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LEOPOLD ALBAN LEWIS
Full Name of Author — Nom complet de l'auteur

6 AUGUST 1934
Date of Birth — Date de naissance

Country of Birth — Lieu de naissance
ST. VINCENT, WEST INDIES

Permanent Address — Résidence fixe

50 ABINGDON DRIVE, NEPEAN, ONTARIO.

Title of Thesis — Titre de la thèse

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GLEN WILLIAMS

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THE SHAPING OF ANTI-INFLATION POLICY
IN CANADA, 1968-1980:
The theory and Politics of Inflation

by

•C Leopold A. Lewis B.A. (Hons.)

A thesis submitted to the Faculty of
Graduate Studies in partial fulfilment
of the requirements for the degree of
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The undersigned recommend to the Faculty
of Graduate Studies acceptance of the thesis

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THE THEORY AND POLITICS OF INFLATION

submitted by Leopold Lewis, HONS. B.A.,
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the degree of Master of Arts.

Thesis Supervisor

Chairman, Department
of Political Science

Carleton University

April 30, 1982

Abstract

Prompted by the observed conflict between experience and economic theories of inflation, the Canadian experience with inflation from 1968 to 1980 and the government's efforts to develop an effective anti-inflation policy are analyzed against the theoretical framework outlined in chapters two and three, embracing economic theory and theories of the state. Major themes on the causes of the current inflation are reviewed; the monetarist (demand-pull) and "cost-push" arguments are critically examined; and the limitations imposed by political factors on economic policy design are discussed. Chapters four and five deal with the interplay of major aspects of Canada's economic policy in the context of international competition, and show how actions in the international financial market impinge upon domestic policy and unsettle the labour market. Chapter six provides a chronological overview of anti-inflation policy developments and stresses both the political and economic determinants of policy. The main conclusions are presented in chapter seven.

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The important question, then, is what policy implications emerge from the Phillips findings. Lipsey, Sparks and Steiner respond to this as follows:

With the relationship shown by the Phillips curve, controlling inflation and maintaining the highest possible level of employment now becomes conflicting policy.

It may be that in some ultimate sense there is no conflict, that the economists and the politicians will be able to find an appropriate set of economic policies that will involve no trade-off between full employment and stable prices. [But] the evidence suggests there is a conflict [and that policy makers are] forced to choose between conflicting goals. If a choice is not made explicitly, it is made implicitly.¹⁹

Thus it would appear that the Phillips relationship is still an important consideration in the formulation of anti-inflation policy, notwithstanding a recent contentious proposition put forward independently by Friedman and Phelps concerning the existence of a "natural" long-term rate of unemployment.²⁰ It is argued that pre-occupation with the idea of trade-off between inflation and unemployment could result in a futile effort to reduce unemployment below this "natural" rate, at the expense of higher inflation. But even if, in this context, academics agree that full employment in Canada is

¹⁹Richard G. Lipsey, Gordon R. Sparks, and Peter O. Steiner, Economics, Second Edition (New York: Harper and Row, 1976), pp. 813-814.

²⁰Milton Friedman, "The Role of Monetary Policy," The American Economic Review 58 (March 1968): 1-17; and Edmund S. Phelps, "Money-Wage Dynamics and Labour-Market Equilibrium", Journal of Political Economy (July-August 1968), 678-707.

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CHAPTER 1

INTRODUCTION

Although inflation has been a disturbing problem for capitalist economies throughout the post-war era, it was within the past decade that the most intense concerns about the subject were being expressed in Canada, to the extent that the period witnessed the strongest anti-inflation measures to have been adopted by the government in peacetime. The problem of inflation has not in fact diminished. Nor has the ensuing debate about the causes and the cures been particularly enlightening.

At the beginning of the period under review, members of Parliament spoke in the House of the dangers of a developing inflation psychology, and cited remarks by the Governor of the Bank of Canada that the breaking of inflationary expectations "was the most urgent task of public policy."¹ Governor Rasminsky urged that efforts be made "to bring about more realistic attitudes towards the size of ... increases in incomes...." and in his subsequent Report to the Minister of Finance for the year 1968, went on to suggest that "it would be desirable for the Government to make a systematic effort to bring

¹See, for example, Canada, House of Commons, Debates, 31 October 1968, pp. 2265-66; and 5 November 1968, pp. 2435-56. The references were to "Monetary Policy and the Defence of the Canadian Dollar," remarks of Louis Rasminsky, Governor of the Bank of Canada, before a joint meeting of the Canadian Club of Victoria and the Federated Council of Sales Finance Companies, Victoria, 17 October 1968.

the influence of informed public opinion to bear on decisions regarding increases in prices and incomes." To this end the governor welcomed the government's decision to establish the Prices and Incomes Commission.²

But already in Parliament opposition members were linking the worsening situation to the government's endorsement of certain labour agreements in the latter half of the 1960's. Wage settlements won by the Montreal dock workers, the C.B.C. employees, the St Lawrence Seaway workers, and the C.N.R. employees, with increases in excess of 30 per cent in some cases, were cited as major trend-setters in the general escalation of wages and prices. Government, the argument went, was yielding to pressures from "the organized and the strong".³ Precisely ten years later, after the lessons learned from various efforts to combat inflation, Premier Davis of Ontario, speaking to the media on the occasion of the First Ministers' Conference in Ottawa in October 1978, was still able to charge that in a recent agreement reached with the outside postal workers, the federal government had acted irresponsibly in conceding excessive and "inflationary" pay hikes out of keeping with current trends.⁴

Even these brief sketches of the thrust of the commentaries on inflation are sufficient to illustrate that some rather sweeping

²Bank of Canada, Annual Report of the Governor to the Minister of Finance for the year 1968, p. 6.

³See House of Commons, Debates, 20 September 1968, pp. 277-78.

⁴The writer's own recollections.

assumptions underly many of the conclusions reached. And it is observable also that even among the higher ranks of policy makers, assessment of the inflation problem can at times be quite obscure. For example, Governor Rasminsky spoke of the realization of "more realistic attitudes" in income demands, but gave little indication of the way in which such attitudes are likely to be shaped in the context of a capitalist state. And Premier Davis appeared to be suggesting that "responsible" governments are not obliged to depart from declared policy positions for the sake of political expediency, even though recent history has shown as in the classic case of the Heath government in Britain in 1974, that such inflexibility could lead to the government's demise. Several crucial points implicit in the above contentions will be picked up later in the course of this analysis. In particular, the place of "informed opinion" in policy making, the role of monopoly power, and the functions of the state, will be examined in an attempt to appreciate their implications for the shaping of policy.

It is appropriate now to state, before proceeding further, the two basic questions that are central to the present thesis. The first, based on the observed persistence of the current inflation and "the tendency for the rates to accelerate in each consecutive cycle", as Panic has noted,⁵ is the suggestion that new developments on the politico-economic scene are responsible for this departure from

⁵M. Panic "The Inevitable Inflation," Lloyds Bank Review no. 121, July 1976, p. 2.

conventional behaviour. And this leads to further questions concerning the necessity for increased state intervention into areas of the economy that had hitherto fallen within the ambits of the market mechanism. The second question concerns the insistence by a large following of economic theorists that the explanation for this evidently new phenomenon lies in the repetition of "wrong" and "irresponsible" policy decisions by government, both in terms of the application of traditional stabilization tools — notably the monetary mechanism — and short-term anti-inflation measures. But this, surely, is an overly simplistic portrayal of what it takes to correct one of the most baffling socio-economic anomalies of our time.

There can be little doubt that part of the conceptual problem stems from the fact that traditionally, explanations of inflation and the requisite policy suggestions have been considered the exclusive prerogative of the discipline of economics. Yet even casual observation reveals within that discipline a certain fixity of ideas among inflation theorists, insofar as greater effort seems to be expended in asserting and defending particular positions, rather than endeavouring to discover new clues to the present crisis. Indeed, the unprecedented occurrence of accelerating inflation coexistent with high levels of unemployment for such an extended period of time should in itself suggest the need for a drastic revision of ideas. But the greater tendency has been to fit the new problem to old theories pertaining to market competition and equilibrium.

The emphasis on economic explanations and the influence that this

appears to have on declared policy positions of the government, have tended to obscure some of the determinants of anti-inflation policy. In fact, the distinction is not always made between expressed policy positions and the very different policy outcomes to be expected from the interplay of controllable and uncontrollable factors. Inevitably, there emerges a gap between stated policy (expressed in familiar theoretical terms) and the actual behaviour of government in dealing with the problem of inflation. In particular, the political determinants of anti-inflation policy tend to be understated because the current inflation, despite its peculiar characteristics, is still being analyzed mainly in strict economic terms. Our present proposal is to turn this approach around and attempt to discover how the economic explanations fit into the political schema. This necessitates not only a look at economic theory, but also at theories of the state. One is likely to find that government actions which appear to be short-sighted and irrational from the perspective of economic analysis, may seem entirely rational in the context of theories of the state. Hence we arrive at our central thesis: that a substantial part of the popular theories of inflation is inconsistent with both the realities of the current inflationary process and the manner in which anti-inflation policy is actually shaped, and that a better understanding of these processes can be obtained by studying specific policy episodes in the sense of looking at clusters of related politico-economic events, and noting the constraints placed by the political components upon economic policy designs.

The urgent need for the re-examination of theory should be

recognized, for as Gardiner Means has so aptly put it, "experience is in conflict with traditional theory, and a new theory is required" to explain what he and a few other writers have termed "the new inflation".⁶ One reason for this apparent failure of economic theory to come convincingly to grips with the inflation question seems to lie in the very pattern the debate has followed. Part of the difficulty stems from the intractable position of the monetarists in particular, who insist that inflation is plain and simply a monetary phenomenon. Surely, no realistic analyst can deny that inflation is indeed a monetary matter, any more than he can claim that it arises solely from the pressure for higher wages. The crucial question is whether inflation is only a monetary matter — or perhaps it is the case that the relative weight of the monetary factor reduces all other factors to insignificance. The importance of this question lies in the fact that it opens to scrutiny the efforts of an influential group to establish narrow limits for policy concerns and policy analysis. This preoccupation with "money only" considerations may well serve to divert attention away from other, highly relevant considerations. It is essential, therefore, to look at the arguments of those writers who stress the need to pay greater attention to the non-economic and the

⁶Means, Gardiner C., "Simultaneous Inflation and Unemployment: A Challenge to Theory and Policy," in Gardiner C. Means and others, The Roots of Inflation: The International Crisis (New York: Burt Franklin, 1975), p. 1.

non-demand factors associated with inflation.⁷ In fact, we shall argue later (a) that all inflations are not demand inflations stemming initially from the availability of excess money,⁸ and (b) that all demand inflations do not originate in the same way. With respect to the latter, we shall examine the effects of a change in the money stock; look at wage leadership in the more highly productive sectors (not necessarily or directly union related) and the spillovers into other sectors and consider market power inflation in which the organized utilize their collective strength to gain wage advantages at the expense of the nonorganized, thus creating disequilibrium and setting the stage for measures of accommodation in the system as a whole. Our subsequent task will be to establish the possible impact of the various interacting forces on anti-inflation policy.

One pertinent question to which this analysis will unavoidably lead is whether the politico-economic problem on which we are focusing does not indeed preclude a decline in state involvement in economic affairs, contrary to popular assertions that the extent of such involvement is simply a matter of policy choice. This of course has far-

⁷See, for example, Donald V. Smiley, "The Non-Economics of Anti-Inflation," Canadian Forum, March 1976, pp. 11-14; M. Panic, "The Inevitable Inflation"; and (for a more thorough treatment) Aubrey Jones, The New Inflation: The Politics of Prices and Incomes (London: Macmillan, 1972).

⁸For an argument suggesting that "administrative inflation" does not arise from an excess of aggregate demand but rather from "the conditions of modern industry, see Means, "Simultaneous Inflation and Unemployment," p. 12.

reaching implications for the capitalist mode of production; for if the capitalist state must increasingly become an interventionist state, one very basic condition for the functioning of capitalism — relative freedom from state interference — would clearly be denied. Hence the need to understand the nature of such interference in the context of seemingly permanent inflation. Our immediate concern, however, is to point up the need for a drastic revision of the theories purporting to explain the sources of the current inflation.

It is also to be noted that while the present analysis centres primarily on inflation and government policy in Canada, the ubiquity of the current inflation bears heavily on the foundations of world economic relations, so that it is only within the broader context of world inflation that the possibilities and limitations of domestic anti-inflation policy can realistically be examined.

A word needs also to be said about the concept of policy. In the present study, policy is conceived as being more than a statement of intent. Statements of intent would normally be followed by some process of conversion to outputs. But actual outcomes would be influenced by indigenous and exogenous variables. The system of feedback employed would provide some indication of the policy impact and lead subsequently to policy reinforcement or modification. Policy as "process", then, is to be the underlying conception of the term within the context of the present study.

There remains to be mentioned the question of procedure in

analysing the kind of problem we are confronting. The lack of any clear consensus on the very nature of the present inflation makes constant reflection upon recent and current experience an even more compelling exercise than indulgence in highly sophisticated predicting activities regarding inflation. This is so because the efficacy of the latter is contingent upon a proper understanding, in the first place, of the phenomenon that is the focus of these activities. Our research project stems from a recognition of widespread confusion over the inflation issue, and the need for continuing reflection on recent politico-economic events in the attempt to unravel even a small part of this riddle of inflation. And in view of the analytical uncontrollability of many of the variables involved, such as competitive spirit, expectations, militancy, and notions of social justice, analysis of the subject must of necessity lean heavily on ex post facto judgement.

Accordingly, we shall endeavour to recount the series of events surrounding Canada's peace-time efforts to combat inflation, commencing with the initial undertakings of 1968. We shall focus attention on the highlights of anti-inflation policy in their economic and political settings and attempt to determine the extent to which prevailing theories succeed in explaining the actual experiences. This in turn would suggest the extent to which such theories could be relied upon both to predict future developments and serve as a basis for policy formulation.

Our approach would be to outline briefly a number of universally accepted premises regarding the existence of observable relationships among certain relevant socio-political and economic factors, and to

state hypotheses inspired by economic theory and theories of the state taken together; then, in light of available data, attempt to argue in favour of a more credible explanation of the current inflation. Against such a background, it is hoped that the realities of government's anti-inflation policy could be more clearly perceived. The details of this framework for analysis will be presented in chapter three. But prior attention needs to be drawn to some of the highlights of contemporary theories of inflation.

CHAPTER 2

THEORIES OF INFLATION

The Controversy

The ongoing debate on the sources of inflation runs generally along two main lines of argument. The "monetarist" or "demand-pull" argument relates all inflation to excess spending when the money stock is permitted to exceed a preconceived optimum quantity that is linked theoretically to the so-called "trend rate" of overall productivity increase.¹ Central therefore to the monetarist position on the control of inflation is the appropriateness of the type of monetary policy being pursued. The opposing "cost-push" position, though less clear-cut, focuses generally on trade union activities. It posits that the variable cost component in the prices of goods and services tends to be pushed beyond competitive market values by the power of the labour movement, and that price escalation originates mainly from this source. The emphasis here is on built-in structural factors not readily amenable to short-run policy changes. The controversy has prevailed for so long and drawn such wide attention that we are obliged to examine more closely a few of the highlights from both sides of the argument.

¹On the concept of linking price increases to the "trend rate", see George P. Schultz and Robert Z. Aliber (eds.), Guidelines: Informal Controls and the Market Place (Chicago: University of Chicago Press, 1966), Appendix A.

