imported materials, such as fats and oils, fibres, tin and natural rubber will continue for a considerable time. The needs of liberated countries will prolong the shortages of a variety of commodities, such as sugar, meat and textile fabrics.

Since Canada is dependent upon imports for so many important raw materials, the availability of many supplies will be governed by considerations outside of Canadian control. Moreover, as a condition of obtaining her fair share of such imports and as a contribution to international reconstruction, Canada may see fit to limit her domestic use of certain widely needed Canadian commodities for the time being. International arrangements for the disposition of basic materials may continue to be made for a time by the Combined Boards in Washington. So long as such supplies are seriously inadequate to meet domestic demands, the need to apportion them among the various Canadian claimants will remain; indeed, a system of domestic allocation may be a condition of an international arrangement to distribute scarce materials.

Domestic allocation of supplies as between manufacturers has the double objective of ensuring a sufficient production of essential articles and of providing for an orderly and, to the extent that it is consistent with the provision of essential needs, an equitable distribution of the supplies concerned. So long as supplies of particular materials are not sufficient to permit unrestricted procurement and still safeguard the consumer's interest, allocation and priority arrangements will be needed. As supplies of particular materials improve such controls can be readily eliminated, commodity by commodity or arrangement by arrangement.

Bulk Purchasing.—The bulk purchasing activities of the Commodity Prices Stabilization Corporation in the international field have been made necessary by the special circumstances of a world at war. In a considerable number of cases (e.g. tea, hides, jute, oil seeds and fats) the Corporation has purchased the Canadian requirements of goods subject to international purchase or allocation agreements. In these cases bulk purchasing, as distinct from the operations of private purchasers, is necessary to enable the terms of an agreement to be carried out. (Such agreements, in turn, are usually necessary to make the most equitable use of available world supplies.) Alternatively, bulk purchasing procedures have often been undertaken simply as a condition of obtaining an allocation from the government of the country in possession of supplies. Or they may have been introduced to secure advantages from large-scale buying, or where an emergency purchase is possible only by a government agency. Insofar as these considerations continue to apply, the Prices Board's responsibility for ensuring minimum supplies of essential materials and for controlling prices will require the continuance of bulk purchasing. However, as supplies abroad become sufficiently plentiful to be removed from international or external control, the responsibility for imports can be turned back to the importing trades; indeed, this has already been done in some cases. In the same way bulk purchases undertaken to facilitate procurement of shipping space can be relinquished as the shipping situation improves. While the possible continuance of bulk purchasing would not appear to raise any constitutional problem in itself, it should be noted that the bulk purchasing activities are frequently and necessarily supported by measures to control the subsequent allocation of the materials in question.

Import and Export Controls.—The system of import and export controls operated by other agencies of government in wartime has been extended or amended from time to time on the advice of the Prices Board. Since these controls are an important feature of the Board's arrangements for the protection of domestic supplies, some reference to them is necessary. Export controls, which usually involve the prohibition of exports except under permit, are sometimes necessary to ensure that domestic supplies are not depleted by an excessive export drain. As pointed out earlier, the problem is of particular importance because prices have been maintained at a level which in some cases is low in comparison with other countries and because of Canada's proximity to the enormous consuming market of the United States. From a supply as well as from a pricing point of view, the removal of export controls will have to be undertaken with care, i.e. with due regard to the probable effect on domestic supplies.

Import controls are another matter. The general interest of the Government in wartime has been to keep import controls at a minimum. In those cases where commodities have been placed under import control on the recommendation of the Prices Board, such action has been necessary to ensure that allocations made by external agencies have been used effectively (e.g. import controls on cotton and woollen materials), or as necessary to the proper supervision of a system of domestic allocations. Such special controls over imports can, therefore, be removed as soon as these particular shortages are eased.

End-Product Restrictions.—As mentioned earlier, the Prices Board has already gone a long way towards the elimination of its restrictions on the production of particular articles and kinds of articles, often known as end-product restrictions. A few measures of this type may continue to be necessary. If, for example, the supply of clothing continues to fall far short of demand it might be necessary to continue to prohibit certain avoidable fabric-wasting practices, and it is even conceivable that the present limited regulations of this type might have to be extended. A few other end-product controls may be continued until the parallel controls in the United States (from which country Canada has to import essential components) have been abandoned. By and large, however, it is to be expected that this type of restriction will occupy a minor and steadily diminishing place in the Board's activities.

Production Directives.—A more positive and effective method of ensuring essential supplies of particular articles is the production directive. These directives require each manufacturer to produce a specified amount of the article concerned, based on past performance and existing capacity, and designed in the aggregate to sustain or increase the total current scale of production. For its part, the Prices Board takes steps to assure the required amount of materials and when necessary applies to National Selective Service for assistance in obtaining and keeping labour. At the present time, production directives apply to many kinds of footwear and to many articles of clothing and indeed cover the majority of necessary apparel. Though they represent a large administrative task, they have the advantage of concentrating directly on what is needed. By channeling materials into essential production, they frequently have the indirect effect of reducing non-essential output without the use of specific and inhibiting restrictions.

Here again, increasing supplies of materials and labour will gradually remove the need of such directives, though at the present time the world-wide shortage of apparel shows no sign of early correction.

Distribution Controls.—Controls over the distribution of goods from the point of manufacture or production down through the distributive trades constitute an important segment of the Prices Board's activities. It is not enough to see that the domestic production or imports of a commodity are adequate to meet essential requirements of the civilian population. The next step is to see that wholesalers and retailers and ultimately consumers in all parts of Canada can buy their fair share of what is available. This means that the distribution of goods throughout the various regions and districts of Canada, and through the various types of retail outlets, must be fair and equitable. In extreme cases it means that formal consumer rationing is necessary. Without such equitable distribution relatively small overall shortages might result in extreme hardship and inequity to some distributors and consumers, besides creating pressure on the price ceiling.

Apart from articles which are rationed, goods in short supply are required to be distributed by manufacturers and wholesalers among their various trade customers in accordance with the pattern of distribution in 1941, as laid down in the Prices Board's statement on Equitable Distribution Policy. Adjustments to the basic formula are made by the Board in special cases, and interpretations of the policy in specific cases are necessary from time to time. This form of control has proven itself elastic enough to meet most situations and has involved a relatively small amount of enforcement and supervision. In the nature of things this type of control can and will automatically disappear as supplies improve.

Experience has also shown that when prices are controlled there will be occasions when, despite the allowances that are made for regional differentials to meet the costs of additional transport, the price incentive to move goods in short supply from surplus regions to deficiency areas is not always adequate. Consequently, the Prices Board sometimes finds it necessary to direct and supervise the physical movement of certain commodities (e.g. butter). Such direction or supervision is usually undertaken in an informal manner, informality being more appropriate to the variety of situations which arise from time to time. However, the effectiveness of such informal directives is undoubtedly increased because of the power which the Board has to compel enforcement if this should prove necessary.

Consumer Rationing.—The necessity for distributing certain essential consumer goods which are in short supply by one form of rationing or another is widely appreciated. On the other hand, the inconvenience to the consumer and to the distributive trades, the expense to the Treasury, and the administrative burden are such that the Government has always avoided consumer rationing unless the need was clear and less elaborate controls inadequate. Consumer rationing necessitates control over the flow of goods between manufacturers or producers and the distributive trades, in addition to control at the consumer level. Thus producers and distributors are required to account for the disposition of rationed goods by the surrender of the appropriate documents or coupons and by periodic reporting upon their dealings. Quota systems are frequently necessary to control the amount which may be sold to particular classes of customers (sugar rationing, for example, involves a whole system of distribution quotas for industrial users, restaurants, etc.).

At the time of writing the Prices Board operates some form of consumer rationing for butter, evaporated milk, sugar, preserves, farm machinery and a few other products, and meat rationing is about to be re-introduced. While some of these items may have disappeared from the ration list before the end of hostilities, others may have to be continued beyond the end of the Pacific war as, for example, some forms of food rationing.

For some commodities (e.g. sugar) the need for continued rationing will be dependent upon the external supply situation. For other food products, such as meat, the amount available in Canada will depend upon the extent of Canadian shipments to the United Kingdom and of participation in arrangements to supply relief to the liberated areas of Europe and Asia.

4. RENTALS AND REAL PROPERTY

Rental Controls

Rental controls are an integral part of the Government's price control policy. They are dealt with separately since they have presented special problems of control and since the criteria and methods of decontrol may differ in some respects from those involved in removing controls over the prices of commodities.

Development of Rental Controls.—Rental controls were originally introduced in Canada during the Autumn of 1940 and were, at that time, confined to certain areas where an influx of war population had resulted in serious housing congestion. This action, involving the establishment of a "ceiling" at the levels prevailing on a specific date, set the pattern for the general system of rent control which is now in effect. Additional localities were brought under rental control from time to time and before the introduction of the general price ceiling, the control of rentals of residential premises had been extended to a large number of Canadian cities and towns.

Among the reasons for controlling rents as early as 1940 were indications of coming rental inflation together with the fact that rent is generally the largest single item entering into a family's "cost of living", where it is considered to represent about 20 per cent of the total. It was fully recognized by the Government that rent control would do nothing to increase housing accommodation but, with a scarcity of both labour and materials for building, it was unlikely that even substantial increases in rentals could have done much to add to the wartime supply of houses. In the circumstances of wartime congestion, the supply of housing accommodation and the general level of rents were regarded as separate problems and it was left for other government agencies to assist in the provision of temporary wartime housing accommodation where such action was deemed advisable.

Rental control was associated from the beginning with measures to protect law-abiding tenants from eviction except where the landlord needed the premises for his own occupancy or for certain other designated purposes. The inclusion of clauses to protect the tenant was based upon the general experience of countries which had restricted rentals during the war of 1914-18. It had for its main objects (1) the prevention of evasion or breach of the rental regulations themselves and (2) the prevention, as far as possible, of disturbance and expense caused by involuntary moving.

If rentals were to be fixed, it was almost inevitable that they should be fixed as of a fairly recent basic date and not by means of a formula designed to yield some given rate of net return to landlords. Any such formula would have involved administrative difficulties and tasks which would have been quite out of the question in time of war. On the other hand, the rental existing on a basic date not too far in the past had the administrative merit of being a definite fact easily ascertained and providing a comparatively simple criterion for enforcement. It had, in addition, the advantage of being an amount upon which landlord and tenant had agreed at a date before wartime congestion became a serious factor. For these reasons, notwithstanding the recognition of occasional "hard cases", the maximum rentals established in many countries during both the first and the second Great Wars have been based in general upon those actually prevailing at some selected date, and Canada followed the same method. Adjustments were permitted in certain types of cases recognized as exceptional.

With the introduction of a general price ceiling, the controls over rents were extended to all real property other than farm land, including commercial as well as residential premises. Under this extended rental control, it was provided that the maximum rental which might be charged for any commercial or housing accommodation was the rental in effect on October 11, 1941, with the exception that rental controls already in effect retained their previous basic dates.

Special circumstances which justified the landlord in applying for permission to increase the rental charged were itemized and fell mainly under four headings: (1) substantial increases in taxes on the property; (2) added service not previously given by the landlord; (3) substantial structural alterations; and (4) lower fixed rent than generally prevailing because of a concession of an exceptional nature.

Tenants were given greater security of tenure and landlords might only give notice to vacate for certain prescribed reasons. These reasons included non-payment of rent, conversion of premises to uses other than housing or major structural alterations, and expected occupation by the landlord or some member of his immediate family. As a means of lessening unnecessary moving, promoting the enforcement of rentals regulations, and discouraging further increase of overcrowding without undue interference with the rights of existing landlords, additional security was later given to existing tenants by measures extending the length of notice which must be given by any new purchaser seeking possession of a dwelling purchased for his own occupancy.

The congestion of population which originally led to upward pressure on housing rentals and thus gave rise to rental control, continued to develop during the war, as a result of the expansion of war industries, the continued movement of military and administrative personnel into urban centres, the increase in family incomes, and the limited facilities available for residential construction in time of war.

The Need for Rental Controls during the Transition.—The termination of hostilities may alter some of the circumstances leading to upward pressure on rentals. Cutbacks of munitions contracts will reduce employment in a number of factories and may lead to some migration of population out of congested centres. The number of administrative personnel required in the cities may be somewhat reduced. In addition, the contraction of war activity will reduce family incomes in a number of centres, reflecting transitional unemployment, reduced hours of work, and reduced overtime premiums.

But, despite such developments, it is likely that the shortage of housing will remain one of the most serious and persistent problems of the transition, outlasting shortages in most other spheres. The reasons for this lie partly in the very nature of housing—that the total supply can be increased only very gradually even when the rate of new construction is high—and partly in the particular circumstances of the existing situation. To start with, the supply of housing was inadequate when the war began: the level of new building had been very low during the 'thirties and it was only toward the end of the decade that recovery in construction began to gather way. This position has been worsened during the war by nearly six years' natural increase of population, concentration in urban and military centres, and scarcity of labour and materials for residential building. A large backlog of demand for housing undoubtedly exists and a good deal of it is likely to seek realization in the near future. For example, the impending return of several hundred thousand service personnel to civilian life, accompanied in thousands of cases by wives from overseas, may present an acute problem. Many new marriages and an accelerated natural increase are to be expected in Canada after the war. Many wives now living in the parental home or in shared accommodation will rejoin their husbands and will want self-contained accommodation.

Such increases in demand may be counteracted to some extent by the return of some war workers from their present residences to the places from which they came: but such outward movement from congested areas is not likely to be rapid or large. Those persons who have become accustomed to city life may be slow to consider returning to the farm, where increasing mechanization and efficiency has continued to reduce the need for their services. For those who have come from smaller communities, Government policies designed to achieve high employment and unemployment insurance will delay movement out of the cities. Moreover, even smaller towns where war activity has been small or lacking report congestion. During the war a number of older farmers have retired to nearby towns, and in western Canada, many farmers who are still active on the land have purchased homes in the towns in which to live during the winter months. Hence it is likely that, if employment and farm income is reasonably well maintained, the demand for housing may increase on balance for at least two or three years, and perhaps considerably longer.

Moreover, it may take some years before additions to the supply of housing can fully meet the heavy prospective needs for accommodation. The shortage of labour for building will no doubt be relieved by the release of skilled workers from the army and munitions work, but the process will take time. It will also take some time to make good the shortage of materials, some of which, such as lumber, will be subject to export demand for construction in Great Britain and elsewhere.