"Monetarism" or the "Demand-Pull" Argument

Friedman's now quite famous dictum that "inflation is always and everywhere a monetary phenomenon" sums up the monetarist viewpoint rather well. And though Friedman who hails from the "Chicago School" has remained the central figure in stating the monetarist case, the proponents of monetarism in Canada have not been silent. It is perhaps fair to identify the members of the Fraser Institute in Vancouver,² represented by such analysts as Michael Walker, Jack Carr, David Laidler, Michael Parkin and Thomas Courchene, as being among the most vocal advocates of the monetarist point of view in Canada. More important from the standpoint of our analysis, however, have been the musings by members of this group that perhaps their most influential ally is the present Governor of the Bank of Canada, Gerald Bouey, who in a speech in Saskatoon in 1975, was seen clearly to have endorsed the monetarist position. According to Courchene, the Governor's address "represents nothing less than a conceptual revolution in the Bank of Canada's philosophy towards monetary policy and its implementation."³ It is reasonable to assume from this that after 1975 a major preoccupation of the Bank of Canada has been to convince

²The Fraser Institute is described in its publications as an independent Canadian economic and social research and educational organization whose objective is "the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians.

³Thomas J. Courchene, Monetarism and Controls: The Inflation Fighters (Montreal: C.D. Howe Research Institute, 1976), pp. 24-25.

the central government of the virtues of monetarism. Hence where recent policy appears to depart from the central objectives of monetarism, the forces responsible for such departures would have to be identified and explained. But first it is essential to grasp more fully the keynotes of the monetarist case.

In the following passage, Jack Carr puts in a nutshell the essence of monetarist thinking:

The monetary theory of inflation argues that substantial increases in the rate of growth of the money supply always lead to substantial increases in the inflation rate and that inflation will never end unless the excessive growth in the money supply is stopped.⁴

The crucial point of note here is the direction of causality as Carr sees it — that is, from changes in the rate of growth in the money supply to changes in the rate of inflation. Carr finds that data for Canada covering the period from 1960 to 1974 is in keeping with the theory. "When the monetary growth rate fell," he tells us, "the inflation rate fell. When monetary growth rates reached into the sky, Canada experienced double-digit inflation." (emphasis in the original.)⁵

It is to be noted that Parkin's study of the British experience strongly supports Carr's findings. But the time lags Parkin observes are also worthy of note. He finds "a strong correlation between the

⁴Jack Carr, "Wage and Price Controls: Panacea for Inflation or Prescription for Disaster?", in Michael Walker (ed.), The Illusion of Wage and Price Control (Vancouver: The Fraser Institute, 1976), p. 20.

⁵Ibid., p. 24.

rate of monetary expansion and the rate of inflation some three years later."⁶ One important question that immediately arises is whether the observed correlation by itself establishes the chain of causality. Furthermore, the problem of lengthy (and variable) time lags raises other questions about the monetarist case, both in terms of its relevance to the shaping of policy and its limitations in explaining policy direction and outcomes in view of the many intervening variables that would have to be considered.⁷ But monetarism relies also on other key observations and assumptions.

The underlying logic supporting the monetary theory of inflation is put explicitly by Friedman: "People seem to be very stubborn about the real amount of money that they want to hold and are unwilling to hold a different amount unless there is a strong incentive to do so." According to Friedman, the amount held by the non-banking public in the United States is about four weeks' income, and the holding in different countries is not markedly different. If the money supply is increased and people find that they are holding larger cash balances than desired, they attempt to get rid of the excess through increased demand.⁸

⁶Michael Parkin, "Wage and Price Controls: The Lessons from Britain," in Michael Walker (ed.), The Illusion of Wage and Price Control, p. 114.

⁷For an interesting comment on the problem of time lags for theory and policy, see Walter W. Heller, "Is Monetary Policy Being Oversold?" in Milton Friedman and Walter W. Heller, Monetary vs. Fiscal Policy (New York: W.W. Norton, 1969), pp. 22-25.

⁸Milton Friedman, "What Price Guideposts?", in Schultz and Aliber (eds.), Guidelines, pp. 28-29.

This observed relationship between total spending and the "cash requirements" of the economy as a whole, which Laidler has termed "one of the best established facts of applied economics"⁹ leads to the linking of the creation of wants mainly to the availability of excess cash. Thus it precludes other assumptions pertaining to inherent instability in the system arising from an ongoing struggle between classes over the question of equity and "social justice".

Another buttress of monetarist thinking is expectations theory which rests on the assumption that labour, in establishing pay claims, mainly reacts to previous inflations and attempts to predict what future rates of inflation would be. This theory suggests that it is the expected change in the rate of inflation that influences wage demands. Hence one would expect that a decline in the rate of inflation over a reasonable period of time would be followed by a decline in wage demands. The question of labour's concept of its relationship with business and of the endless struggle between wages and profits which Blanqui long ago described as "a duel to the death",¹⁰ does not appear to be dealt with in expectations theory. Nor does it explain the readiness with which labour has been observed to grasp every

⁹David Laidler, "An Alternative to Wage and Price Controls," in Michael Walker (ed.), The Illusion of Wage and Price Control, p. 183.

¹⁰Louis Blanqui, "The Man Who Makes the Soup Should Get to Eat It," in Albert Fried and Ronald Sanders (eds.), Socialist Thought (Anchor Books, 1964), p. 197.

opportunity to tilt the "balance of class forces" in its favour. What needs to be considered is the extent to which militancy can be explained as a response to changes in prices, and the extent to which it reflects with constancy the workers' image of capitalist structures in terms of the conflict over profit margins, on the one hand, and labour's share of the social product on the other.¹¹ At the same time, what should be guarded against is the pitfall of shifting the emphasis entirely away from "business expectations", while focusing attention on "labour expectations". In this regard, there would seem to be some merit in Mishan's concept of a link between the higher expectations among all groups and the "growth inspired developments" that have characterized the postwar years.¹²

Much of the monetarist argument is inclined toward the notion that induced hardship among consumers is the inevitable cure for the current inflation. This is the converse of the classical concept that full employment places labour (consumers in their other major role) in an advantageous position to win inflationary pay hikes, since there is no reserve labour to provide a cheaper alternative to the unemployed. At

¹¹The two things are by no means mutually exclusive; but a theory that makes too much of the link between militancy and price movements may have difficulty in explaining, for example, increasing militancy in the low-wage sector in periods of moderate overall price increases. It therefore would seem reasonable to grant that part of the explanation for vigorous labour activity must lie in the "social justice" criterion in terms of the distribution of economic resources.

¹²R.J. Mishan, "The New Inflation: Its Theory and Practice," Encounter, May 1974, pp. 13-17.

a time when sustained high levels of unemployment by traditional standards are being widely condemned, we find that not only do the advocates of the "hardship route" (that is, of tighter monetary control which has the effect of choking off investment — and therefore job creation) justify the existence of unemployment, they contend that the current rates are not in fact alarming. The argument is that recent demographic changes — particularly the increase in the participation rate¹³ among women and the youth, as well as the elaborate welfare programme we enjoy, have led to higher levels of frictional (or search) unemployment, making it necessary to review upwards the generally accepted figure for full employment.¹⁴

Such a position taken by a group of theorists brings sharply into focus one of the best examples of the lasting conflict between economic theory and political practicality that is central to the present thesis. On the one hand, "informed opinion" offers theoretical

¹³The proportion of the population who are in the labour force, that is, those who are either actually working or have expressed a willingness to work.

¹⁴In the thirteen-year period from 1945-1957, the average unemployment rate for Canada was 3.1 percent, fluctuating within a low of 1.6 percent in 1945 and a high of 4.6 percent in 1954 and 1957. Subsequently, the next best figures were for the four-year period from 1964-1967 when the average rate was 4.0 percent. In political terms, therefore, an "acceptable" figure would probably be close to 4 percent. In fact, in its performance indicators for the 1975-79 period, the Economic Council of Canada set its full employment target at 4.5 percent of the total labour force (Sources: Canada Year Book, various volumes from 1957-58 to 1976-77; and Economic Council of Canada, Thirteenth Annual Review Ottawa: Supply and Services Canada, 1976, p. 135).

justification for what many consider to be an alarming situation; and on the other is the existence of enormous political pressure to ameliorate the very situation being endorsed by the "experts". This remains a most serious challenge to policy making, and is one of the underlying themes to which we shall constantly return.

At this point, however, it may be noted that the arguments for a redefinition of full employment and for limited monetary growth are different aspects of a massive campaign against government intervention in general, but especially the growth in public sector expenditures which, from business' point of view, tends to nullify the "disciplinary" features of the market-mechanism. The essential question here, of course, concerns the state's obligations in providing certain social needs the private sector cannot or will not provide.

The Phillips Relationship and its Implications for Policy

Before proceeding to the opposing cost-push argument, it would be useful to glance briefly at the celebrated Phillips relationship which addresses the basic question of whether wage change (ΔW) and price change (ΔP) are the outcome of market forces, or whether ΔW and ΔP stem from political activity, that is to say, pressures from organized groups. Phillips' theory¹⁵ is considered to have exerted considerable influence on policy in recent years.

¹⁵ A.W. Phillips, "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957," Economica n.s., 25 (November 1958): pp. 283-299.

The cornerstone of this theory is the proposition that there exists a negative relationship between the level of unemployment (U) and the excess demand for labour ($\frac{D_L - S_L}{S_L}$) as shown graphically in Figure 1. This relationship has also been observed to be non-linear. It can in fact be seen that the demand for labour curve (L) becomes increasingly steeper

the closer it approaches the vertical axis, but can never cross it (a crucial factor regarding the objective of high employment without inflation). Thus the level of U can never be zero. This reflects the existence of residual labour at full employment, as a result of structural and frictional unemployment,¹⁶ for example. And given the popular

¹⁶Some theorists consider all unemployment to be frictional or "search" unemployment which occurs when people search for better jobs. This of course is in keeping with maximization theory that is so fundamental to economics. The possibility that workers could be "freed", as Marx puts it, to give way to machines, or may be rejected for not meeting changing skill requirements — in short, the possibility of "structural" unemployment, is overlooked.

assumptions about the links between the demand for labour and the rate of change in wages and prices, it is a short step from the foregoing to derive other relationships, as between unemployment and wage rates¹⁷ or unemployment and inflation. (See Figure 2.) The important feature to note in both diagrams (a) and (b) is the considerable increase in wages and prices respectively that is associated with low unemployment. Using time series data for extended periods of time, Phillips confirmed that the negative relationship between wage rates and unemployment described here does in fact exist.

Figure 2

The Phillips findings provide a buttress for orthodox economic theory which has stressed the inflationary bias of full employment (low unemployment), insofar as full employment is favourable to labour

¹⁷For Phillips' explanation, see "The Relation Between Unemployment and the Rate of Change of Money Wage Rates," p. 283; and for a first class discussion on his theory and the reactions to it, see John Burton, Wage Inflation (London: Macmillan, 1972), especially pp. 13-39 and 48-55. The present review draws heavily from this source. See also Richard G. Lipsey, "The Place of the Phillips Curve in Macroeconomic Models," in A.R. Bergstrom and others (eds.), Stability and Inflation (Chichester: John Wiley, 1978), pp. 49-71.

in its demands for higher wages. Basically, two important points are borne out by the Phillips analysis. The first, and most often stressed, is that it advances demand-pull propositions which suggest that wage and price inflation is determined by the excess demand for labour, the reasoning here being that competitors for scarce labour will bid up the price of labour. Furthermore, to the extent that the demand for labour is a derived demand, any increase in demand for goods and services will trigger the mechanism linking excess demand for labour, wage increases, and related inflation. The second point, which receives far less attention, concerns assumptions about labour's role in the determination of wages under both favourable (low U) and unfavourable (high U) conditions. In fact, in the case of the unemployment-wage change relationship, it is evident that disproportionately high unemployment would be needed to realize zero or negative changes in wage rates. This latter point, of course, reflects the political component which often modifies the impact of market forces. Such a modification is suggested by the broken line B in Figure 2(a). It illustrates that efforts to control wage rates by demand management, to conform to trade-off points along curve A, can be frustrated by the downward rigidity of wages due to the relative power of bargaining groups. Both Phillips and Lipsey recognized this point.¹⁸

¹⁸"The Relation Between Unemployment and the Rate of Change of Money Wage Rates," pp. 298-299; and "The Place of the Phillips Curve in Macroeconomic models," p. 68, and p. 71 f.n. 4.

The important question, then, is what policy implications emerge from the Phillips findings. Lipsey, Sparks and Steiner respond to this as follows:

With the relationship shown by the Phillips curve, controlling inflation and maintaining the highest possible level of employment now becomes conflicting policy.

It may be that in some ultimate sense there is no conflict, that the economists and the politicians will be able to find an appropriate set of economic policies that will involve no trade-off between full employment and stable prices. [But] the evidence suggests there is a conflict [and that policy makers are] forced to choose between conflicting goals. If a choice is not made explicitly, it is made implicitly.¹⁹

Thus it would appear that the Phillips relationship is still an important consideration in the formulation of anti-inflation policy, notwithstanding a recent contentious proposition put forward independently by Friedman and Phelps concerning the existence of a "natural" long-term rate of unemployment.²⁰ It is argued that pre-occupation with the idea of trade-off between inflation and unemployment could result in a futile effort to reduce unemployment below this "natural" rate, at the expense of higher inflation. But even if, in this context, academics agree that full employment in Canada is

¹⁹Richard G. Lipsey, Gordon R. Sparks, and Peter O. Steiner, Economics, Second Edition (New York: Harper and Row, 1976), pp. 813-814.

²⁰Milton Friedman, "The Role of Monetary Policy," The American Economic Review 58 (March 1968): 1-17; and Edmund S. Phelps, "Money-Wage Dynamics and Labour-Market Equilibrium", Journal of Political Economy (July-August 1968), 678-707.

reached when the unemployment rate is closer to 6 than to 4 percent, as some theorists suggest,²¹ policy makers would still be concerned about the politically tolerable upper limits of unemployment.

Ultimately, they must anticipate and contend with the reaction of powerful monopoly groups operating in the system. This problem is particularly acute in the contemporary situation in which the politicians and most observers admit that inflation at a rate of more than 12 percent, and unemployment in the vicinity of 8 percent are both disturbingly high.

Much of the earlier debate on the Phillips relationship had concentrated on the notion that labour, organized or otherwise, could not influence wage rates independently of the excess demand for labour. This implies that once the "critical statistics" regarding full employment and trend rates were established, changes in wage rates and associated inflation could be controlled by demand management. But it was A.G. Hines who, in a 1964 study,²² most vigorously challenged this viewpoint and presented impressive evidence in support of the "cost-push" position. Hines' work will be treated here as being representative of the clearest statements on "cost-push" theory.

²¹See, for example, Douglas A. Smith, "Alternative Measures of Unemployment," unpublished working paper, Carleton University Department of Economics, June 1977.

²²A.G. Hines, "Trade Unions and Wage Inflation in the United Kingdom 1893-1961," Review of Economic Studies 31 (1964): 221-252.

Hines and the "Cost-Push" Argument

Hines questioned the hypothesis that trade union influence on changes in wage rates is limited by the state of excess demand. He therefore set out to assess directly the impact of union activity on the rate of change of money wages.

Utilizing time series data, Hines found (a) that there exists "a very close statistical relationship between the rate of change of unionization and the rate of change of money wage rates"; (b) that "unionization is the causal variable in the observed relationship"; and (c) that "the rate of change of unionization is uncorrelated with the demand for labour."²³

At first glance, the second observation may appear to be quite dubious when fitted to, say, recent Canadian experience in which record wage gains were made, even though the average rate of change in unionization (for the selected period) was only 0.7 percent.²⁴ And yet, what is perhaps the most valuable part of Hines' contribution concerns this very question. As he explains, a relatively large increase in

²³Ibid., pp. 221-226.

²⁴From 1971-75, the average yearly rate of change in unionization (total labour force) was 0.7 percent. Over the same period, average annual wage change ranged from 8.3 percent in 1972 to 17 percent in 1975. In comparison, for the period from 1951-55 the increase in unionization was 50 percent faster, though changes in wage rates were smaller. (Sources: Computed from statistics in Labour Organizations in Canada 1974-75 [Ottawa: Information Canada,] 1975 ; and Canada, Department of Labour, Wage Rates, Salaries and Hours of Work, various issues from 1954 to 1977.).

unionization when total unionization is a small percentage of the labour force will have a smaller effect on wages than would a relatively small increase when unionization constitutes a substantial part of the labour force and there begins to be a "diminishing response to a given intensity of recruiting effort." In the latter case, therefore, even a small positive change in unionization would reflect an intensification of union activity "which manifests itself in [significant] wage claims..."²⁵

Hines touched on a further related point which continues to feature strongly in cost-push theory. This concerns the impact of a leading sector on wage rates in the rest of the economy. It is contended that, to realize the effects observed by Hines, only part of the organized portion of the labour force needs to show a significant increase in unionization and militancy, and realize a correspondingly high rate of increase in wage rates. Thus a few leading sectors would set the wage pattern, and though the relatively large increase in union activity in the leading sectors would correspond to a smaller aggregate increase, it would still be found that small overall changes in unionization and militancy are related to proportionately larger changes in aggregate wage rates.²⁶ This process is sometimes referred to as the wage-wage spiral because of the constant tendency for wage followers to try to catch up to the leaders and for the leaders to try

²⁵A.G. Hines, "Trade Unions and Wage Inflation in the United Kingdom," pp. 226-229.

²⁶Ibid.

to regain their previous advantage.

Mention may also be made of one other description of the cost-push process which is fully consistent with Hines' model. This is the so-called wage-price spiral in which the prime movers are labour monopolies and business monopolies. Assuming constant productivity, the theory holds that if labour uses its monopoly power to win pay hikes, business will in turn mark up prices to cover the increased labour costs and maintain a comfortable profit margin.²⁷ But labour will again attempt to recover lost purchasing power, and further, may try to gain a margin in anticipation of subsequent price increases. The question of whether wage increases precede price increases, or vice versa, remains of course a subject of constant debate.

One of the implications of Hines' proposition is that at some point in assessing the effectiveness of unions, less significance should be attached to the absolute number of workers organized, vis-a-vis those not organized, and greater importance placed on the impact of (even declining) increases in union activity on the wages of workers in general. Later in this study, we shall attempt to assess the extent to which the present 37 percent of the organized non-agricultural labour force in Canada appears to influence anti-inflation policy design.

²⁷There are constraints, of course. Prices cannot always be readily jacked up. Where the good involved is for the domestic market, and the demand is highly inelastic (as for heating oil in winter), it would be easier to increase price than where the good is for export and is subjected to international competition. In the latter case, wage increases sometimes "squeeze" profits until the market can accommodate a price increase.

A major criticism of Hines' analysis is that it does not explain the trigger mechanism for labour militancy. In spite of the overwhelming acceptance of the idea that demand pressures exert some influence on the effectiveness of unions, Hines does not accommodate this concept even as a partial explanation of the "pushfulness" of unions. But while the value of his work may be diminished somewhat by this, Hines must be credited for providing an alternative to the strict excess demand hypothesis as an explanation for vigorous labour activity and changes in wage rates. Hines' contribution is all the more relevant today, given the coincidence of high rates of both inflation and unemployment.

And yet, insofar as the theoretical models examined above are meant to provide guidance in policy making, neither extreme position by itself — cost-push nor demand-pull — presents a sufficiently comprehensive basis for a policy against the multi-faceted problem of inflation. One approach assumes away the significance and the impact of the labour movement, and treats it as an acquiescent force to be "managed" or manipulated on a see-saw between wages and unemployment. The other approach invests unions with immeasurable powers to inflate wages — and therefore prices, ignoring monetary constraints along the way. For these reasons, serious questions must be asked about the meaningfulness of speaking, for example, of adopting a purely "monetarist solution" to inflation. How would such a policy work in a situation of vigorous union activity? And will militancy disappear if the money supply is held tightly in check?

Bridging the Theoretical Gap, or Light
at the End of the Tunnel

If the primary purpose of the theoretical models reviewed above is to provide direction for the shaping of policy, then the dispute between the two main schools of thought on the sources of inflation confronts policy makers with the added problem of having to choose, not only between conflicting goals, but also between competing sets of ideas on how to achieve those goals. And for the policy analyst also, a methodological problem exists. How is he to determine, on the basis of ultimate decisions, the extent to which policy is inspired by theoretical models, and how far it is influenced by what Ian Stewart has referred to as "forces and elements which have a certain currency amongst politicians and the man on the street", which theoreticians often "consign to an exogenous role ... or ... neglect completely..."²⁸ Some light needs to be shed in this area before proper judgment can be made on the appropriateness of theoretical models as blueprints for policy, apart from their application as explanatory tools for assessment, after the fact, of socio-economic events. Unquestionably, much insight can be gained from (a) consulting with final decision makers directly and critically appraising their response, or (b) studying a series of policy developments in the context of various related circumstances, or (c) combining both of these. It might even be possible to detect some pattern in the way in which choices are made between competing policy alternatives.

²⁸Ian A. Stewart, "Anti-Inflationary Policy," Notes for a Panel Discussion, National Social Science Conference. Mimeo. Ottawa, 21 November 1975, p. 5.

Conceivably, government action to control inflation can reflect one of three possible major commitments. One is full commitment to demand management which embraces the monetarist point of view and involves strict limits to the printing of money for long stretches of time (to allow for the observed time lags between the initiation of such policy and evidence of its impact); close adjustment of the bank rate which indicates policy direction; and anti-labour action to force the acceptance of lower wages by increasing the competition for jobs among the unemployed. A second alternative commitment would be to freedom of the market mechanism — such as it is — on the assumption that pressures for higher wages could be balanced by innovation on the part of business to increase productivity (which, it must be agreed, is the one sound basis for real wage increases). Hence, sympathy toward labour's demands; the promotion of an atmosphere conducive to free collective bargaining; concessions to business; and above all, the "ratification" of negotiated contracts through a "permissive monetary response", as Burton puts it,²⁹ would be characteristic features of such a policy commitment. And the likely methods of indicating policy objectives would be through moral suasion and the issuance of guidelines. This approach may be described as "accommodation", which encompasses what Johnson has referred to cynically as the "pampering" of the workers.³⁰ In light of the body of theory

²⁹Burton, Wage Inflation, p. 24.

³⁰Harry Johnson, "What is Right with Monetarism," Lloyds Bank Review no. 120, April 1970, p. 16.

summarized above, it is clear that in the eyes of the majority of economic theorists, these two alternatives set the parameters for designing policies against inflation. The problem, however, is that both are presented as competing policy approaches in an "either/or" situation. The present thesis suggests that this is out of keeping with reality. In fact, the choice of a third commitment which seems most in line with contemporary Canadian experience should now be recognized. This is moderate adjustment to the prevailing economic framework. Such a commitment will manifest itself in policies that either embrace (in some cases, symbolically) elements of the first and second options, or reflect a shifting of emphasis from one to the other, largely on a short or medium-term basis, as political expediency demands.

This picture of the anti-inflation policy approach alludes to government's acknowledgement of powerful political forces operating in the system. In specific terms, what is being suggested here is that, implicitly, the existence of monopoly power within the system exerts a restraining influence on economic policy decisions. And the notion that the policy objectives are likely to be for short-term impact is based on assumptions concerning the behaviour of elected governments constrained by their limited terms of office. Where governments are obliged to face political sanctions by the electorate on a regular basis, there can be little doubt that portrayal by the state of an image of impartial custodian of the interests of all sectors would be a most important policy concern. It is also reasonable to assume that coercive action against large segments of the

electorate are less likely to occur prior to an election than, say, shortly after a strong mandate to govern has been given at the polls.

Related attention to such political aspects of inflation is beginning to emerge from hitherto considered unlikely sectors of the economic circle. For example, Carl Beigie, President of the pro-business C.D. Howe Research Institute in Montreal, elaborates on what he terms the "gradualism" that has characterized anti-inflation policy in Canada in the mid 1970's. The decisive influence of political factors on such a policy approach is fully captured by Beigie in the following passage:

... faced with conflicting pressures and advice, government found that gradualism provided a convenient framework within which they could continue to accommodate, essentially on an ad hoc basis, a fairly wide variety of demands from various interest groups....

The basic alternative to gradualism ..., an immediate shift in policy to arrive at ... policy targets quickly ..., was rejected. A dramatic shift in policy ... would have been perceived as carrying high risks [of increased hardship for the public]. In that event, public reaction would have been intense ...; and the predictable response would have been a backing down by government.³¹

In focusing attention on the "compromise" that gradualism implies, Beigie attempts to impress upon his colleagues the need to infuse into the sterile inflation debate some "sensitivity to political and sociological considerations", as well as recognition of "institutional and behavioural factors" which often suffer badly in "technical" economic explanations. He goes on to say that: "This compromise reflected a

³¹Carl E. Beigie, Inflation is a Social Malady (Montreal: British North American Committee, 1979), p. 5.

growing awareness that the fundamental trade-off facing society over time is not between a little less unemployment and a little more inflation, but between a lack of economic discipline and increasingly authoritarian measures to control the economy.... Thus Beigie finds it necessary, in analysing the inflation process, to "bring in some of the dynamic aspects involved in policy matters."³²

But perhaps the most forthright statement on the need for a shift in emphasis in theorising on inflation appears in Robert Gordon's 1977 study on inflation and monetary accommodation. Gordon's findings are all the more significant because of his long-standing identification with the monetarist position. He arrives at the conclusion that "both the international-monetarist and wage-push arguments are unsatisfactory and incomplete", and he outlines the new direction endorsed in the present study. As he explains:

A correlation between world prices and money does not rule out wage push as a source of world monetary growth. Instead of viewing international monetary and wage-push factors as competitive explanations of inflation, a more comprehensive theoretical framework...., which incorporates these two ingredients as possible explanations of the behaviour of monetary authorities, [is needed].³³

In effect, Gordon is appealing for a departure from the self-serving preoccupation of seeking, day after day, for some evidence to "prove" that a particular policy outcome lends support to one's pet theory, and conversely, discredits one's opponent's. Such a change

³²Ibid., pp. 5-7.

³³Robert J. Gordon, "World Inflation and Monetary Accommodation in Eight Countries," Brookings Papers on Economic Activity 2.(1977): 410-411.

in outlook would be an essential first step in bridging the theoretical gap, both within the discipline of economics and between economics and politics. In acknowledging from this perspective the complexity of pinning down the sources of the present inflation,

Gordon declares:

International monetary effects and wage push are only two of the possible sources of inflation. A useful framework for analysis of the sources of inflation is to distinguish factors that create pressures on government to "accommodate" — that is, to react by raising the money supply — and factors that help to explain why the [government] reacts as it does to these pressures.³⁴

It should be obvious that the "factors that create pressures" for accommodation would include political factors concerning the relationships among competing power groups within the system, and economic factors that often transcend the purview of the state. But Gordon's major contribution here would seem to be his endorsement of the idea of focusing greater attention on the question of why government reacts as it does and appears so often to ignore the wisdom of the "experts".

It would be useful at this point to summarize the major assumptions that seem to underly the principal theoretical positions we have reviewed. From the monetarist standpoint, one observes first and foremost the assumption of price and wage flexibility in terms of their conceived responsiveness to changes in the level of demand. In the case of wages, high unemployment (low demand for labour) continues to

³⁴Ibid., p. 417.

be regarded as an effective damper on wage claims.³⁵ Second is the assumption of constant tastes, wants, and values. The individual's "cash requirements" are assumed to remain constant unless changes are imposed exogenously by the monetary authorities. This of course denies the validity of the psychological question of the demonstration effect. A third assumption is that of passivity and acquiescence on the part of labour regarding the objectives of demand management pursued by the state. To sustain such an assumption is to drastically devalue, and deny the will to defend, the social concessions won by labour through bitter struggles against capital and the state — the compendium of such concessions being collective bargaining rights. Fourth is the assumption that certain demographic changes that have occurred are incompatible with the attainment of traditional full employment figures. On this basis, not only would it be difficult to explain a decline in unemployment approaching even the suggested higher full employment figures in situations of sluggish economic growth; it could also be embarrassing to find full employment figures approaching traditional rates in any country that has experienced

³⁵ Surely, high unemployment can be "proven" to exert a downward pressure on wages; but not necessarily on the sole basis of the supply and demand postulate so often stressed. In the contemporary situation, the degree of coercion that public policy supports should also be considered. Thus the crucial question concerns the level of unemployment that would be required or could be risked to produce a significant impact on wages, in view of the political component mentioned earlier, and reflected in the less steep wage-unemployment curve B relative to A) in Figure 2(a) above.

similar demographic changes.³⁶ Lastly, one notes the assumption of a "harmonization of monetary policies" in the international community³⁷ or, to suggest an alternative interpretation, an absence of significant conflict between monetary policy and international competition, notwithstanding the non-bank transnational movement of capital carried out by major corporate entities, and the recourse, from time to time, to measures such as the "dirty float"³⁸ by governments in advanced economies in their efforts to gain or sustain competitive trade advantages.

From the standpoint of cost-push theorists, the key assumptions appear to be: (a) that the labour market is not truly competitive

³⁶In West Germany, for example, the unemployment rate rose from 0.3 percent in 1966 to 1.2 percent in 1968, then declined again to the vicinity of 0.5 percent in 1970 and 1971. Over the same period, unemployment in Canada maintained a virtually steady uptrend, rising from 3.6 percent in 1966 to 6.4 percent in 1971. But according to the CLC, not only were the associated changes in female participation rate in Canada less dramatic than sometimes proclaimed; "our female participation rate is still considerably less than that of [most leading western nations including West Germany]." See Canadian Labour Congress, Memorandum to the Government of Canada, March 1972, pp. 11-12; March 1973, p. 8; and March 1975, p. 10. For comparative statistics, see Prices and Incomes Commission, Final Report: Inflation, Unemployment and Incomes Policy (Ottawa: Information Canada, 1972), pp. 87-88; and OECD, Economic Surveys, Germany, May 1974, p. 81.

³⁷A splendid discussion on this and the disequilibrating forces which affect a country's monetary policy — and consequently its rate of inflation — is to be found in Otmar Emminger, Inflation and the International Monetary System (Basle, Switzerland: The Par Jacobson Foundation, 1973), pp. 18-24.

³⁸Defined as the buying or selling of a country's currency in the money market by the monetary authorities, with the specific objective of influencing the currency's exchange rate.

and that non-competitive forces largely determine the movement of wages and prices, and (b) that the economic system described variously as capitalist, free enterprise, and mixed enterprise, is rooted in class conflict, the resolution of which involves inevitable confrontation between the major parties. The exercise of monopoly power on the part of business and labour is therefore a consequence and a reflection of a conflict-ridden, inherently unstable system. And such exercise of power is seen to affect the pattern of wage and price development.

Even a casual glance at the records soon reveals the kinds of embarrassment to which some of the arguments based on these assumptions could lead. Take for example the claim by Carr and Parkin, mentioned earlier, that monetary growth always precedes increases in inflation. This, presumably, rests on the assumptions regarding constant wants (cash requirements and so forth) and passivity. Yet Gordon has found that in eight leading industrial nations "the 1969-70 acceleration of wage rates preceded by almost a year the 1971 explosion of money and international reserve, in apparent conflict with the international monetarist explanation."³⁹

A more striking example concerns the widely acclaimed monetarist stand taken by the Bank of Canada since 1975. From then on, not only were growth rates of the money supply in the order of 20 percent no

³⁹Gordon, "World Inflation and Monetary Accommodation," pp. 410-411. For some powerful supporting arguments, see Means, "Inflation and Unemployment," pp. 11-19, especially 17-19.

longer to be permitted; they were to be reduced in stages, commencing with a target range of 10 to 15 per cent. In five successive quarters from the beginning of 1976 the average monetary growth rate was 3.8 per cent — significantly below the lower target limit, and well below the 21.1 per cent average growth rate for 1975. Surely, no one would dispute that a time lag exceeding five years should be sufficient for the predicted impact to be felt. Yet the rate of inflation for 1980 was higher at 12 per cent than the 8 per cent rate for 1975. Indeed, neither the tight control of the money supply nor the related record high bank rate, reaching as high as 17.28 per cent in December 1980, (compared to 9 per cent in 1975) brought about the results envisaged in Governor Boney's Saskatoon speech. Furthermore, the effects of these policies on wages are questionable in view of the current escalating pattern of wage hikes, at a time when the economy is experiencing disturbingly sluggish growth. The dampening effect on wages that theory would suggest is certainly not apparent.