The experience of this and other countries after the last war gives added point to risk of rental inflation in the near future. Though rentals in Canada and the United States increased relatively little during the last war, they rose sharply after the war and by 1923 were about 50 per cent higher than in 1918. The rise was greatest between 1918 and 1921 continuing more gradually thereafter. In the United Kingdom an increase of 40 per cent was authorized in controlled rentals after July 2, 1921, and when such houses were subsequently decontrolled it is reported that their rents on the average showed a further increase of 30 to 50 per cent above the previously controlled level.

Effects of Rental Control.—So far as tenants are concerned, there can be no doubt that wartime rental controls have had the effect of holding rentals at a lower level than they would have reached in the absence of regulation. At the same time, law-abiding tenants receive a large measure of protection against arbitrary termination of their leases, and in general enjoyed greater security of tenure than they had possessed under provincial laws in time of peace. The landlord's right to recover possession of his property for his own occupancy is restricted by the requirement that he must give a prescribed notice which was in many instances longer than that originally stipulated by provincial law or the terms of his lease. The fact that a number of families, who would have preferred to be tenants, reluctantly chose to purchase homes in order to obtain the kind of accommodation they desired, resulted not from rental control but from the insufficiency of the supply of housing to meet wartime demands, and this condition in turn resulted mainly from the necessity of giving priority to other demands for labour and materials.

From the point of view of landlords, rental controls have of course prevented them from increasing their incomes to the extent that would otherwise have been possible, and in some cases has resulted in a "squeeze" between increased operating expenses (for such things as fuel and janitor service) and fixed rentals. There have, however, been important counteracting influences, notably the absence of vacancies and bad debts and the reduced frequency and extent of decoration and repairs. While there are considerable differences among different properties, sample studies indicated that for landlords in Canada as in the United States such favourable influences somewhat outweighed the unfavourable ones with the consequence that net operating results in general have shown some improvement since the period prior to the imposition of control. Furthermore, landlords who preferred other forms of investment have found a ready market for the sale of their properties outside of price ceiling restrictions, and the prices realized on such sales appear to have been, on the average, very substantially higher than could have been obtained before the war.

There is little reason to believe that new construction has been restricted by rental control. Single dwellings in Canada are usually constructed with a view to owner occupancy. Where it has been proposed to construct new buildings for rental, the rentals have in general been fixed at such a level as not to discourage the proposed construction. The major obstacle to construction throughout the European war continued to be the scarcity of labour and materials, a condition which higher rentals could have improved but little and probably only at the expense of more urgent production.

From the point of view of anti-inflation policy as a whole, rental controls, affecting an item responsible for approximately one-fifth of the average tenant family's budget, undoubtedly contributed an important stabilizing effect and helped to support other parts of the program.

Criteria of Decontrol.—In planning for the decontrol of rentals, the following main objectives require consideration:

(*a*) The first is the necessity of keeping the cost of living under control so long as the danger of inflation persists. A sharp increase in rentals would raise the cost of living very considerably. It would not only be inflationary in itself but it would also be taken as an example by other groups in the population who have been subject to the restrictions of price and wage controls. If the cost of living is allowed to get out of hand during the immediate postwar period, much that the people of Canada have struggled during the war to maintain would rapidly be lost. Postwar inflation would impair home and export markets, increase the cost of government, worsen the position of the recipients of fixed incomes (including the holders of Victory Bonds), destroy confidence, and lead in turn to subsequent disastrous deflation. A postwar rental inflation in particular, though it might lead to an immediate boom in construction and realty prices, would very probably be followed soon afterwards (as has happened before) by a buyers' strike and by depression in the building industry.

(*b*) Another important consideration is the desirability of providing tenants with reasonable protection from eviction at a time of acute housing shortage. Such protection, which serves as a device to assist in the enforcement of the rental ceiling, is also an object of importance in itself. The danger of eviction in a community where housing is in short supply is one which no tenant can contemplate with equanimity, and extensive evictions in such a community could easily lead to actual public disorder.

(*c*) It is most important that neither rental control nor any governmental policy should be administered in such a way as to restrict building construction especially in view of the large accumulated deficit of housing. Housing construction may, however, be promoted by methods other than the removal of rental controls, which method might, as already mentioned, defeat its own objective by promoting a short-lived boom followed by a buyers' strike and depression. Other methods available include the operations of the National Housing Act which, by low interest rates and long amortization periods, has reduced the cost of building. Improved methods of construction and larger scale production of components, would also help to bring about further reduction of costs.

(*d*) The legitimate interests of landlords should be given due attention. Since a good half of the families in this country may continue to live in rented dwellings, it follows that the rentals obtainable for new housing should be such as to give a reasonable return on investment, if private enterprise is to be expected to continue to provide such housing.

(*e*) As emphasized in the discussion of pricing problems, questions of employment must be a major consideration in decontrol policy. Employment in the building trades is of great significance both because of its potential size and because construction is generally considered to have a strong "multiplier effect" upon the national income.

Possible Courses of Action.—Planning for decontrol should be carefully tested by the criteria outlined above. These criteria clearly rule out any sudden and complete removal of rental controls in the near future. Such a step would in all probability be followed by drastic increases in rentals as quickly as existing leases might permit. Such increases in rentals would stimulate residential building and purchases both by tenants and speculators. It is likely, however, as already suggested, that there would soon be a reaction. The demand for building materials and services would tend to force costs and prices up, a development which would in turn lead to postponement of further projects and slackening in the construction industry. At the same time, rising rentals would cause people to lessen the amount of space occupied, thus reducing the demand for housing. The building boom would, therefore, probably be followed in a short time by a new period of depression and deflation in the construction industry.

It therefore appears that decontrol of rentals should be undertaken in a gradual manner, and several different methods have been proposed. One is to set up appeal tribunals in each locality, which would be authorized to readjust the authorized rentals for individual properties according to their own judgment. Such a plan would provide means for rectifying anomalies, but it would necessitate the erection of a large new administrative mechanism, involving a substantial amount of labour and expense. It would entail a multitude of rather arbitrary decisions which might be quite unsuccessful in winning the approval of either landlords or tenants, and the Government would be loath to embark upon any such scheme.

Another method, which is already in effect, is to provide for more liberal treatment in fixing the rentals of new properties, while continuing to control rentals of other accommodation on the present basis. The differential between rentals of pre-war houses and those recently constructed is justified as compensation to cover increased costs, and the maintenance of 1941 rentals for pre-war housing is in conformity with the general principle of the price ceiling. If continued control of the cost of living is to be harmonized with encouragement of new construction, this method of differentiating between the treatment of old and new properties becomes a necessary part of transitional policy.

If it should later develop that rental control is inflicting genuine hardship upon landlords (after due allowance for the favourable influences of full occupancy and prompt collections) or that landlords as a group are being subjected to much more severe restrictions than those imposed on the business community as a whole, it might be necessary to provide for relief before the complete removal of rental control. Since it is administratively out of the question to provide relief on an individual basis, any such step might have to take the form of a flat percentage increase in maximum rentals. This policy was adopted in Great Britain, where, after the last war, three successive percentage increases were allowed.