It is on such experiences that Hicks appears to shed some light, when he declares that "the crucial question concerns the [determination] of wages.", especially the way in which particular wage increases become generalized. It is "not a monetary question", he insists, "it is not a matter of the working of the financial market but of the labour markets."⁴⁰

⁴⁰Sir John Hicks, "What is Wrong with Monetarism, " Lloyds Bank Review no. 118, October 1975, p. 2.

A brief summary of Hicks' argument⁴¹ is warranted and runs as follows: In the contemporary situation private investment continues to fluctuate in cycles as in the past; but there is superimposed upon the old cycle a "Keynesian" fiscal monetary policy which moderates the slumps. In the boom, wages rise in particular industries — the cycle-sensitive industries, but they do not, as in the past, fall in the "moderated" slumps. "They therefore unsettle wages in other industries." Thus wage increases which began in cycle-sensitive industries became generalized. Wages therefore rise in non-expanding industries, not because of labour scarcity, but because the workers in such industries feel that they are getting left behind. The more permanent the high wages of the leading industries appear, the greater would be the pressure from workers in other industries for their wages to "catch up". "The pressure may take the form of strikes, and it will be clear to employers that they must raise wages for the sake of "good industrial relations". It is to be noted also that prices in the labour market "are not just determined, from day to day, by demand and supply." They have to be negotiated and therefore remain "fixed". But perhaps the strongest point is that the wage earner does not only compare his earnings with other people's, he also reflects on his own past experience, which makes him resist a reduction in the purchasing power of his wage, and even a reduction in the growth of

⁴¹Compiled from Sir John Hicks, The Crisis in Keynesian Economics (New York: Basic Books, 1974) pp. 64-85; and the same author's "What is Wrong with Monetarism," especially pp. 2-5.

that purchasing power.⁴² This "Real Wage Resistance" need not be a sequel to demand inflation; it can arise on its own.

Several important points emerge from Hicks' analysis. One concerns the role of monetary and fiscal policy to deliberately moderate slumps. This imposes on the researcher the limitation that the broader goals of government ought to be treated as given, and that the necessity of government intervention should be accepted as part of the framework for policy assessment. For this reason, it would be pointless to dwell on policy suggestions that raise the spectre of "the dirty thirties" in terms, say, of uncomfortably low levels of employment. The second point concerns the question of "social justice" — the idea that labour does not only react to price changes; that it may be motivated also by the desire to bridge income gaps and bring about the "more equitable distribution of income" which many governments have all but enshrined in their stated policy goals. The third point of note is that many wage settlements are in excess of the "market value" of the worker's output and arise, not from general productivity increases, but from social pressure. Particular increases in productivity should, through the market mechanism, raise the level

⁴²The notion of "expectations" is implicit here, but not in the narrower sense employed in popular models to suggest that workers set their targets high or low, depending on what they "perceive" or "anticipate" the inflation rate to be. Hicks' idea is closer to Mishan's "growth inspired" explanation that is linked to the post-war commitment to welfare. Skitovsky's suggestion that "the threat to affluence" shapes current wage behaviour, fits also in this mould. (See Tibor Skitovsky, "Market Power and Inflation," Economica 45 [August 1978]: 226.)

of wages in those industries involved; but as the wage differentials among workers in different industries widen, it becomes increasingly difficult to convince the worker in the low-wage sector that his wages are limited by his company's marginal-revenue product.

And yet, in meeting the demands of labour the employer is constrained by projected revenue. Where pay hikes would appear to push expenditures above revenue, it may be necessary to release workers in the short run so that the wages of some can be increased at the expense of those who lose their jobs. Alternatively, pay increases may be granted in the hope of recovering shortfalls in revenue from future price increases.⁴³ But in the era of monopoly capitalism, characterized by massive financial commitments, the risks involved in the latter option would be high. So the more realistic business strategy, as Means' analysis has clearly shown, relies essentially on "price administration". Prices are thus "set ... and kept constant for a period of time and a series of transactions", to ensure "safe" profit margins.⁴⁴ It should be obvious that a generalization of the first option could heighten political tension through the resultant unemployment; while a generalization of the last would necessitate state intervention, either to provide monetary accommodation, or to counter the built-in inflationary bias - whichever is practical.

⁴³Marx long ago made insightful comments on this aspect of the capitalist process. See Capital vol. 3, (New York: International Publishers, 1967), pp. 37 and 344-345.

⁴⁴Means, "Simultaneous Inflation and Unemployment," p. 4.

A seemingly unique situation also exists in Canada where close to 68 per cent of workers in public administration are in some of the country's largest unions. The general upward pressure on pay in that sector hardly stems from "productivity" increases in particular departments; but it would appear that "wage leadership" in some areas of the public service plays a significant role in this regard. As Courchene in a curious admission from the monetarist platform declares:

... it is undoubtedly the case that recent wage and fringe benefit patterns in the public sector played a major role in heightening wage expectations in the private sector as well as in other areas of the public sector....

Not an insignificant portion of the current wage explosion can be attributed to the fact that the public sector assumed the role of wage leader in the post-float period.⁴⁵

Courchene stops short of explaining whether or not it is possible for wage leaders to trigger an inflationary spiral in a tight-money situation; and if they can, what recourse is open to government for launching counter measures. More substantive, perhaps, is Hicks' illustration of how inflation can result from a chain of events originating in the very process by which wage increases are generally considered to be justified, that is, increasing productivity. The important point is that this can be an independent cause of inflation that is not induced by increasing demand resulting from fiscal and monetary adjustments. It should especially be noted that the

⁴⁵Courchene, Monetarism and Controls, pp. 77 and 83.

transformation from particular to general wage increases is in essence a socio-political process, reflecting to a large extent what Ackley has referred to as the unwillingness of large sectors of the economy "to accept a relative redistribution of income against them as a consequence of market power in other sectors."⁴⁶

What has emerged quite strongly from the material surveyed thus far is the increasing recognition of the significance of behavioural factors in the inflationary process. Labour's prominent political role in the pattern of wage development would suggest that labour activity inevitably becomes a central factor in the formation of anti-inflation policy. On the other hand, the owners of property,⁴⁷ to survive, must constantly wrestle with the primary producers over the distribution of the social product. But it is largely the exercise of monopoly power on both sides that necessitates state intervention in the interest of stability. How the state performs its role, and the constraints within which it functions are therefore crucial aspects of the issue; and this will be the subject of the following chapter.

⁴⁶Garner Ackley, "The Contribution of Guidelines," in George P. Shultz and Robert Z. Aliber (eds.), Guidelines: Informal Controls and the Market Place, p. 69.

⁴⁷The term "property" is used here in the Marxian sense to mean the owners and controllers of the means of production.

CHAPTER 3

THEORIES OF THE CAPITALIST STATE
AND THEIR POLICY IMPLICATIONS

The Role of the State in Advanced Capitalist Economies

In analysing the role of the modern capitalist state, Theodore Lowi's concepts provide a convenient starting point. Focusing largely on the governmental process of policy making, Lowi parts company with the "rationalists" who view policy making as a systematic selection of means to obtain a desired end, given all the conceivable options and their envisaged consequences. Lowi contends that "conscious control ... is the predominant fact of modern conduct" and that "the intrinsic governmental feature is the legitimate use of coercion."¹ Hence expressed policies are "deliberate coercion-statements" outlining "the purpose, the means, the subjects and the objects of coercion."² In Lowi's formulation, therefore, policy and coercion are closely linked; and different sorts of coercive relationships will indicate different sorts of policies."³ By the same token, policy changes in response to a worsening problem would reflect corresponding increases in the degree of coercion employed, and if the

¹Theodore Lowi, The End of Liberalism (New York: W.W. Norton, 1969), pp. 29-30 and p. 50.

²Theodore Lowi, "Decision Making vs. Policy Making," p. 315, quoted in Peter Aucoin, "Theory and Research in the Study of Policy-Making," in G. Bruce Doern and Peter Aucoin (eds.), The Structures of Policy-Making in Canada (Toronto: Macmillan, 1971), p. 24.

³Ibid., p. 25.

issue involved is a highly contentious one, the observable pattern in the policy process, under normal circumstances, is likely to be from least coercive to most coercive policy stand.

The most valuable insight to be derived from Lowi's ideas would seem to be that the very emphasis on the coercive element implies resistance and reaction, as opposed to harmony and passivity. Thus in observing the more far-reaching policies that tend to impinge upon the relationship between major socio-economic groups today, one is led to recognize the centrality of powerful opposing forces in defining the role of the state. Indeed, Lowi himself sheds valuable light in this area when, in outlining the (four) different types of policies by means of which, in his view, government coerces, he emphasized that two of these — regulative and distributive policies — are associated with the rise, in the late 19th century, of "organizations oriented to political influence and capable of sustaining pressure." This influence, originating with commodity organizations, later "spread to labour and business."⁴

The underlying assumption in Lowi's analysis is that "policies determine politics", the very opposite, as he puts it, of the typical perspective in political science. But this is surprising, as the logic of his own argument bears out. For instance, in citing the

⁴Theodore Lowi, "Four Systems of Policy, Politics and Choice," Public Administration Review, July-August 1972, pp. 301-302.

classic example of the Roosevelt era and Roosevelt's reaction to the existing environment, Lowi asserts that

Roosevelt responded to more pressures than any national leader ever had. And in translating those pressures into public policies he also transformed those pressures into special and meaningful political forces that were shaped by the type of policy the demand became⁵ (emphasis added.)

It is to Lowi's credit that he describes so well the interaction between environment and actors, as well as between different sets of forces within the environment; but his conclusions in terms of the causal links regarding politics and policy are somewhat narrow. In fact, the thrust of the present study, based on observable data, is precisely that while policy may determine politics to a large extent, policy is increasingly being influenced also by constantly evolving political forces.

Another approach that has attracted much attention in recent analyses of the role of the state is that advanced by James O'Connor. According to O'Connor, "the capitalist state must try to fulfil two basic and often mutually contradictory functions — accumulation and legitimization."⁶ Adhering closely to the framework laid down by Marx on the "laws of motion" of capitalist production, O'Connor observes that the growth of the private sector depends on increasing capital accumulation which, in the present stage of monopoly capitalism, requires the socialization of a growing proportion of

⁵Ibid.

⁶James O'Connor, The Fiscal Crisis of the State (New York: St. Martin's Press, 1973), p. 6.

capital costs, although the "social surplus" continues to be appropriated privately.⁷ To ensure system stability in light of such inequity in the distribution of benefits and burdens, it is therefore necessary, in liberal-democratic countries such as the United States and Canada, to establish some consensus on the virtues of the system. And the central premise on which this consensus rests is that "a rapidly growing GNP" and expansion in general are "the best insurance against ... social disorder as well as the safest guarantee that social benefits will continually increase."⁸ Thus the State⁹ is able to fulfil its accumulation function "legitimately" to the extent that its actions are widely interpreted as being for the general good.

Some critics consider O'Connor's framework to be imprecise¹⁰ and too mechanistic. Nor is the criticism without some validity; for although O'Connor recognizes the link between the major aspects of state activities and the "relations of classes",¹¹ he fails to take advantage of the lead that Lowi provides and include coercion as a

⁷Ibid., p. 9.

⁸Ibid., p. 160.

⁹We find to be most useful Miliband's definition of the state as "a number of particular institutions which, together, constitute its reality." The government speaks on the state's behalf, and is thus often taken as being synonymous with the state; but the administration, the military and police, the judicial branch and parliamentary assemblies, are other elements of the state. See Ralph Miliband, The State in Capitalist Society (London: Weidenfeld and Nicolson, 1969), pp. 49-54.

¹⁰See, for example, Hugh Mosley, "Is there a Fiscal Crisis of the State?" Monthly Review, May 1978, especially pp. 38-39.

¹¹James O'Connor, The Fiscal Crisis of the State, p. 2.

central element in his model.¹² Consequently, the explanation for coercive actions by the state in the resolution of class conflict remains obscure in O'Connor's formulation; and the impression may even be conveyed that group compliance with government policy is an accurate measure of the state's persuasiveness in carrying out its legitimization function. O'Connor, unfortunately, has not emphasized "legitimate coercion" as an important function of the state.

More recently, other analysts have sought to provide a deeper understanding of the functions of the state and to take account of the shortcomings of earlier models. Claus Offe, for example, has found that the reigning theories do not adequately explain the "class-character" of the capitalist state. Nor do they demonstrate the "structural necessity" for the state's accumulation function. Offe is particularly critical of the Influence Theories and Constraint Theories¹³ which rest on assumptions that the power elite — both economic and political — manipulate the state apparatus to protect their positions of power and privilege and, by virtue of the political institutions and process,

¹²Panitch detects this weakness and points out that in O'Connor's formulation "there are really three distinct functions of the state identified" (though O'Connor emphasises only two). The third is "a coercive function ... — the use by the state of its monopoly over the legitimate use of force...." See Leo Panitch, "The Role and Nature of the Canadian State," in Leo Panitch (ed.), The Canadian State: Political Economy and Political Power (Toronto: University of Toronto Press, 1977); p. 8.

¹³Both are based on notions that the state apparatus is biased toward the interests of the "ruling class", though the former set of theories claims the more direct instrumentalist relationship.

enjoy substantial immunity from state censorship. He argues that for capitalists as a class to use the state apparatus as its instrument, a standardized concept of capitalist class-interest, as opposed to simple expressions of particular and situation-bound special interests, would have to emerge within that group. But Offe finds instead that the competitive relationship among individual enterprises at the national as well as the international levels impedes the development among capitalist enterprises of both a conception of "common interest" relationships and "long-term strategic orientation". And what is observed is "a series of ... anarchical accommodation moves" arising from "the pressure to survive under present market conditions."¹⁴

Thus the crude instrumentalist argument is rejected on the grounds of its narrow perspective, and it becomes clear that accumulation is not entirely for the benefit of capitalists. According to Offe, accumulation is the integrative element that holds everything, including state power, together, and protects the system against "threats" from such sources as international competition, the working class (alienated as it is from the means of production), and from "deviant" forces in the society. The state therefore has a mandate to maintain the system by creating conditions in which continuity in the process of accumulation is assured.¹⁵

¹⁴Claus Offe, "Structural Problems of the Capitalist State," German Political Studies 1 (1974): pp. 32-34.

¹⁵Claus Offe, "The Theory of the Capitalist State and the Problem of Policy Formation," in Leon Lindberg (ed.), Stress and Contradiction in Modern Capitalism: Public Policy and Theory of the State (Lexington, Massachusetts: Heath, 1975), pp. 126-127.

Offe proposes four elements on the basis of which to identify and analyse the capitalist state: (a) the state's exclusion from accumulation, (b) its necessary function for accumulation to take place, that is, for system maintenance, (c) its dependence upon accumulation for the very existence of its power relationships, and (d) its function to deny and conceal these three elements — in other words, its legitimation function.¹⁶ However, to perform its multi-faceted role effectively, and to be especially convincing in the legitimation aspect, the state must enjoy "relative autonomy from the 'ruling class' and from civil society at large."¹⁷

But to fully appreciate the role of the state is to understand the dynamics of the process involving the state,¹⁸ in which policy and politics become enmeshed. From the preceding discussion, it should by now be clear that the functions of the state are partly strategic and partly symbolic. And as Offe correctly points out, the simultaneous expansion of the symbolic and strategic functions "must generate interference and political crisis phenomena."¹⁹ Hence there is a

¹⁶Ibid., pp. 127 and 144. Miliband suggests four similar functions, except that in the place of the "exclusion" function he substitutes the "international function" through which certain national interests are served. See Ralph Miliband, Marxism and Politics (Oxford: Oxford University Press, 1977) pp. 90-98.

¹⁷Ibid., p. 74.

¹⁸For a perceptive treatment of this, see Göran Therborn, What Does the Ruling Class Do When it Rules? (London: NLB, 1978), pp. 37-38 and 45-48.

¹⁹Offe, "Structural Problems of the Capitalist State," p. 50.

constant attempt to reconcile and make compatible these various functions with [the state's] internal structure ... [although there exists no] visible ... strategy that actually does reconcile these functions....²⁰ The best that can be expected is that the state continue to appear as mediator and (reconciliator, acting in the general interest — a role which itself generates as much conflict as it resolves.

The full employment policy which became popular after the experiences of the Great Depression and World War II serves as a classic example to illustrate the contradictory nature of the state's two major functions. One readily becomes aware that without such political assurance the degree of social peace with the unions would not have been realized. And yet such a declaration created structural problems which shifted the hub of action from the economic to the political arena, as workers have come to regard full employment as a matter of public policy. The political system would therefore run into a legitimation problem if it should appear that the right to a job ceases to be protected.²¹ Needless to demonstrate how similar notions concerning real wage protection would also be sustained.

The theories of the state complement the economic theories examined earlier, to provide a sounder basis on which to construct a more balanced approach to the analysis of the current inflation than

²⁰Offe, "The Theory of the Capitalist State," p. 144.

²¹Offe, "Structural Problems of the Capitalist State", pp. 50-51.

would otherwise be the case with "rational" economic theories alone. And in examining the present inflation in historical perspective — as indeed it should be examined — it seems appropriate to reflect on those Marxian concepts which locate this type of problem in the context of "class conflict" (as defined above). This is not to conjure up notions of the "emiseration of the masses", in which context it could sometimes be quite awkward to explain the behaviour of many high-income groups in private as well as public sector bargaining. Rather, it is on the "laws of motion" of the capitalist system that attention should be focused. For it is clear from the areas of theory we have reviewed, that within the capitalist system the divergence between accumulation and legitimation develops a momentum of its own, which overrides the simple logic of economic theory and cries out for attention in the investigation of such persistent and pervasive problems as the current inflation. The evidence seems overwhelming that if analysts are ever to find a clue to the puzzling behaviour of wages and prices in modern capitalist economies, greater attention would need to be paid to the workers' interpretation of the social system and their reaction to certain patterns of economic and political development, on the one hand, and to the necessary mediation role of the state on the other. To speak, therefore, of government policy independently of these considerations is to ignore, at one's own peril, the very dynamics of the politico-economic system in which we live,

For in such a setting, [Miliband writes], the political system allows pressures to be generated and expressed against and in the state, and may turn the state itself into an arena of conflict.... In the conditions of late twentieth-century

capitalism, the state in bourgeois democratic regimes is under constant pressure to meet the expectations and demands of the subordinate classes.... But against the expectations and demands emanating 'from below' must be set the requirements of capitalist enterprise; and whatever the state does by way of provision and management of services and economic intervention has to run the gauntlet of the economic imperatives dictated by the requirements of the system....²²

This brief excursion away from the specific Canadian scene into the more general realm of theory is essential, as stated at the outset, in order to "escape the restricted orbit" of pure economic rationality, to appreciate the "structural constraints" within which socio-economic policies are actually determined. It is felt that such an approach would be preferable to launching prematurely into a bankrupt and narrowly circumscribed debate that restricts itself to such considerations as existing monetary, fiscal and other anti-inflation policies. In fact, a major shortcoming of many studies that dwell on "demand-pull" and "cost-push" hypotheses is precisely their failure to venture outside a narrowly defined frame of reference to formulate a broader basis for analysis, such as the one presented here. This broader framework is seen to be vital to the understanding of the type of inflation now being experienced in Canada and in so many other western states.

But the real test of all of the foregoing lies not so much in the consistency of its logic as in the actual unfolding of events over the period under review, and it is therefore to this that we shall next be turning. At this stage, however, it is appropriate to list first of

²² Miliband, Marxism and Politics, pp. 96-97.

all the basic premises from which we shall proceed to examine the Canadian experience in light of the background of theory we have so far reviewed.

Summary of Basic Premises and Postulates

1. The heightening levels of worker and consumer expectations and the associated inflation are by-products of the international commitment to growth and development in the postwar years.
2. The ideals of economic growth and full employment which gained international favour after World War II²³ enhanced labour's effectiveness in its ongoing struggle for social justice.
3. Significant changes in the purchasing power of the working class are negatively related to labour militancy; and attempts to reverse the gains won by this group in purchasing

²³Several writers have attempted to define the link between the post-war expansion and the current inflation, but Ed Mishan is perhaps the most explicit in establishing the relationship between this inflation and the "growth-inspired developments" of the post-war era. See the Mishan-Vaizey-Lawson debate on "The New Inflation," Encounter 42 (May 1974): pp. 12-24; 43 (August 1974): pp. 87-92 and (September 1974): pp. 88-91. For a different viewpoint, see Ian Gough, "State Expenditure in Advanced Capitalism," New Left Review 92 (July/August 1975): pp. 53-92, especially pp. 68-70 and p. 86. According to Gough, the present inflation results from (a) "the changed balance of class forces on a world scale", and (b) "the uneven development of capitalist nations" since World War II.

power and statutory reform would be met with vigorous resistance..

4. In liberal-democratic states, the overt use of coercion against the working class will normally not be timed to run counter to the tide of popular sentiment.
5. A significant increase in labour militancy can induce modifications to, or delay the application of, unpala-
table aspects of national economic policy.
6. Severe restrictions to capital accumulation due to adverse conditions in the business sector, both on the national and international fronts, also elicit changes in national economic policy.
7. Modern methods of information gathering and communication enable government to be relatively well briefed on myriad socio-economic elements and issues, the various policy options open to it, as well as the political and economic risks involved in each.
8. These very methods of information gathering and communication alert the workers to changes in their material condition and in their relationship with the ruling class.
9. The level of coercion reflected in new policy will tend to vary with the timing of planned major political events such

as general elections, so that a pre-election policy is likely to be less coercive than a post-election one.

It is to be understood that the various elements in the above list of premises interrelate in many ways in an ongoing social, political and economic process. Thus it is possible to abstract from the above and state the following general hypotheses:

Hypotheses 1:

The present inflation is a major outcome of an ongoing coercive process which defines the capitalist state, and reflects the relationship between a dominant and a dominated class (broadly defined). Because of the very different situation of each class in terms of property ownership and control, the dominated strives continuously for changes in its social conditions, and the chances for success are significantly affected by conjunctural circumstances.

Hypothesis 2:

The vigorous growth that took place in the capitalist economies after World War II, both as a result of the opportunities afforded by new technological developments and the accumulation imperative inherent in capitalism, created also the conditions for the dominated class to heighten the pressures for social advance. The growth-oriented activities conceived as necessary to the survival of the state in the context of world competition brought into greater conflict the objective of accumulation,

on the part of business, and that of equity and social justice, on the part of labour, and yielded inflationary pressures.

Hypothesis 3:

Increasing state intervention arises from the heightening problem of market regulation in the era of monopoly capitalism. (Less intervention is only consistent with greater competition.) Such intervention takes place to ensure that the primary interest of capital, that is, accumulation, is served directly, and the interest of labour — job security and a "living wage" — indirectly, reflecting the belief in the fundamental principles of capitalism.

The first two hypotheses embrace the notion of continuity and change respectively — continuity in the sense of ongoing coercion, and change in terms of the changing circumstances and the opportunities that these provide. The third hypothesis centres on the need for regulation to ensure stability. These three concepts, therefore: ongoing coercion, opportunity, and regulation, set out the framework for a closer look at inflation and anti-inflation policy in Canada from 1968 to 1980, beginning in the following chapter with a look at some notable events in the first four years of that period.

CHAPTER 4

PERIOD OF TRIAL AND ERROR — MONETARY ACCOMMODATION AND VOLUNTARY RESTRAINT

Introduction

Toward the end of 1968 when Louis Rasminsky, then governor of the Bank of Canada, alerted the nation to the imminent danger of run-away inflation, prices were rising at an annual rate of over 4 per cent, compared to a rate of less than 1.0 per cent in 1961. But the unemployment rate of 4.8 per cent in 1968, though high in comparison to the 3.6 per cent of 1966 and the even lower rate of the immediate post-war years, was significantly less than the 5.5 percent average for the preceding ten-year period, and well below the high of 7.1 per cent in 1961. It is therefore important to consider the reasons for the kind of reaction displayed by the head of the Bank of Canada, and the factors likely to have been taken into consideration in interpreting the economic indicators and in suggesting strategies for meeting the challenges ahead.

The Impact of External Factors

High on the list of concerns expressed by Rasminsky regarding the limitations imposed on domestic policies for the containment of inflation, was the vulnerability of the Canadian economy to shocks emanating from external factors, notably those associated with the balance of payments problems of the United States and Britain, and the value of the two reserve currencies — the dollar and sterling. Both countries were in fact experiencing enormous balance of payments problems in the 1960's,

and the corrective measures adopted had widespread unsettling effects.

In Britain, Wilson's Labour Government which approached the problem in 1964 by first seeking the co-operation of the unions, soon proceeded in desperation to mandatory controls, and ultimately to the devaluation of sterling near the end of 1967. As Rasminsky explained, "the devaluation of one of the world's two major reserve currencies was bound to cause strains in the international financial system, particularly when the United States, the country which provides the other major reserve currency, was also experiencing balance of payments [problems].¹ From Canada's standpoint — considering its trade links with the United States — the greater shock came shortly after, when on January 1st of the following year the latter announced its programme to check the build-up of dollar holdings abroad which exceeded by far the current account surplus at home.²

The intent of those deliberate disturbances in the international market was to direct the flow of capital toward Britain and the United States and away from other countries. The predictable response, of course, was for the other countries to attempt to mitigate such adverse effects through changes in monetary policy. And this in fact occurred.

¹Louis Rasminsky, "Monetary Policy and the Defence of the Canadian Dollar," p. 6.

²For a concise explanation, see "Remarks of Louis Rasminsky Governor of the Bank of Canada, Before the Annual Meeting of the Newfoundland Board of Trade," St. John's, January 30th 1968, pp. 14-15. According to Rasminsky, the major concern was that the conversion of surplus U.S. dollars into gold by foreign countries was producing a substantial decline in the gold reserve of the United States.

For example, one Bank of Canada report stated clearly that "for most of the first half of 1968 the Bank gave top priority to the defence of the exchange value of the Canadian dollar."³ Following the devaluation of sterling, the Bank "reacted immediately by raising its Rate from 5 to 6 per cent",⁴ and after the January 1968 measures taken by the United States, the Bank Rate was raised further to a peak of 7.5 percent by mid-March of that year. To be sure, various measures of accommodation among trading partners were arranged, and efforts were made to renew confidence in the international monetary system.⁵ But even so, by the end of summer, 1968, it was evident that the "expected [positive] change in the economic climate in North America was not yet developing."⁶ Nor was there a significant change of pattern the following year when the Bank Rate was pushed up even further.

Insofar as this series of episodes relates to inflation in Canada, its greater significance should not be overlooked. It is important, therefore, to ask why such serious imbalances develop in the international market, whether they can be avoided, and to what extent can.

³Bank of Canada, Annual Report of the Governor to the Minister of Finance for the year 1968, p. 8. Note that in subsequent references these Reports will be cited as Bank of Canada, Report for (the appropriate year).

⁴Louis Rasminsky, "Monetary Policy and the Defence of the Canadian Dollar," p. 7.

⁵See, for example, Bank of Canada, Report for 1968, pp. 13-14; and for a more thorough account, A.F.W. Plumptre, Three Decades of Decision: Canada and the World Monetary System (Toronto: McClelland and Stewart, 1977), pp. 215-219.

⁶Bank of Canada, Report for 1968, p. 8.

domestic policies be made to work independently of such external factors. The one convincing answer that seems to come through repeatedly, even in the very pronouncements from the most powerful bureaucratic office of the land — that of governor of the Bank of Canada — is that international competition imposes severe limitations on what the individual country can do to maintain stable prices. So in spite of the many efforts to extol the virtues of international co-operation in an interdependent world,⁷ the stark realities of capitalist accumulation and uneven development do surface from time to time.

Bearing in mind that the value of a country's currency can be changed by deliberate action on the part of its monetary authorities, or indirectly when the exchange rate of another country is changed, it becomes clear that the devaluation of sterling in effect raised the exchange rate of the Canadian dollar vis-à-vis sterling. By the same token, the subsequent floating of the Canadian dollar upward in 1970 had the opposite effect. We have also seen how changes in the value of both reserve currencies have been used in an attempt to reverse a country's disadvantageous trade position. One can therefore understand the concern expressed by the former governor of the Bank of Canada in the Report for 1970 that "the rise in the value of the Canadian dollar ... had a severe impact on the export sector of Canadian industry and on those industries which compete with imports."⁸

⁷See, for example, *Ibid.*, p. 13.

⁸Bank of Canada, Report for 1970, p. 6.

This concern was repeated in the Report for 1971 when the Governor declared that "the realignment of currencies has significantly changed the competitive positions of individual countries vis-a-vis their trading partners."⁹ But even more revealing was his earlier statement in a speech in Montreal, pointing out that

... [in 1969,] in nearly all the industrial countries [prices] increased at rates much above the long-term average. This phenomenon has added to our own problems, both by its direct effects on Canadian prices and by its indirect effects on Canadian attitudes toward price behaviour and income determination.... [But while] our own progress will be seriously hindered until others deal effectively with their situation, we must not be lulled into believing that for this reason it is up to others to solve our inflationary problem for us.... Rather, we should try to stay ahead of others for this would be to our advantage in terms of exports and employment.¹⁰

There are two interesting observations to be made from this. The first concerns the idea of staying ahead of others. It should not be difficult to conceive why this objective would be shared by every trading partner, so that one country's efforts to gain a competitive edge are likely to be met, wherever possible, with counter measures by other competing countries. However, it would be naive to expect on this basis a worldwide, erratic underselling process, in which prices would plummet to the extent that accumulation could no longer take place. (One assumes here that important lessons have been learned from the

⁹Bank of Canada, Report for 1971, p. 22.

¹⁰Louis Rasminsky, "Remarks Before a Meeting of the Canadian Club of Montreal," February 2nd 1970, p. 11.

experiences of the Great Depression.) In fact, continued accumulation remains the central objective of economic activity, regardless of strategy changes. Thus a decline in export prices due to currency devaluation carries with it the hope for sufficiently large increases in the volume of sale — and hence in revenue — to offset losses that would be incurred when the weakened currency is used to acquire foreign goods.¹¹ The imperatives of accumulation are therefore not diminished by occasional declines in price. On the contrary, they are emphasized by the associated increases in scale of production and boosts in sales. Of course, as indicated, there was actually at the time being considered no absolute decline in world prices; quite the opposite. Indeed historically, the tendency has been for the most part (at least mildly) inflationary. So Rasminsky's idea could only have applied to relative price increases insofar as it might have been possible for Canadian price increases to lag behind those of other competing countries. The second observation concerns the question of how this could be done. It relates to the kinds of effort that would need to be employed to influence the patterns of behaviour on the domestic scene where the political drama is continuously being played out by both sides of industry, and where the confrontations that ensue sometimes appear to trigger, and sometimes to be in response to, new policy decisions and unforeseen events. It also involves the question of how the state interprets these related developments, and on whom it

¹¹For an interesting commentary on Canada's experience in this regard, see Plumptre, Three Decades of Decision, pp. 227-229.

tends to shift the blame when things go wrong.