Another method of decontrol which was used in Great Britain following the last war was to exempt individual houses from rental control as they fell into vacant possession of the landlord. This meant, of course, that some houses remained under control for many years, in fact more than forty per cent of the houses in England and Wales were still subject to rental control in 1937. While this method of piecemeal decontrol avoided the difficulty of announcing that from a certain date all tenants were liable to have their rents increased substantially, it did involve discrimination on a purely accidental basis among the many landlords and tenants involved. (It is reported that in London, England, the rentals of decontrolled working class houses in 1937 were nearly 50 per cent higher than those of controlled housing.) Because of its discrimination and slowness, this method is neither desirable nor feasible.

The danger of rental inflation will pass away earlier in some localities than in others. It is therefore probable that rental control should be abolished by localities in a manner similar to that in which it was originally imposed in 1940 and early in 1941. As soon as the relationship between demand and supply in a locality reaches a point where it seems probable that the abolition of rental control in that locality would not bring about a condition of "scarcity rentals", there would seem to be no further justification for rental control in such an area. This system of decontrol would raise serious difficulties if rentals rose substantially in decontrolled localities, particularly if they were adjacent to other localities still subject to control. As with reconversion pricing, the Prices Board will have to experiment and adopt a practicable approach.

The decontrol of commercial rentals involves considerations very similar to those affecting housing accommodation. In normal times, commercial rentals are in a constant process of adjustment. If the rental demanded for any property is unreasonably high, the tenant is free to seek other accommodation at the termination of his lease, new construction is constantly going on, and excessive rental demands are held in check by the possibility that the premises may become vacant. In time of war, there has been an abnormal increase in the requirements of commercial accommodation, new construction has been restricted, and there may be a continued scarcity for some time.

So long as the supply of commercial accommodation in a given area has not caught up with the demand, there are probably many tenants who could be forced to pay a scarcity rent rather than be dispossessed and driven out of business. Having committed themselves to pay a scarcity rent, they would then be under pressure to raise the prices of their own production or to reduce other costs and to reduce the quality of their production. There is, therefore, a case for maintaining controls of commercial rentals and protection of tenure in any locality so long as it seems likely that decontrol would lead to rent inflation, new "squeezes" upon business and upward pressure on prices. New building can be encouraged by devices for reducing building costs (e.g. the recent removal of taxes on building materials) and by permitting higher rentals for new buildings until the time comes in any locality when it would be possible to remove the control of commercial rentals altogether. As commercial leases frequently run for a number of years, the speedy decontrol of commercial rentals would probably force some businesses to obligate themselves for several years to pay rentals on a scale which might not long continue to be justified. The future of commercial building depends most of all upon the expectations of the business community with regard to future business opportunities, and is therefore closely tied up with the success of reconversion, reconstruction and the high employment policy generally recognized as desirable in this country.

Housing and rent control policies are obviously both parts of a single problem, and in the treatment of that problem it is important that both the federal and provincial authorities should work with united purpose. The Federal Government, with more ample resources, administers the National Housing Act, under which funds collected by taxes or loans in any part of Canada may be utilized to promote building wherever it is required. The federal authorities bear the chief responsibility for the initiation of co-ordinated policies to counteract cyclical fluctuations and maintain a high level of employment—policies which it would not be feasible to leave to the varying ideas, local jurisdiction, and limited resources of nine separate provincial governments acting independently and conceivably under the influence of different views and purposes. On the other hand, the provinces possess local knowledge, administrative mechanism, and constitutional power to regulate matters relating to property and civil rights. If rental controls are to serve their purpose and decontrol is to take place in an orderly manner, it is essential that rental and housing policies be planned and administered on a co-ordinated basis.

Conclusion.—The present views of the Government with regard to rental control may be summarized as follows:

(*a*) Control of residential and commercial rentals should be maintained so long as it appears probable that its abolition would be followed by undue increases in rentals. At the present juncture, it is difficult to contemplate the abandonment of control during the next two years, and it might be necessary to retain the system for some time longer; since, assuming the continuation of a high level of national income and employment, it will take a considerable time to overcome the present housing scarcity.

(*b*) Protection of tenants against eviction should be maintained, and conceivably even strengthened both as a necessary part of rental control and as an end in itself.

(*c*) So that rental control will not restrict new construction of housing, the practice of authorizing higher rentals for new housing, while maintaining present ceilings for existing housing, should be continued.

(*d*) The position of rental controls should be frequently re-examined with a view to decontrol by areas as rapidly as local conditions permit.

(*e*) Efforts to promote new housing construction at moderate cost should be vigorously promoted and the activities of various government agencies should be co-ordinated. Indeed, without a substantial increase in housing accommodation at a reasonable cost, the decontrol of rentals will raise very serious difficulties.

Real Property Values

The Prices Board has received frequent complaints with regard to the cost of dwellings and has been asked on numerous occasions to apply price control to real property values. Persons in search of a place to live, and unable to find suitable accommodation for rent, have frequently found it necessary to purchase a residence and in many cases have regarded the price as inflated. Since the prices of most goods and services are under control, it is therefore argued that the purchaser of housing should receive similar protection.

Problems of Rising Real Property Values.—Though adequate statistical data are not available, there is no question that real property values have risen considerably during the war and since the imposition of the price ceiling. The cost of new building is estimated to have risen substantially since pre-war and there is little doubt that the prices of new houses sold by builders have risen at least as much. Moreover, because of the shortage of materials and labour, the quality of many new dwellings has shown some deterioration. The prices of older houses have also increased, and though some real estate experts believe that the increase has been less marked than in the case of new structures, the rise has been considerable. With regard to other forms of real estate, the prices of farm land have also increased. Reports to the Dominion Bureau of Statistics from crop correspondents across the country indicate that the average value of occupied farm lands rose from $25.00 per acre in 1939 to $30.00 per acre in 1944—a rise of 20 per cent. The increase has been most marked in central and eastern Canada (26 per cent in Ontario, 32 per cent in Quebec, 38 per cent in New Brunswick, and 24 per cent in Nova Scotia). It has been less marked in the Prairies—between 10 per cent and 15 per cent—but it commenced later, only becoming evident in 1943, and there is reason to believe that the increase has gathered momentum since the last report which is based on mid-1944.

These increases in property values are not based on any widespread extension of private credit. Indeed, a large amount of private debt, particularly farm debt, has been paid off during the last few years and the cash proportion in purchases of property has probably been much larger than usual. Moreover, the whole structure of prices and costs has risen materially since the outbreak of war. Though it has been nearly stable for three and one-half years, the cost of living is some 18 per cent over pre-war levels. Wholesale prices are some 35 per cent higher than before the war and the prices of farm products are nearly 50 per cent higher. Wage rates are up about 40 per cent. In view of these general increases in prices and costs and in view of the high volume of production and demand, some increases in real property values are certainly justifiable and the increases that have occurred to date may not be out of the way. This is not to say that there has been no inflation in property values and that the danger of such an inflation has passed. The fact that there has been no general expansion of private credit provides no assurance that property values will not rise to levels which might be out of line with future earning possibilities. Indeed, at a time when disposable incomes are much in excess of the supply of new goods and services coming into the market, there is a very real danger of a boom based largely on cash purchases which could collapse almost as readily as one based on credit purchases.