Bearing in mind again that capital formation remains the main objective of industry in Canada, as in other capitalist countries, there is always pressure from the business sector to achieve this end through reductions in unit cost, both by the substitution of capital for labour, on the grounds of efficiency, and by resisting pay increases. This fact therefore sets the scene for the political struggle between business and labour, and poses a major challenge for the state in terms of its accumulation and legitimation functions. Hence the former Governor's expressed concerns about price movements and their effects on Canadian attitude toward income determination should be understandable. Typically, the state intervenes to influence developments on the domestic scene so as to secure favourable business opportunities both at home and abroad. For it must by now be clear that the individual country is constrained to shape its domestic policies to fit the tide of international trade and financial developments. In fact, the records seem clearly to support these general observations.

The Psychology of Sustained Prosperity

Looking back in time from this period of imminent crisis, then, one notes the conditions that would have had an important bearing on the attitude of Canadian business and labour at this later date. In a nutshell, Canada has been enjoying a period of sustained economic progress; and Governor Rasminsky was very much aware of this when he declared in his St John's speech of January 1968, that

Canada will soon be entering its eighth year of virtually uninterrupted economic expansion. The great upward movement which all parts of the country ... have shared has brought us substantial benefits in employment, production and rising standards of living.¹²

Nor was there a significant change of pattern following the disturbances in the international financial market near the end of 1967 and the beginning of 1968, created by the two countries which provide the reserve currencies for the rest of the world. The entire decade from 1961-1971 has been described generally as one of strong economic performance by Canada, as the following impressive summary by Plumptre clearly indicates:

The period 1961-71 was one of strong growth in the Canadian economy. The real GNP per capita, which had stagnated since 1957, grew steadily from \$2,194 to \$3,133, a growth of just over 25 per cent in ten years.... Much of the strength of the economy was drawn from commodity exports; in the ten years from 1961 to 1971 exports actually tripled from \$5.9 billion to \$17.8 billion (including a price increase of less than 25 per cent). Increases of similar proportions were recorded in all the main geographical areas (rather more for the United States and Japan and rather less for the EEC and others) except for Britain....

Of particular significance was the shift in Canada's balance on current account from a deficit of \$928 million in 1961 to a surplus of \$442 million in 1971. This ... was the result of the excellent export performance which moved the commodity trade balance from a surplus of \$172 million in 1961 up to \$2,427 million in 1971....

Apart from the brief crisis in 1968, Canada's international reserves persistently tended to increase....

While many factors combined to produce this strong balance of international payments it can scarcely be questioned that one

¹²"Remarks of Louis Rasminsky Before the Annual Meeting of the Newfoundland Board of Trade," St John's, January 30th, 1968, pp. 3-4.

of the most important was the level of the Canadian dollar at a discount of 7½ per cent below the U.S. dollar. The fact that exports of virtually all types expanded so strongly into virtually all areas is evidence that the exchange rate was now helping instead of hindering the activities of Canadian exporters and the fact that exports grew far more strongly than imports is an indication that Canadian producers were, with the help of the exchange rate, competing effectively in the home market.¹³

What comes across most clearly from both of the passages cited is that Canada's economic performance from the early sixties to the beginning of the seventies could be interpreted generally as having met, to a large extent, most of the broad policy objectives set out by government and repeated so often in major policy statements.¹⁴ One discerns also an overwhelming endorsement of the monetary policy pursued, to which was attributed much of the success, not only in the realization of "substantial benefits in employment, production and rising standards of living" and the "excellent export performance", but also in ensuring that Canadian producers "were competing effectively in the home market." In the budget speech of June 1971, for example, Mr. Benson, then Minister of Finance, assured the House that

The monetary policy pursued by the Bank of Canada ... continued to give support to the broad economic objectives of

¹³Plumptre, Three Decades of Decision, pp. 227-228.

¹⁴For instance, in his budget speech of October 1968, Finance Minister, Edgar Benson, after proclaiming that "we are in a period of widespread prosperity", went on later to reiterate that "we shall continue to work toward all the broad goals which are widely accepted in western industrial countries — full employment, economic growth, price stability, balance in external payments, and an equitable sharing of rising incomes." House of Commons, Debates, 22 October 1968, pp. 1678 and 1683. It may be true to say that only the goal of price stability appeared elusive then.

the government ..., not only to provide a suitable climate for stimulating economic expansion but also for assisting in the adjustment of our international capital flows in order to avoid undue appreciation of the Canadian dollar.¹⁵

Mr. Benson used the occasion to comment also on the floating of the Canadian dollar the previous year, partly as a result of pressures from the international monetary authorities, but especially to accommodate the United States with whose economy Canada's is so closely intertwined. Noting that after the decision of May 1970 the value of the Canadian dollar appreciated by about 6 percent before declining later in the year, the Finance Minister gave some indication of the government's real preference when he declared that

... the government did not wish to see the Canadian dollar appreciate. A higher dollar works with increasing effect against our exports and against domestic producers who must try to meet foreign competition. Since the appreciation affects the economy in this way, it [thus] works against our policy of trying to expand employment opportunities in Canada. The government is very conscious of [all of this].¹⁶

One notable aspect of the above commentaries on the healthy performance of the Canadian economy at the time, and the desirability of continued harmonization of foreign and domestic policies, was the noticeable absence of open reproach for specific sectoral behaviour in the economy. To the extent that business was able to meet the challenges of competing with imports and maintaining a healthy export trade, that

¹⁵House of Commons, Debates, 18 June 1971, p. 6904.

¹⁶Ibid. For an interesting discussion on the political aspect of the floating of the Canadian dollar, see Plumptre, Three Decades of Decision, pp. 217-222 and 229-232.

sector was praised for its success. But one should not overlook the fact that the intensification of the struggle for a more "equitable sharing of rising income", which manifested itself in the steady upward movement of wages, was a natural concomitant of the business boom.¹⁷ The important point here is that as long as favourable conditions for business prevailed, it would be politically difficult for government to restrict the market behaviour of particular sectors without being accused of partisanship. Labour, for example, could hardly be asked to exercise restraint while the consensus remained that business was continuing to flourish. From this perspective, therefore, governmental regulation of market behaviour would tend to be more difficult in a situation of sustained prosperity, such as Canada had been witnessing, than would otherwise be the case. The important question, of course, concerns the policy implications that arise from this. Government might well be obliged to face, at some later date, the strategic problem of ascribing blame to particular sectors of the economy for "irresponsible behaviour", or "abuse of market power", should signs of economic trouble emerge. And this indeed was the case at the turn of the decade. The fact was that the much heralded period of prosperity was not devoid of problems. Both inflation and unemployment persisted and were becoming progressively worse, although inflation had been deemed the greater evil. The realization that it had also by then developed into a world-wide "importable" phenomenon was hardly reassuring. Monitoring and

¹⁷As Hicks reminds us, there exists a recognizable link between high economic activity, large profits, and the movement of wages. See Hicks, "What is Wrong with Monetarism", p. 5.

attempting to influence consumer behaviour and the relationship between business and labour were to become the major preoccupation of government throughout the 1970's.

The Internal Socio-Economic Struggle
and its Effects on Policy

At the beginning of the decade, two policy approaches to the problem became evident. One laid emphasis on the need for "selective anti-inflation measures" and the necessity to direct attention to particular problems, especially in terms of economic relief to those least able to withstand the burden of higher prices. The other approach was to spread the idea of voluntary restraint. The former could be described as an immediate response by the state to pressures from affected groups (directly, or indirectly through their representatives). But such expedient measures as were introduced seemed to be more symbolic than profound. Examples of these were the minor tax adjustments to provide relief to pensioners and others in the lower income groups.¹⁸ On the other hand, the appeal for acceptance of "voluntarism" was indicative of the government's anxiety to gain consensus on the more far-

¹⁸See, for example, House of Commons, Debates, 18 June 1971, pp. 6905-6906. It could of course be argued that in an inflationary situation such minor incremental changes hardly pose a financial burden to government since, as we have seen, the process of inflation itself provides a convenient means of increasing government revenue without the public's awareness. For one thing, the tax yield from taxable goods and services would increase with inflated prices (assuming constant or increasing turnover). So the granting of token increases on low incomes serves as a way of demonstrating concern about the burden of inflation while more substantive measures are being sought.

reaching types of policy measures, no less from the point of view of effectiveness than from the desire to avoid embarrassing reactions from influential groups that might consider the burden of sacrifice to be inequitably applied.

At any rate, while the mission to spread the idea of voluntary restraint was being launched, major socio-economic forces continued to make their impact on the economy, causing widespread speculation on the type of intervention the state might yet be forced to institute. There is little doubt, in fact, that several related developments had begun to create uneasiness within the government in 1969. There were signs that the rapid increase in prices had begun to erode the ability to compete abroad. Yet labour continued to press for and receive substantial pay increases. In the budget speech of June of the same year, the Finance Minister made reference to what was then seen as a growing "attitude ... that cost increases, including large wage settlements, could be accepted because they could be easily passed on, in higher prices to the consumer."¹⁹ Early the following year the governor of the Bank of Canada also drew attention to the new developments and emphasized that "average weekly wages and salaries [were showing] a year-to-year gain ... greatly in excess of the trend of productivity increases...."²⁰ Noting further the policy implications of this pattern

¹⁹Debates, 3 June 1969, p. 9417.

²⁰Louis Rasminsky, "Remarks Before a Meeting of the Canadian Club of Montreal," February 2nd 1970, p. 10.

of wage movements and the impact it was having on the business sector, he went on to say that

... evidence that business is finding it increasingly difficult to pass on all the increases in costs in the form of higher prices [lies] in the squeeze in profit margins which has been developing in recent months. [This] development suggests that the policies of restraint are beginning to bite. As it becomes increasingly difficult to absorb large increases in costs in this way, business corporations will have to intensify their efforts to slow down cost increases.²¹

It is important to note in passing that this trend toward a profits squeeze was not peculiar to Canada alone, but was evident in other leading industrial countries also, as a subsequent Bank of Canada report clearly emphasized.²² This fact serves as a reminder of the serious constraints imposed by international competition on the exercise of economic and political power within the domestic economy. But in the passage cited, one observes nonetheless the implied government strategy of shifting the onus for price control to the actors in the market place, even as measures were being adopted to alter the imbalance that was seen to be developing in that arena.

A hint of how much market regulation was to be achieved was already given in the budget speech of June 1969, in which it was pointed out that the government would "increase the element of price competition and efficiency in the domestic economy."²³ This was to be accomplished mainly by bringing into effect much earlier than originally proposed,

²¹Ibid., pp. 10-11.

²²Bank of Canada, Report for 1971, pp. 16-18.

²³Debates, 3 June 1969, pp. 9417-9418.

certain tariff reductions decided upon in the Kennedy Round agreements, thereby exposing domestic producers to stiffer competition with imports. Thus it would appear at this stage that the government was still being guided by the principles of "free competition" in a "free market", and the notion that market regulation by the state required only the application of traditional economic tools.

At the same time, however, some idea of the ~~effects~~ effects of the struggle that was shaping up between business and labour in the context of the declared policy of "restraint" may be gathered from Figure 3, which shows the impact of strikes on the industrial sector in 1969. It can be seen that in industries that were not affected by strikes there was a modest increase in output (about 3 percent) for the year as a whole. But when the performance of the strike-affected industries (including mining, steel mills, and smelting and refining) was included, the decline in output to the beginning of the last quarter was quite dramatic. This led the Bank of Canada to report in the early part of 1970 that "the index of industrial production (which covers about one third of total output in the economy) would have followed a very different pattern if several industries had not been affected by prolonged work stoppages."²⁴

The government expressed hope that the idea of voluntary restraint would receive widespread support, and during the latter half of 1969 the newly appointed Prices and Incomes Commission (PIC) undertook to

²⁴Bank of Canada, Report for 1969, p. 26.

Figure 3

Index of Industrial Production, 1969

Monthly - First-Quarter 1969=100

Seasonally adjusted

Source: Bank of Canada, Report for 1969.

seek public acceptance of the voluntary controls programme the government had proposed. And following his declaration in August 1969 that inflation had become public enemy number one, Prime Minister Trudeau himself provided a handy catch-phrase to suit the situation when he announced his now well-known pledge to "wrestle inflation to the ground." But after the government had issued its main guidelines, based on proposals by the PIC, that negotiated wage settlements should not exceed 6 percent, one prominent Quebec labour personality is said to have reacted harshly to the announcement in a face-to-face confrontation with the Prime Minister. According to the media reports, the words the two men exchanged could not be put in print. As if this was to exemplify the thrust of public reaction, the restraint proposals turned out to be highly unpopular.

In reviewing the influences that were to shape the pattern of economic behaviour in Canada from the latter half of 1969, certain contradictions become readily apparent. The monetary authorities, convinced of the need to break the developing inflationary psychology, were again reverting to a tight money situation — ostensibly to exert a dampening effect on business activities and thus to curb inflationary pressures.²⁵ At the same time, the government was endeavouring to

²⁵For a most enlightening explanation of the viewpoint of the monetary authorities, see "Interest Rates and Inflation: A Statement Before the House of Commons Standing Committee on Finance, Trade and Economic Affairs," by Louis Rasminsky, Governor of the Bank of Canada, July 3rd 1969, pp. 4-15.

intensify domestic competition by easing import restrictions. Supply shortages were to be avoided, since the bidding up of prices on scarce supplies would simply have boosted inflation. But in the inevitable adjustment process that would normally occur in such a situation, domestic producers would find themselves at a competitive disadvantage — at least in the short-run. In the mean time, consumers were free to continue in their spending habits, switching from domestic products to imports wherever feasible. It was merely a hope, on the part of government, that the higher cost of credit would be an effective deterrent to rising demand. However, the government was not relying entirely on faith. For inasmuch as signs of a profits squeeze had also been detected, the government knew that business corporations, to remain viable under conditions of heightened competition, would be obliged, as Rasminsky put it, to "intensify their efforts to slow down cost increases" — unquestionably, increases in the cost of labour in particular. So while the government expounded the virtues of voluntarism, a more direct solution was actually to be sought through coercion. If labour could not be pressured into accepting lower wages in a contractionary situation, unemployment would consequently be permitted to increase. Here, then, was demand management in one of its more shrouded manifestations.

And yet, in terms of price behaviour, it had been well publicized that Canada was at the time performing better than most of the major trading nations. If therefore the government wished to avert impending problems by keeping prices in check, and thus preserving Canada's competitive edge, then from the workers' (or the consumers') point of

view it may have been difficult to discern what major changes had occurred to indicate the need to waver from the path of prosperity to which they were growing so accustomed. Moreover, the question of equitable distribution of wealth would undoubtedly have been an aspect of the struggle in which they were engaged in attempting to improve their material condition; and the prolonged period of prosperity may have provided the best opportunity yet for achieving this end. In light of such consideration — of the palpability of universal prosperity — the call for restraint must therefore have sounded hollow indeed.

Perhaps the most perspicuous statement explaining the position taken by labour was that presented in the 1970 Memorandum to the Government of Canada by the Canadian Labour Congress, which read in part as follows:

... current wage demands are a reflection of the wishes of trade union members to enjoy the high living standards which they can observe around them. They are informed that Canada has the next highest living standards in the world, second only to the United States ... [and] they want 'a piece of the action'....

... The take-home pay of even a relatively well paid worker still leaves him at best with a modest standard of living. Whatever his rate of pay may be, his earnings are still affected by short time and unemployment, so that he is very far removed from the kind of economic security which others enjoy.

The revolution of rising expectations ... will become more pervasive as a growing element of the labour force realize the advantages to be gained from a collective confrontation with their respective employers. A new era of wage demands conducive to a satisfactory standard of living may thus become far more widespread than it is today and this is something which employers and governments will have to reckon with.

... your anti-inflationary efforts are likely to lead to an increase in poverty since you seem so readily disposed to accept an increase in unemployment with every indication of equanimity. We are determined none the less to pursue the legitimate goals of trade unions which are to enhance the well-being of their members and to provide them with better living standards....²⁶

It would be irrelevant here to address the common criticism that the Canadian Labour Congress (CLC) is hardly a "power" organization that can influence directly either the behaviour of individual unions under its mantle or the attitude of the government toward labour. The important question is whether the CLC interprets accurately the socio-political and economic trends, in relation to labour's interests articulates the aspirations of organized labour, and outlines the position that the movement has taken. The CLC's statement stressed a determination on the part of union members to strive for substantially more than bare subsistence. It referred to the members' awareness of the wealth and social inequities that exist in the system, as well as the ever present threat of unemployment and its use as a "tool" of demand management. It also suggested that there exists among the labour ranks a realization that they must struggle with their employers for the benefits they seek. The emphasis, in other words, continued to be on confrontation, rather than co-operation; and to a significant extent, this militant posture is clearly reflected in the records.

²⁶Canadian Labour Congress, Memorandum to the Government of Canada, 23 March 1970, pp. 7-12.

Far from indicating any sympathy for the government's appeal for restraint, labour activities continued to show little relaxation in the pressure for higher wages. Although the number of strikes and lockouts in 1969 was only 2.2 per cent higher than in 1968, there were 37 per cent more workers involved,²⁷ and more important, the number of man-days lost was 53 per cent higher in 1969 than in the previous year. As a percentage of estimated working time, this represented a time loss of 0.46 per cent, compared to an average of 0.17 per cent for the preceding nine-year period, and was the highest annual time loss since the 1946 peak. (See Figure 4.)

Of even greater significance are the figures on the distribution of national income shares. For each of the years from 1968 to 1970, labour's share of national income was 70.4, 71.2 and 72.7 per cent respectively. The comparable shares going to corporate profits were 14.1, 13.7 and 12.0 per cent, resulting in a 14 per cent decline in two

²⁷ Some of these statistics can convey distorted impressions of labour "militancy", as they do not necessarily reflect both the "magnitude" and "intensity" of labour unrest. The number of strikes and number of workers should properly be related to contract renewals and union sizes respectively. The more meaningful statistics are man-days lost and time loss as a percentage of working time, that is, those which include a time factor. By way of comparison, in 1972 there were only 3 more strikes than in 1969 — an increase of 0.5 per cent, while the number of workers involved in 1972 was 2.3 times the number in 1969. Yet total man-days lost was virtually the same in both years, and the time loss as a percentage of working time was actually lower in 1972 than in 1969. Until these seemingly contradictory patterns can be rationalized, such statistics must be used discreetly. For an interesting discussion on this topic, see Wilfred List's review of a study by Paul Malles, Toronto Globe and Mail, 15 July, 1977, p. 5.

Figure 4

ANNUAL TIME LOSS DUE TO WORK STOPPAGES AS A PERCENTAGE OF
ESTIMATED WORKING TIME 1945-1980

Source: Labour Canada, Strikes and Lockouts in Canada 1980.

years, and illustrating clearly the profits squeeze referred to above. (See Table 1.) Had both sides maintained their 1968 proportion of income shares, corporations would have received \$1.684 billion more and labour \$1.946 billion less than they actually did.²⁸ In fact, corporate profits in actual dollars were less in 1970 than they were in 1968 — the only decline in absolute terms since 1960. We shall proceed later to examine other related aspects of this pattern of development, but at this juncture, a word on the interpretation of data would not be out of place.

A Note on the Interpretation of Data.

Such statistics as we have been examining do lead different analysts to different conclusions. Indeed, in interpreting data, what some observers "see" would most certainly be coloured by their orientation. From a certain vantage point some people, like Harry Johnson, insist that "the real economy is inherently very stable", though it is often destabilized by unwarranted interventions, especially by the monetary authorities.²⁹ From another perspective, others maintain that the free enterprise (western capitalist) type of economy, such as Canada's, is not only highly unstable, it is also prone to crisis.³⁰

²⁸Computed from the aggregates given in Bank of Canada Review, 1979.

²⁹Harry Johnson, Inflation and the Monetarist Controversy (Amsterdam: North Holland Publishing Company, 1972), p. 7.

³⁰See, for example, Joan Robinson, An Essay on Marxian Economics, Second Edition (London: Macmillan, 1966), pp. 48-50.

TABLE 1

Labour Income and Corporate Profits as
Percentages of National Income

Year	Labour Income	Corporate Profits Before Tax
1968	70.4	14.2
1969	71.2	13.7
1970	72.7	12.0
1971	72.8	12.3
1972	72.3	13.6
1973	70.5	16.3
1974	70.3	17.6
1975	71.9	15.5
1976	72.6	13.5
1977	73.5	13.7
1978	72.4	14.5
1979	70.6	16.9
1980	71.2	16.2

Source: Bank of Canada Review 1980.

On the basis of the former outlook, data on socio-economic developments such as labour unrest and shifting income shares would tend to be interpreted in terms of the type of economic policy the government has pursued. The latter outlook, on the other hand, lends itself to greater appreciation of the less controllable social forces which are likely to have an important bearing on policy outcomes and induce the state to adopt more accommodative measures than might otherwise appear to be "technically" correct.

In any case, it is inescapable that in the period under review state interference in economic matters bears some direct relationship to the cyclical pattern of wage and profit movements and to changes in other related indices. To the extent that such things as shifts in income shares reflect shifts in the relative power of the two sides of industry, one is persuaded by the evidence to conclude that the anti-inflation policy changes that have occurred in recent years have tended largely to tilt the scale of advantages and disadvantages in favour of one side or the other at different points in time. This would suggest that the dynamic element associated with the ongoing class struggle tends consistently towards an imbalance in the economic system, and that it is in the attempt to restore balance that we are witnessing the growing involvement of the state in economic affairs.

The Internal Struggle, Further Evidence

Jamieson who has studied the major cycles of industrial unrest in Canada in the twentieth century, identified what he termed a "third wave"

beginning in the 1960's, and found it to be "so different from its predecessors in cause and effect ... and the general environment in which it took place, as to constitute an entirely new phenomenon."³¹ More recently, he updated his earlier observations and noted that:

There were, in reality, two 'waves' of industrial conflict during [the 60's and 70's], namely a long complete cycle from 1961 to 1971 (with the peak in 1969) and the earlier stages of a new cycle during 1971 to 1975 that was arrested at or near the way to a new peak by the emergency controls programme....³²

Although Jamieson did not explicitly relate the shape of the 1969 peak to changes in public policy, he recognized that the strikes that occurred in 1969 "met [increased] resistance from employers and ... were more prolonged and costly."³³ This would seem to support our earlier observation that even though the government was aware that profit margins were being squeezed, it deliberately introduced policies that exposed domestic business to stiffer competition, specifically to make it difficult for business to accede to labour's demands. Jamieson may have been aware of this when he referred to the fact that in recent experiences, government had shown a growing propensity to intervene "at or near the peak of a boom" to take "counteracting measures" to mitigate

³¹Stuart Jamieson, Industrial Relations in Canada, Second Edition (Toronto: Macmillan, 1973), p. 100.

³²Stuart Jamieson, "The Third Wave Reconsidered: Labour Unrest and Industrial Conflict in Canada, 1960-1975," Paper presented at the 1977 Annual Meeting of the Canadian Economic Association, Fredericton, May 1977, p. 7.

³³Ibid., p. 8.

the affects of heightening industrial conflicts.³⁴ Thus it seems reasonable to conclude that in the 1969-1970 period, the government's anti-inflation policy — which was in essence to induce unemployment — was largely intended to curb labour militancy as a means of averting the adverse impact this was seen to be having on the price performance of Canadian business and on the country's export trade.

But it is not enough merely to establish relationships between economic developments and government actions. Of greater importance, for our purpose, is the need to identify the new influences that seem to have a bearing on the changing role of government in the economic sphere. Hitherto, the overriding influence in industrial relations had been the disproportionate power and privileges enjoyed by the employer. As Jamieson reminds us, in the period between the two world wars, workers were very much at the mercy of employers who frequently engaged in "union busting", and unilaterally imposed wage cuts and discriminatory layoffs with impunity. Furthermore, such occurrences were often independent of the business cycle.³⁵ The "third wave", however, revealed that major differences were developing in the relationship between business and labour.

Some of these were the distinct cyclical pattern of labour unrest that was closely associated with the cycle of economic expansion and inflation; the high publicity given to figures on corporate profits;

³⁴Jamieson, Industrial Relations in Canada, pp. 101-102.

³⁵Ibid.

the general awareness of the rising earnings of others in comparable occupations; and the readiness of workers to press for equity — reflecting thereby a growing mobilization of organized labour.³⁶ At the same time, the level of prosperity achieved served to "confirm" the state's commitment to growth, high employment and equitable distribution of income. In short, the relationship between worker and employer had become highly politicized, to the extent that abdication by the state of its expressed mediating role, when problems arose, could not be easily reconciled. Moreover, labour could hardly be expected to forget either the effectiveness of its recent strategies or the concessions (statutory and otherwise) it has managed to extract from the state.

We now turn to other indices that may have influenced the charting of anti-inflation policy. In Table 2, it can be seen that for the 1968-69 period the annual rate of increase in real domestic product was 6.5 per cent, which was better than the average of 5.8 per cent for all the preceding years of the 1960's and was the high point of a three-year climb from a rate of 2.9 per cent in the 1966-67 period. However, the increase of 2.0 per cent in 1969-70 represented the worst performance in over a decade. Meanwhile the rate of increase in output per person in 1969-70 fell 64 per cent below the rate for 1967-1968; and unit labour cost — a crucial statistic from the point of view of business — increased at an annual rate of 0.9 per cent in 1967-68, jumping to 4.1 per cent in 1968-69, and to 4.9 per cent in 1969-70.

³⁶Ibid.

TABLE 2

Annual Percentage Changes of Labour Productivity and
Unit Labour Cost, All Commercial Industries, 1968-79

YEAR	PRODUCTION (REAL DOMESTIC PRODUCT)	OUTPUT PER PERSON	OUTPUT PER MAN- HOUR	COMPENSATION PER PERSON	COMPENSATION PER MAN- HOUR	UNIT LABOUR COST
1967-68	5.6	5.5	6.9	6.5	7.8	0.9
1968-69	6.5	3.2	4.2	7.5	8.4	4.1
1969-70	2.0	2.0	3.0	7.0	8.1	4.9
1970-71	6.3	4.5	5.2	7.4	8.2	2.9
1971-72	6.2	2.9	3.7	7.7	8.5	4.6
1972-73	8.7	3.6	3.5	11.1	11.0	7.3
1973-74	5.0	0.0	0.6	13.5	14.1	13.5
1974-75	0.2	-0.8	0.0	14.1	15.0	15.0
1975-76	5.8	4.4	5.0	13.0	13.7	8.3
1976-77	3.0	0.7	2.7	7.1	9.3	6.3
1977-78	3.9	-1.2	0.9	5.9	5.6	4.7
1978-79	3.7	-0.6	0.0	6.9	7.6	7.6

Source: Statistics Canada, Aggregate Productivity Measures 1979
(October 1980).

At the same time, the capacity utilization rate for all manufacturing industries which averaged 89 per cent for the first two quarters of 1969 began to slip steadily, reaching 83.5 per cent by the second quarter of the following year. Indeed, the decline continued to the last quarter when the rate fell below 81 per cent (that for the durable goods industries alone reaching as low as 76.4 per cent). As can be seen in Table 3, the average rate for the whole of 1970 had fallen to 83.2 per cent from 83.3 the previous year. The restrictive measures introduced in the second half of 1969 had evidently begun to take effect; but the results were far removed from those envisaged.

In a White Paper dated March 12, 1970, the government conceded that although the effects of the measures taken were expected to occur in "two phases", namely, reduced growth and demand, followed by the "pay-off" phase which was to be a moderation of prices and costs, only in the first was "considerable progress" made. The White Paper touched on a number of interrelated developments, most of which could be linked directly to the government's economic policy and to its anti-inflation measures in particular. For example, the rate of increase in export prices had almost trippled in slightly over a year; the increase in output per worker (that is, productivity) declined substantially, while unit wage costs accelerated; and profits per unit took a sudden downward turn. There were also indications that "costs rose much more rapidly in the service-producing sector than in goods-producing industries ... and that this was brought about by similar increases in earnings in both groups of industries", despite differences in

TABLE 3

Capacity Utilization Rates

YEAR	MANUFACTURING INDUSTRIES
1968	86.3
1969	88.3
1970	83.2
1971	83.8
1972	85.2
1973	91.0
1974	90.3
1975	81.2
1976	82.7
1977	82.2
1978	86.0
1979	84.3
1980	79.6

Source: Statistics Canada, Capacity Utilization in Canadian Manufacturing, Second Quarter 1981.

productivity in the different sectors. The White Paper concluded "that increases in incomes in those industries where productivity is rising rapidly are emulated in industries where productivity gains are smaller", causing an upward push on total costs.³⁷

The budget speech of March 12, 1970, also emphasized many of the problems and concerns expressed in the White Paper of the same date, and pointed out further that spending continued to rise as individuals saved less and the balance on consumer credit outstanding rose; that postponement and cancellation of numerous business projects accompanied the fall in profits; and that "manufacturers' inventories, especially of finished products, were also building up at a substantial rate...." Indeed, the Finance Minister acknowledged receiving many requests for tariff protection,³⁸ evidently from those businesses that were finding it difficult to compete with imports. Needless to add, an increase in unemployment was predicted — accurately, as it turned out, for the rate for 1970 climbed to almost 6 per cent from 4.7 per cent the previous year. (See Table 4.) This was the highest unemployment rate since 1962.

Meanwhile on the external front, the economic picture in the United States, Canada's major trading partner, was similarly depressing. In particular, U.S. price performance deteriorated on an increasing scale

³⁷Debates, 12 March 1970, pp. 4766-4774.

³⁸Ibid., p. 4746.

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TABLE 4

Canadian Unemployment Rates, 1969-80

YEAR	PERCENTAGE OF THE LABOUR FORCE UNEMPLOYED
1968	4.8
1969	4.7
1970	5.9
1971	6.4
1972	6.3
1973	5.6
1974	5.4
1975	6.9
1976	7.1
1977	8.1
1978	8.4
1979	7.5
1980	7.5

Source: Canada Year Book 1976-77 (Supply and Services Canada, 1977); and Statistics Canada, Canadian Statistical Review, various issues from 1976 to 1980.

from 1968, vis-a-vis Canada's, and by 1970 the U.S. consumer price index had outstripped Canada's by about 2.5 percentage points. The possibility that Canada would inevitably be importing more inflation could hardly be overlooked.

Here, then, was a constellation of socio-economic elements centering largely on the question of prices and creating the kind of problem that required prompt political action by the state. In broad terms, the choices that seemed open to government, based on contemporary approaches to management of the economy, were either, (a) to focus on the demand side and continue to strive for modification of consumer behaviour by introducing measures to relax demand pressures and dampen economic activity in general or, (b) concentrate on the supply side and attempt to find ways of increasing productivity to the extent that substantial increases in supply would depress prices. The government tended to be more inclined toward the former.

It became clear from the budget of March 1970 that the government was adhering to its original plan of "selective action"; its most significant proposal this time being the introduction of measures to control consumer credit by stipulating down payments of a specified percentage on the value of "pay later" purchases, and reductions in the period over which such credits were to be repaid.