In any event, there is a fundamental difference between controlling the prices of ordinary goods and services and attempting to control property values. Price control of current production can be based largely on recent and current conditions. Price control of property values inevitably necessitates making a judgment of earning possibilities for some years into the future. In regard to farm land, for example, the current level of values would probably be low if it were believed that farm income were likely to continue indefinitely close to the current rate, whereas it might be high if a return to the pre-war rate of income were anticipated.

Objections to Imposing Control.—While recognizing that an inflationary increase in property values is a danger to be faced, it does not seem feasible to introduce ceilings on property values at the present time, though it is conceivable that the problem might necessitate such action at a later date. As pointed out above, fixation of ceilings for property values involves taking a view, whether deliberately or unconsciously, as to the long-term economic outlook. Errors made in such a forecast would involve far more serious injustice to the persons affected and disturbance to the economic structure than any mistakes which may be made if the prices of ordinary goods and services happen to be set too high or too low. It would not only be extremely difficult to make such a forecast of trends during the next decade or more but control of property values would involve a degree of state planning for the future which appears to be quite out of line with the emergency character of the existing control agencies. Furthermore, it is very questionable whether such an extensive and new form of control should be introduced now that the war in Europe is over, and bearing in mind that the production of capital assets should be less restricted by shortages of labour and supplies. Another major difficulty is the fact that serious discrimination would be involved unless all other forms of capital assets, including the prices of stocks and bonds, were controlled. The property owners of Canada would have genuine justification for complaint if real property values were controlled while other forms of investment were not similarly regulated. In addition, unless all capital transactions were subject to control, there would be widespread possibilities of evading ceilings on real property through setting up incorporated companies to own real estate and sell shares, through dealings in options, and through collateral deals, unrecorded cash payments and the like.

Finally, it is extraordinarily difficult to find a suitable yardstick for control of property values. The following have been considered and no one of them appears satisfactory:

(*a*) Setting basic period ceilings, while consistent with the price ceiling policy, would be quite impracticable since relatively few properties were sold during the basic period and since the manufacture of synthetic basic period prices for the vast majority of properties coming on the market would be extremely difficult. Moreover, for the reasons stated above, basic period prices would probably be inappropriate.

(*b*) The use of local assessments as an indication of relative (not absolute) values of individual properties has been considered and investigated. Unfortunately, such assessments are not regarded as an accurate indicator and marked differences in the bases of assessment exist as betweeen different municipalities.

(*c*) Special valuation of all properties would represent so big a task as to make it out of the question.

(*d*) Even the less ambitious system of setting up committees in each town or city to value all those properties coming on the market would be an enormous job and the decisions made by such committees would necessarily be arbitary and would undoubtedly vary with the personnel concerned.

(*e*) Another system would be to set maximum prices not to exceed the price received at the last sale, plus the value of improvements made since, and minus depreciation or deterioration since. This again would be a huge administrative task and would discriminate in favour of property which had been sold recently.

(*f*) Capitalization of authorized rentals on a standard percentage basis would also be undesirable. It would not only be difficult to arrive at an appropriate percentage but it would translate any divergencies in rentals into capital values and would thus involve serious inequity.

EMERGENCY SHELTER CONTROLS

Toward the end of 1944, the shortage of housing accommodation had reached such a point in some of the larger cities and the demands for federal assistance had become so urgent that the Government gave the Prices Board broad power to "co-ordinate all activities relating to the transfer of population into such areas and to the control and use of available shelter therein." The Government recognized that there were special problems peculiar to each area and that full co-operation of the local groups affected would be essential to the successful administration of the new regulations. It therefore proposed to apply the new powers only with the expressed approval of the municipality concerned. Montreal, Ottawa, Toronto, Vancouver and Victoria were designated as congested areas under the regulations shortly after the announcement of the plan. Early in January, 1945, Emergency Shelter Administrators were appointed for these cities with the exception of Montreal, where the local authorities decided not to come under the scheme, and soon afterwards further appointments were made for Hamilton and Hull.

In each of these areas, the Administrator established a permit system applicable to all persons seeking family accommodation. Persons from outside the area were not given permits unless their services could be regarded as essential to war industry or the production of essential civilian goods. Persons within the area were usually given permits without question although in many cases the size of the accommodation that could be rented or occupied was limited by the permit. The Emergency Shelter Administrations absorbed the National Housing Registries in the congested areas and established them as centres of a properly co-ordinated community effort to secure the maximum family shelter from existing accommodations.

More recently, the Government decided to suspend the operation of all outstanding notices to vacate given by landlords of self-contained dwellings (except in the case of notices given by discharged members of the Armed Forces who wish to re-occupy dwellings in which they were living at the time of enlistment) in order to meet a serious situation with respect to evictions. As was stated at the time, the Suspension Order will be withdrawn just as soon as present conditions of emergency are remedied. In fact some of the original regulations imposed in congested areas have already been relaxed. Thus the requirement that persons seeking accommodation must first obtain a permit has been relaxed so as to apply only to those persons who were not residents of the area at that time. Federal intervention can only be justified in this sphere to aid in meeting acute emergency conditions and it will be withdrawn just as soon as there is reason to believe that the problem can be handled on a local basis.

5. CONSUMER CREDIT CONTROLS

Another type of control exercised by the Wartime Prices and Trade Board concerns consumer credit. The regulations in this field require a minimum down payment of one-third of the cash price on instalment purchases of most consumer goods and payment of the balance of the credit price in from six to fifteen months, depending on the type of article and the amount financed. They also cover charge accounts requiring payment by the twenty-fifth day of the month following the month in which the purchases are made. Here, as in most other spheres, the Prices Board's activities have been carried on under the emergency powers of the Dominion, and consumer credit would normally fall within the jurisdiction of the Provinces.

Place in Stabilization Program.—Consumer credit regulations, first introduced in October, 1941, were undertaken as part of the general anti-inflation policy of the Government. Their main purposes were:

(*a*) To limit the creation of credit and the expansion of public buying power. At a time when consumer incomes were rising rapidly and beginning to press upon available supplies, it was desirable to check accumulation of current demands through control of credit purchases.

(*b*) To lessen the demand for scarce goods. Many of the goods which are frequently bought on credit, such as household appliances and furniture, were becoming scarce or seemed likely to be in short supply in the near future.

(*c*) To lessen the cost of doing retail business through reducing bad debts, costs of collection, bookkeeping, etc., and to improve the liquidity of retail merchants. Reducing cost of merchandising was regarded as a means of helping merchants to keep their prices and costs down.

(*d*) To improve the financial position of consumers It was clearly desirable during the war that consumers should not pile up a heavy load of debt likely to handicap them and restrict their purchases in the later transition from war to peace-time activities.

(*e*) To help increase individual subscriptions to war loans. It was to be expected that a curtailment in instalment payments would have the effect of increasing sales of Victory Bonds.

Because of the emergency character of these regulations it was not appropriate for this Board to give weight to the longer-range possibilities of consumer credit regulation as a means of combating fluctuations in the business cycle by lessening the stimulus to business in good times and increasing it in bad times. The experience of the Prices Board, however, is relevant to the consideration of such possibilities by the Dominion Government and the Provinces.

Effects of Regulations.—It is not feasible to put any quantitative measurement on the role of consumer credit control as an anti-inflation weapon. It is clear that the purposes of the regulations have all been realized to a considerable degree. Studies conducted by the Prices Board show that the relative importance of credit and instalment sales has declined substantially since the regulations were introduced. Using a large sample of retail outlets extensively engaged in instalment selling, the studies show the following changes from the first half of 1941 (prior to the introduction of the regulations) to the first half of 1944:

(*a*) The proportion of instalment sales to total sales has decreased sharply.

Type of Store	*Jan.-June 1941*	*Jan.-June 1944*
Department	15%	7%
Clothing	22%	12%
Furs	46%	36%
Furniture	65%	37%
Jewellery	23%	9%

(*b*) The amount of instalment accounts outstanding has been greatly reduced.

Type of Store	*Decline from June 30, 1941, to June 30, 1944*
Department	70%
Clothing	53%
Furs	21%
Furniture	75%
Jewellery	77%

(*c*) The proportion of cash sales has increased substantially.

Type of Store	*Jan.-June 1941*	*Jan.-June 1944*
Department	68%	76%
Clothing	53%	64%
Furs	28%	34%
Furniture	21%	40%
Jewellery	48%	67%

To what extent these changes have been a result of the regulations cannot be determined. In part, of course, they have reflected the combined influence of the high level of consumer income and shortages of many goods which are normally sold on a credit basis. Nevertheless, they are the sort of results that the regulations were designed to promote and it is reasonable to conclude that the regulations have had a significant influence in bringing them about. Moreover, the Prices Board's studies as well as trade opinion strongly indicate that the regulations have reduced the cost of doing retail business and thus aided in the maintenance of the price ceiling. The regulations have had a favourable reception in the retail trade and, indeed, many smaller retailers express the view that they should be continued into the post-war period. Those connected with the sale of war bonds have expressed the opinion that the regulations are helpful in war financing. There has been little, if any, criticism of them from consumers in general.

Policy of Decontrol.—Subject to frequent review as to their usefulness, it is believed that these controls should be continued for the time being. Most of the original reasons for their introduction are still applicable.

(*a*) It is still desirable to limit the current buying power of the public. The threat of inflation fostered by accumulated purchasing power, war-inflated costs, and temporary shortages may continue for an appreciable time.

(*b*) Severe shortages of goods normally bought on credit still prevail, especially of consumer durable goods and to some extent of clothing and other lines. While production of such consumer durable goods as automobiles and electric refrigerators is now being resumed, a considerable time will elapse before output can adequately meet the the full demand, enlarged as it is by deferred needs and accumulated savings. As stated earlier, resumed production will so far as feasible be priced at basic period prices and anything which will tend to enlarge the demand and thus fortify the argument that the public is capable of paying and willing to pay higher prices will increase the difficulty of carrying out this aspect of Government policy and increase the incentive to undertake illegal transactions. Moreover, in the early stages of the resumption of such output there may be a demand for priority or rationing schemes to apportion the limited initial output fairly among the public. Because of their great administrative difficulty and because it is expected that production will be expanded quite rapidly, the Prices Board intends to avoid such schemes—if at all feasible. From this point of view, also, it would not be desirable to enhance such demands by the removal of consumer credit regulations in the immediate future.

(*c*) Pressure on the retail ceiling still remains and so long as it is severe the advantages of increased liquidity and lessened costs resulting from consumer credit regulations are apparent. While a removal of these regulations would not necessarily result in any immediate or substantial increases in retail costs or decreases in liquidity, the tendency would be in that direction.

(*d*) The consumer has greatly increased his liquidity during the war, both by paying off debts and accumulating savings. His deferred demands are substantial. Premature removal of consumer credit regulations would simply permit these demands to be increased in advance of any corresponding increase in available supplies. Relaxation of these regulations at an appropriate time will provide some stimulus to industry. Such stimulus is not yet needed and could, indeed, have harmful results if applied while shortages still exist. It might be needed and helpful at a later date when goods are more plentiful and demand may be slackening.

(*e*) Immediate removal of the regulations might have unfortunate effects in that to ease the terms on which the public can buy consumer goods, and particularly durable consumer goods like furniture and jewellery, would run counter to the appeals to buy Victory Bonds.

Some merchants would perhaps like to see these regulations removed now, in order to prepare plans for sales promotion against the time when supplies become more plentiful and to improve their competitive position. This, however, is scarcely a sufficient reason for dropping the controls, so long as they have an important anti-inflation value. They apply to almost all types of retail distributors and restrict only the terms of credit sales. They are general, not specific, restrictions and do not constitute detailed interference with the distributor's business, as do many of the supply controls which have had to be applied to manufacturers and to some extent to distributors.

It may be noted that the consumer credit regulations themselves provide exemption in the case of credit extended for business purposes, and special provisions have now been made under the Bank Act and the Farm Improvement Loans Act under which farmers are enabled to obtain credit at low interest rates, free of consumer credit restrictions, for the purchase of agricultural equipment and articles intended to raise the standard of living on the farm.

Longer-Range Possibilities.—Consumer credit control has a possible longer-range value as an instrument of monetary and fiscal policy but the fact that powers over consumer credit fall within the jurisdiction of the Provinces under the British North America Act poses serious difficulties in its use for this purpose. Credit terms could be relaxed or stiffened from time to time as a part of a concerted policy designed to level off the peaks and troughs of the business cycle. This could best be done by a central authority, such as the Bank of Canada. It is doubtful whether a system of provincial regulation would be well adapted for this purpose, inasmuch as the various provinces would probably have different ideas of credit control, and in any case it would be difficult for them to follow a concerted policy. A certain amount of the instalment business of Canada is conducted on an inter-provincial basis, for example, by mail order establishments, which, working from Winnipeg under Manitoba laws, cover Western Canada, and from Toronto, under Ontario laws, cover much of Eastern Canada. This situation would create an especially difficult problem for provincial legislation and administration in this field.

A second type of regulation which might be considered of post-war value would be one similar to the recent British Hire-Purchase Act, which governs the conditions of instalment selling, repossession, etc., with a view to standardization of trade practices defining the rights and protecting the interests of the parties concerned in such transactions.

For these reasons controls of this nature would appear to be an appropriate subject for Dominion-provincial discussion.

Part II

WARTIME INDUSTRIES CONTROL BOARD

Control over the production and distribution of certain basic materials and services peculiarly important to the war program is exercised by Controllers who are members of the Wartime Industries Control Board.

In this category, and therefore placed under the Wartime Industries Control Board, are such materials and industries as steel, all non-ferrous metals, all chemicals, oil, timber, rubber, power, ship repairs and salvage, coal, construction, motor vehicle and aircraft. Other materials and products such as machine tools, silk, cork, etc. have also from time to time been under the W.I.C.B. A Priorities Officer functions within the Wartime Industries Control Board as the Government officer responsible for the supervision of matters having to do with priorities in delivery of Canadian materials required for war production, and to assist Canadian business organizations in their relations with priority authorities in other countries on which Canada is dependent for essential supplies.

Controllers were first appointed in June, 1940. In the following five years an extensive system of controls over the production, distribution and use of materials was established to redirect the normal peacetime flow of materials to provide for the needs of the war program.

Import and export controls have also formed an essential part of the control structure.

These controls were established and have been administered for the purpose of ensuring that the war production needs of Canada and the other United Nations would be met, and the basic industries essential to the needs of the civilian economy would be afforded the maximum assistance in a period of world shortages of materials and manpower. In so doing it has been necessary to take account not only of conditions within Canada, but of the supply position and the development of controls in other countries. Canada is heavily dependent for industrial components and raw materials upon both the United States and the United Kingdom, and controls in Canada have had to be co-ordinated with controls in these countries. Similarly Canada is the source of supply of many materials such as timber, copper, lead, zinc, various chemicals, etc., upon which the United Kingdom, the United States, Russia and other allied countries are in a large measure dependent for both military and essential civilian requirements.

It is to be noted that in addition to the war production responsibilities already referred to, the scope of activities of Controllers has also extended somewhat into the field of civilian supply. The Wartime Prices and Trade Board is the control agency primarily responsible for matters of civilian supply, as contrasted with war supply which rests primarily with the Munitions and Supply Controls. However, most materials essential to war production are also basic to the civilian industrial economy. There would have been confusion and consequent administrative difficulties if two control agencies had operated in respect of the same material, one interested only in its war use and the other only in its civilian distribution. Therefore Controllers of the Wartime Industries Control Board have, in addition to providing for war requirements, exercised supervision over production and distribution of that proportion of their respective materials which has gone to the civilian economy. In addition each Controller of the Wartime Industries Control Board was made also the Administrator of the Wartime Prices and Trade Board in his particular field, for purposes of exercising price controls. In this way and through interlocking membership of the two Boards, the Chairman of each being a member of the other, co-ordination is achieved between the two Boards.

The types of control exercised by Controllers (production directives, restrictions on distribution and use, restrictions on manufacture, rationing, etc.), have been parallelled by those employed by Administrators of the Prices Board and the problems met by each of the two groups in the field of supply are similar. As the period of greatest war production requirements passes, the materials under Controllers are being steadily returned to civilian uses. Accordingly, it can be said that to-day most Controllers identified with the Department of Munitions and Supply see perhaps a larger proportion of the output of materials under their jurisdiction going to civilian than to direct war production.

Under these circumstances, the statement outlining the supply and distribution problems of the Wartime Prices and Trade Board which is included in this same volume, covers in general the position of the Wartime Industries Control Board. Attention might be drawn, however, to a few points where the emphasis is perhaps slightly different, although the essence of the problem remains the same.

The transition period is, at least in its initial stages, still a period of active warfare. Under these circumstances, the Wartime Industries Control Board must continue to keep in mind the requirements of war production. In many materials, the importance of these requirements has been declining, either by a positive falling off in demand or by an improvement in supply, but this has not been the case with respect to all materials. Even in those materials where there is now a sufficient supply to meet the essential needs of the civilian population, controls cannot in all cases be removed or the unrestricted civilian demand might seriously impinge on war supply. While supply controls are being steadily reduced, as fast as supplies justify, some controls will have to be continued until the end of the Pacific war, and a limited number may have to be maintained even somewhat longer on a purely supply consideration.

It has already been noted that Canada is dependent upon imports for many important raw materials, the availability of which is governed by conditions outside Canadian control. This is also true of many fabricated items, particularly items of industrial equipment. Such materials as tin and natural rubber, and even so vital a material as coal might continue in short supply for some time after the conclusion of hostilities with Japan, until world productive facilities destroyed or interfered with by war are restored, and transportation becomes available. In addition, there will be many other claimants besides Canada for such materials, and for some time the quantities made available to this country may depend upon international allocation arrangements. Where materials or components are made available to Canada only through arrangements which rest upon the understanding that Canada will exercise control upon their distribution and use in this country, an obligation rests upon the Dominion government to continue controls in such fields. Such use of controls by the Dominion government is, of course, dictated by purely supply considerations.

In reverse, Canada is the source of supply for various materials upon which other countries are dependent for their continuing war production, and will be dependent for reconstruction of economies which have been disrupted by the war. Export demands for timber, for example, may be expected to continue at a high level until the end of the Japanese war and probably for some time after. Close to fifty per cent of our lumber output is being exported to our allies to meet their essential needs. A similar situation exists to-day in the field of motor vehicles, where supply shortages of trucks within Canada are caused to some degree by Canadian shipments abroad, through our participation in UNRRA. A demand for these exports will continue both for war and for civilian purposes. Canada cannot claim supplies of coal and tin, or cotton or other materials in short supply, from other countries unless we participate in international co-operation and share with other countries those materials which we produce and they require.

With respect to export controls, in some instances these must continue for a short period to conserve supplies for domestic industry. The power of export demands would be sufficient in various fields to drain the Canadian market if no controls existed while this war-generated pressure remains.

The Wartime Industries Control Board, in accordance with policy instructions of the Government, has subjected the operation of its controls and the changing conditions of supply to the closest scrutiny, and has relaxed or removed controls as rapidly as supply conditions warrant. Because of the circumstances outlined above, however, it would appear that conditions of inadequate supply will in some cases continue beyond the period of actual hostilities as a direct result of abnormal war-generated forces.

The Wartime Industries Control Board, together with other wartime control agencies, has been instructed by the Government under conditions of inadequate supply to facilitate meeting the more urgent requirements of reconstruction, including the first steps in industrial reconversion, the provision of more housing and the development of export markets of a peacetime character; to enable the re-equipment of agriculture and other primary industries and to assist in the rehabilitation of liberated countries. Within the guiding principle that controls over materials and services are identified with scarcity and are to be removed immediately supplies justify, some continuation of wartime controls will undoubtedly be required for a limited period beyond the termination of hostilities to implement these instructions in respect to certain of the materials now under the jurisdiction of the Wartime Industries Control Board.

Part III

DEPARTMENT OF LABOUR

Federal Wage Control

The initial step in the wartime wage stabilization policy was that enunciated by Order-in-Council P.C. 7440 of December 16, 1940, which was passed for the guidance of Boards of Conciliation constituted under authority of the Industrial Disputes Investigation Act. Order-in-Council P.C. 7440 directed attention of such Boards of Conciliation to the desirability of maintaining existing wage rates and recommending that additional compensation, when found equitable, should be by payment of a Cost of Living Bonus based upon changes in the cost of living subsequent to August, 1939, as revealed by the Cost of Living Index prepared by the Dominion Bureau of Statistics. Order-in-Council P.C. 7440 only applied to industries covered by the Industrial Disputes Investigation Act as extended by Order-in-Council P.C. 3495 of November 7, 1939.

However, by 1941, it became apparent that because of the expansion of Canada's war effort and consequent scarcities of materials, supplies and manpower, there would result a serious inflation in Canada with the probability of great economic dislocation and of hardship and suffering to the Canadian community unless preventive measures were taken.

Consequently, the Government of Canada deemed it essential to the war effort and to the national welfare, both in the war and in the post-war period, to take measures leading to economic stabilization in Canada during the War, including as necessary components, the maintenance of price ceilings and the control of wage rates. Order-in-Council P.C. 8253 of October 24, 1941, called the "Wartime Wages and Cost of Living Bonus Order", with subsequent amendments, gave effect to the wage stabilization policy. It applied to all employers in Canada with designated exceptions and covered their employees paid at a rate of less than $175 per month and to those receiving in excess of this amount who were not above the rank of foreman or comparable rank; made mandatory the payment by employers of a cost of living bonus based on the rise in the adjusted Cost of Living Index number of the Dominion Bureau of Statistics above the adjusted index for October, 1941, and provided for the issuance of General Orders by the National War Labour Board at quarterly intervals requiring adjustments in Cost of Living bonus to conform to changes in the Cost of Living Index. To administer Order-in-Council, P.C. 8253, a National War Labour Board was established as were nine Regional War Labour Boards one in each province. Employers and employees had equal representation on these Boards.

Order-in-Council, P.C. 8253 precluded employers, without first securing the authority of a War Labour Board, from increasing or decreasing wage rates in effect for the occupational classifications in their employ on November 15, 1941, from establishing new occupational classifications, or from changing working conditions in any manner which would affect employees' remuneration.

On application War Labour Boards might approve wage increases where wages were found to be below prevailing rates for comparable employees as paid by comparable employers. Employers might, however, increase or decrease wages within the limits of a range in effect on November 15, 1941, or upon promotion or demotion from one occupational classification to another.

Experience in administering Order-in-Council, P.C. 8253, as amended, indicated the desirability of introducing further amendments and of clarifying certain of its provisions. On July 10, 1942, it was accordingly revoked and was replaced by Order-in-Council, P.C. 5963, which remained in effect until December 9, 1943, when it was in turn replaced by Order-in-Council, P.C. 9384, of that date, entitled "Wartime Wages Control Order, 1943".

Order-in-Council, P.C. 9384, was applicable to employees who were not above the rank of foreman or who were not earning at a rate in excess of $195 per month regardless of rank, but amending Order-in-Council, P.C. 655, of January 30, 1945, brought all employees who on the basis of duties or function might be above the rank of foreman or comparable rank under Order-in-Council, P.C. 9384, if their salary rate was less than $250 per month.

Except for employees of Crown Companies and of certain designated governmental agencies, employees of the Dominion Government were not included under the Wartime Wages Control Order, 1943, nor under its predecessor Orders-in-Council.

The Wartime Wages Control Order, 1943, P.C. 9384, as amended, provided that administration would continue by the National War Labour Board and by Regional War Labour Boards in each of the nine Canadian Provinces. In May, 1943, the Western Labour Board was established by Order-in-Council, P.C. 3870 to administer the wage stabilization policy on defence projects in Alberta, British Columbia, the Yukon and the North West Territories insofar as Canadian employees on such projects were concerned.

When the Wartime Wages Control Order, 1943, P.C. 9384, was promulgated the Government of Canada took occasion to declare as its policy that it would take all practical measures to stabilize living costs at the level existing in December, 1943, and announced that such policy would be reviewed if any appreciable change in living costs occurred. In furtherance of that stabilization policy so affirmed, Order-in-Council, P.C. 9384, provided that cost of living bonuses which fluctuated with movements in the Cost of Living Index and which had been instituted under the previously governing Orders-in-Council were to be incorporated into wage rates as from the first payroll period commencing on or after February 15, 1944. This merger has, therefore, now been implemented by employers subject to the Order and no appreciable change in living costs has since occurred.

The Wartime Wages Control Order, 1943, P.C. 9384, as amended, also made more apt provision for the rectification of any gross inequalities or gross injustices in existing wage rates insofar as this is possible consistently with the paramount principles of economic stabilization so essential to the national welfare. The administration of this Order throughout the Dominion has controlled to a degree unit cost of production and, therefore, has contributed to overall price stabilization.

The National War Labour Board is comprised of the Honourable Mr. Justice M. B. Archibald (Chairman) and Messrs. Léon Lalande and J. A. Bell as members. Judge Cameron was appointed Alternate Chairman of the National Board under Order-in-Council, P.C. 6003, dated August 1, 1944.

From the inception of wage control on November 15, 1941, up to March 31, 1945, the National and Regional War Labour Boards had dealt with 57,746 applications involving wage increases or cost of living bonus adjustments. During the same period 27,336 additional applications were dealt with in respect of other matters affecting compensation of employees, inauguration of welfare plans or for the establishment of new occupational classifications.

While the administration of the Wartime Wages Control Order is primarily the responsibility of the National Board, that Board in pursuance of authority conferred by the Order has assigned certain duties and responsibilities of administration to the Regional Boards. It is understandable that the Regional Boards might vary in their interpretation and administration of the Order. Order-in-Council, P.C. 8253, and Order-in-Council, P.C. 5963, contained no provision for the review of decisions of Regional Boards by the National Board to secure uniform administration but this responsibility was placed upon the National Board by Order-in-Council, P.C. 9384. Pursuant to that direction, the National Board in the fiscal year 1944-45 had reviewed 28,211 of the Findings and Directions made by Regional Boards. Of these, 2,498 were placed on review, of which 2,288 were passed after further development of the pertinent facts and in 162 cases, up to March 31, 1945, the Regional Board's Findings and Directions made thereon were revoked or amended in some particular.

As with the previous Wage Control Order, provision was made in Order-in-Council, P.C. 9384, under which any person interested in or affected by a decision of a Regional Board may carry appeal to the National Board with certain limitations as to time for lodging such appeal. During the fiscal year ending March 31, 1945, the National Board dealt with 250 appeals from decisions of Regional Boards.

Early in 1943, a plan was arranged between the National War Labour Board and the Unemployment Insurance Commission under which in all provinces, other than Quebec, Unemployment Insurance Commission Inspectors check on employers in regard to compliance with the Wartime Wages Control Order. In the Province of Quebec Inspectors attached to the Provincial Minimum Wage Commission and Parity Committees carry out inspections on behalf of the Regional War Labour Board. In the majority of provinces there are also attached to Regional War Labour Boards one or more inspectors who investigate specific complaints having reference to infringements of the Wartime Wages Control Order and conduct spot examinations, and, generally, provincial inspection staffs co-operate with the Regional Boards in these matters.

It is axiomatic that without a degree of stability in that portion of production and distribution costs represented by labour, it would be difficult, if not impossible, to hold price ceilings. It may be expected that the transition period from a wartime economy to a peacetime economy will present many difficulties which would be accentuated if controls over prices and wages were suddenly removed.

The experience following the last war indicates something of the hardships which might be expected if the inflationary elements present now as then were allowed free play.

Following the last war, the Cost of Living Index (July, 1914: 100) had advanced to 190·8 by June, 1920. Wage rates never did catch up with soaring prices.

The rise in the adjusted Cost of Living Index number (August, 1939-100·8 : 100) during the period of this war to June, 1945 is 18·7 points. This time real wages as represented by the purchasing power of the wage dollar, have been maintained as the result of Price Regulations and Wage Control. To continue to protect that purchasing power, to assure the orderly production and distribution of consumer goods and to assist in the re-establishment of Canada's export trade, so essential to full employment, some measure of wage control will be needed after the war emergency is over as a corollary of price ceilings.

When military needs relax, when factories reconvert, when farm products flow to civilian markets, when homes are built, when export trade is again on a sound basis, then wage control and price control could disappear. In the meantime and as progress is made in the return to a balanced economy, they could be amended and relaxed as circumstances may render advisable.