Regarding the matter of supply, the budget offered no comprehensive plan to affect the overall climate of capital investment outside the specific area of housing where the economic impact was expected to be

quick. Apparently, changes in monetary policy were to provide the stimulus for investment of a more general nature that was to produce the moderate expansion the government claimed it was encouraging.

It is nevertheless puzzling that such an unusual combination of factors, namely, increased credit restrictions, a build up of manufacturers' inventories, and a lack of far-reaching incentives for capital investment in the face of a profits squeeze, could have been seen by the government as being conducive to expansion — the lowering of the bank rate notwithstanding. One finds it difficult to conceive the full logic by which business was expected to expand when the incentive to buy was being drastically reduced. In fact, not only was this thrust in policy having a stifling effect on the economy; it was compounding the unemployment problem as well. Not surprisingly, the unpopularity of the credit control measures resulted in their disbandment barely three months after they were introduced, and by December, in the second budget session of the year, the government conceded that despite the lowering of the bank rate in stages from 8 to 6 per cent, "private capital investment has been one of the weaker elements in the picture ..., particularly ... with respect to investment in our secondary industries."³⁹

* As might well have been predicted, the next series of policy proposals that followed in the 1970-71 period sought to placate various constituents affected in one way or another by the multitude of related

³⁹Debates, December 1970, p. 1743.

economic problems that had surfaced. In addition to the easing of credit restrictions already mentioned, other measures taken included further boosts to old age security pensions, personal and corporate tax adjustments, and direct government-induced "make-work" projects in response to the outcry over the rapid rise in unemployment. Moreover, consultations between the federal and provincial governments led to improved arrangements for meeting the growing expenditures in the fight against inflation, and a commitment to co-ordinate efforts more closely in the future.⁴⁰

Of course, none of the foregoing is to deny that there were brief periods of reprieve in the price and trade performance of the economy as a whole, though less from any real expansion (the capacity utilization rate from the last quarter of 1970 through all of 1971 averaged only 82.3 per cent) than from a combination of other factors including the clearing of built-up inventories, increased trade with Europe and Japan (that more than offset the unusual decline in U.S.-Canadian trade),⁴¹ and improved confidence in the Canadian dollar.

From the above observations one is led to conclude that pragmatism, above all, was the major characteristic of anti-inflation policy in Canada in the period from 1968 to 1971. In fact, by 1972 when it became evident that the battle against inflation was far from being won — given the uncomfortably high rates of unemployment that seemed necessary

⁴⁰Debates, March 1970, p. 4743; and June 1971, p. 6904.

⁴¹See, for example, Debates, June 1971, pp. 6903-4.

to have an impact on prices — it was Mr. Benson's successor to the finance portfolio, John Turner, who, as we shall observe shortly, attempted to tackle the problem on a broader and more far-reaching basis, albeit in a reaffirmation of confidence in the "free" market mechanism, while proclaiming the need for some national consensus on appropriate arrangements for the control of wages and prices.

We have emphasized that one of the outstanding features of the period under review is the deepening of government involvement in economic matters. A second outstanding feature to be noted is the tacit recognition of the intensified class struggle which was manifesting itself in the relatively more balanced display of market power. As we shall soon observe, repeated gestures on the part of government, and stepped-up appeals for greater co-operation between business and labour strongly attest to this. And furthermore, this second observation suggests that in the present context it is being realized that unemployment can be quite limited in its application as a tool of demand management. For while critics such as Grubel and Walker of the Fraser Institute may blame the welfare system for negating the dampening affect high unemployment might otherwise exert on prices,⁴² they fail to recognize that in a situation of relatively balanced "class forces" the current higher-than-normal rates of unemployment may only be politically tolerable because of the welfare system. Hence the political risks

⁴²See Herbert G. Grubel and Michael A. Walker, "Loral Hazard, Unemployment Insurance and the Rate of Unemployment," in Grubel and Walker (eds.), Unemployment Insurance: Global Evidence of its Effects on Unemployment (Vancouver: The Fraser Institute, 1978).

involved in simultaneously threatening that system and permitting unemployment to rise could be enormous. Government can hardly afford to overlook such considerations and, as Lowi has pointed out, must interpret the environment as Roosevelt had done, and temper policy decisions to bring them in line with the popular current of opinions and take account of the rising expectations.

From this perspective, then, it should not be surprising that by the time Mr. Turner brought down his first budget in May, 1972, a shift in emphasis could be discerned in anti-inflation policy, stemming, in large measure, from the experiences of the immediately preceding years, and perhaps also from other considerations relating to the fact that the people were soon to pass judgment on the government at the polls.

The Art of Influencing policy:
Labour and Business state their case

At this point it would be well to reflect briefly on labour's interpretation of the economic scene as expressed in the following statement by the CLC:

What disturbs us ... is that our current unemployment problem has been artificially created. It is not the result of natural recessionary conditions [but] of coldly calculated policies whose sole objective was to induce unemployment to combat inflation.... Never before in the history of this country did a Prime Minister state before a national audience that it was his government's intent to allow unemployment to rise, 'if necessary to six per cent', to combat inflation. Never before did any government knowingly, consciously, and with a cool detached deliberation sentence hundreds of thousands of Canadian workers and their families to the hardships of unemployment.⁴³

⁴³Canadian Labour Congress, Memorandum to the Government of Canada, March 1971, pp. 9-10.

Perhaps to justify past as well as contemplated future militant action, the CLC went on, ironically, to echo the boastings of the government itself. It pointed out that our export trade, which "has been on the upsurge for a number of years," continued to increase significantly, "registering an unprecedented surplus of nearly \$3 billion" in 1970. And it noted further that our rate of inflation "compared very well with the world's major industrial countries."⁴⁴

The implications of this statement hardly require elaboration. If Canada was succeeding so well in maintaining its competitive edge in the world market, realizing "unprecedented surpluses" in the process, then labour must already have forfeited much at the bargaining table, making further sacrifices on its part, either in terms of higher unemployment or reduction real wages, unjustified.

The CLC advocated direct job creation initiatives by the government in what it termed a "high employment budget" geared toward the full utilization of the country's productive capabilities. The idea, it seems, rested on the assumption that the cost of underutilization of labour resources in particular would always outweigh whatever benefits could be derived from the customary demand management approach.⁴⁵ Needless to add that when the question is put in the context of an open economy, as is the case with Canada, policy makers tend to relate

⁴⁴Ibid. See also for comparison, Debates, December 1970, p. 1744.

⁴⁵Canadian Labour Congress, Memorandum to the Government of Canada, March 1971, pp. 11-17.

employment policy to influences in the foreign market. For example, full employment is unlikely to be stressed as a primary policy objective in the face of serious recessionary conditions in the United States, and declining demand for Canadian goods abroad. Yet the Congress was less than explicit in dealing with the question that while supply-oriented policies (increasing employment and output) can indeed contribute to price reduction, employers would want to be assured of outlets for the increased goods and services, and would be concerned also about the fact that full employment would be favourable to rapid wage increases.

Of course the CLC found support for its argument in the Economic Council of Canada's definition of full employment as set out in its First Annual Review. But to be fair, the Council's revised outlook for the 1970's should have been consulted. In any case, the ECC stated in its Sixth Annual Review: Perspective 73, that:

Originally, in the Council's First Annual Review, the definition was translated into a target of 97 per cent employment rate (or 3 per cent unemployment rate) for 1970. By the Fourth Review, the Council reconsidered this time horizon and reset the target.... We believe that this goal [of 3 per cent unemployment]... is still valid.⁴⁶

Indeed, even later, in the more uncertain economic climate of 1972, it would still have been possible for the CLC to have found support in the Council's projections, for then the prediction, under assumptions of a favourable external environment, was that the rate of unemployment

⁴⁶The Economic Council of Canada, Sixth Annual Review: Perspective 1975 (Ottawa: Queen's Printer, 1969), p. 7.

would be "less than 4 per cent"; and even under less favourable conditions, the rate was still expected to remain within a range of 4 to 5 per cent.⁴⁷

On the other hand, judging from statements by business organizations such as the Canadian Manufacturers' Association (CMA) whose members produce some 75 per cent of all the goods manufactured in Canada, the business community held a very different interpretation of the economic scene. For example, although the CMA appeared to be in agreement with the CLC when the former, in its Submission to the Minister of Finance with respect to the 1972 Federal Budget, implicitly rejected the use of unemployment to control inflation, the rationale of the two organizations diverged fundamentally.

Citing figures to show that a disturbing pattern of rapidly escalating wages and prices was developing simultaneously with a significant downward trend in productivity growth, the CMA contended that part of the reason for this was that "an increasing proportion of the nation's resources are not subject to the allocative forces of the market," due to "arbitrary and monopolistic influences", particularly "the rising share of government expenditures and the growing power of some elements of organized labour." The Association expressed serious concern about "the apparent extension of the nature, scope and direction of governmental involvement in actual business operations", and went on

⁴⁷The Economic Council of Canada, Ninth Annual Review: The Years to 1980 (Ottawa: Information Canada, 1972), pp. 36 and 68.

to say: "Governments ... are more and more seeking to directly determine structural ... processes ... and devices [which] aim to by-pass the market altogether", explicitly "to discriminate in accordance with the government's policy objectives."⁴⁸

The CMA suggested that the "revenues ... needed by government to ... help solve many of our contemporary social and economic problems ... can best be increased by the anti-inflationary method of higher growth rates and selective declining tax rates." The Association further drew attention to what it termed "recent international developments" which emphasized "the need for improvement in the competitive position of Canadian manufacturers," and in light of this, proposed that government consider the implementation of measures to "provide adequate incentive for Canadian exporters" — specifically, "relief from the burden of taxation ... combined with efforts to ensure the better functioning of the natural forces of the market place." In addition, the Association appealed for adjustment to what it termed "the allocation of command over economic resources between privately-owned enterprise and governmental authority."⁴⁹ In short, business was presenting a forceful case for action to halt the erosion of its traditional market privileges, and to tip the scale of advantages in its favour on the grounds that (in the context of the economic order it was defending) business alone

⁴⁸The Canadian Manufacturers' Association, Submission to the Minister of Finance with respect to the 1972 Federal Budget, pp. 1-3.

⁴⁹Hicks, "What is Wrong with Monetarism," p. 3.

was truly capable of taking the initiatives necessary to promote industrial expansion, create jobs, and restore price stability - given, of course, the necessary state support in the accumulation process, and the assurance of non-interference in areas where the preservation of long-standing socio-economic structures might be at stake.

Two points, however, remained unclear in the CMA's submission. One pertains to the mechanism by which a simultaneous fall in prices and unemployment was to be effected. For as Hicks has reminded us, vigorous economic activity, including increased demand for labour, tends to trigger an upward movement in wages and prices, as indeed in profits. And furthermore, as we have seen, these inflationary pressures inevitably spill over from the expanding to the non-expanding sectors as well. The second point concerns the process by which aggregate rising income was to be more equitably distributed, in view of the heightening expectations of people in all walks of life, so widely recognized by government at every level.⁵⁰

And yet, when Canada's performance in the foreign market is carefully examined, the indicators tend to justify the CMA's concerns about the inability of Canadian manufacturers to produce at competitive prices, and the fact that Canadian exports to all areas of the world, except the United States, had either remained static or declined.⁵¹ It can be seen in Table 5

⁵⁰See, for example, Mr. Benson's comments on the "deep awareness" expressed by the first ministers, "of the heavy demands upon governments at all levels...." (Debates, 12 March 1970, p. 4743.)

⁵¹Canadian Manufacturers' Association, Submission to the Minister of Finance, p. 5.

TABLE 5

World Market¹ Shares of Selected OECD Countries

	Gains or losses of market shares ²						
Year	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1968 to 1969	-2.9	.7	1.6	-2.6	10.4	-1.2	-4.5
1969 to 1970	3.5	0.5	0.1	-4.2	8.2	-4.9	0.1
1970 to 1971	-5.7	3.8	2.8	2.3	10.5	3.0	-8.7
1971 to 1972	-4.1	6.6	-0.2	3.1	4.3	-6.8	-5.6
1972 to 1973	-1	-2	5.5	-8.5	-8	-1.0	4.0

¹Consists of 19 broad geographic zones receiving OECD exports.

²The difference between the growth rates and the markets and exports.

Source: OECD, Economic Surveys, Canada, various issues from 1971 to 1975.

that for the period 1969-1970 Canada's world market shares within the OECD geographic zones showed a gain of 3.5 per cent; but this quickly changed to a loss of 5.7 per cent in 1970-71, and a continued significant net loss in 1971-1972. The main beneficiaries, apart from the economically aggressive Japan, were countries of the European Economic Community such as Germany, France and Italy; and it is interesting to note that the big losers included the United Kingdom and the United States — the latter's performance undoubtedly explaining a significant part of Canada's record for reasons already given.

The May 1972 Budget

It is impossible to tell all the major influences in the drafting of the Turner budget of May 1972, but in reviewing the Minister's budgetary address one finds many of the concepts to be strikingly familiar. Mr. Turner began by saying: "... My most urgent priority was jobs.... The main thrust of this budget is ... to provide incentives for Canadian industry to grow and compete and provide jobs." Stressing the need for "a broader perspective", for looking "further into the future", and dealing with "more fundamental and long-term problems related to the structure of the economy itself", the Minister went on to explain:

Our manufacturing industries are the largest single source of employment in Canada, ... [but] this important sector is the one that is most exposed and most vulnerable to the challenge of change and international competition....

Canada's manufacturing industries have been particularly hard pressed during the past few years. Unit costs of production have risen ... rapidly.... Our manufacturing sector has

also been exposed to growing competition from the new industrial giants — Japan and the expanding European Economic Community. It has been further jeopardized by ... protectionist measures adopted or contemplated in the United States.

... We depend on [the manufacturing] sector to provide a growing number of productive, interesting and well-paying jobs.... We rely on it to keep us in the forefront of technological changes. It is important to the development of a balanced and stable economy.... It is important, too, because of the support it provides to the other major sectors of the economy.

It is, therefore, essential for us to take whatever steps are necessary to promote the development in Canada of manufacturing industries that are dynamic, vigorous and resourceful, that are unceasing in their efforts to innovate, that develop new and better products and that are aggressive in their efforts to expand their markets....⁵²

It was necessary to quote Mr. Turner at length, if only to bear out the effusiveness, and the pains taken to reaffirm the government's faith in capitalism, as well as the willingness to alter "the allocation of command over resources" to the greater benefit of the business sector. It would have been contradictory even to attempt to express at the same time a similar measure of sympathy toward labour's case. Thus the government's position, as expressed openly in the budget speech, lends strong support to our third hypothesis (refer to Chapter 3) regarding the necessity for state intervention, and the observation that in practice this serves the interest of capital directly, while entrusting labour's to indirect effects.

The implications of this bit of reality in the context of a

⁵² Debates, May 1972, p. 2001.

maturing and better mobilized labour movement should be obvious and require no special comment at this point. But the Finance Minister's argument is all the more significant when viewed in the light of O'Connor's thesis — and Offe's extension of it — concerning the necessity to establish some consensus on the virtues of the system and the need to underline the central premise that the assurance and protection of the public interest rest essentially on the continuing growth of GNP and expansion in general. Moreover, according to Offe, the state must all the while attempt to conceal its inevitable partisanship with respect to the carrying out of its accumulation function, and this was clearly borne out in the speech, especially with reference to job creation through incentives for industrial expansion.

The highlights of the Turner budgetary measures were, (a) the decision to permit machinery and equipment for manufacturing and processing to be written off within two years and, (b) what the Minister referred to as the "radical revision of the corporate tax system" to significantly reduce the tax paid by manufacturers and processors, at a cost to the federal government of \$500 million. It is doubtful whether the CMA in its wildest dreams had hoped for quite as much.

However, in spite of his impressive display of salesmanship, Mr. Turner realized that another fundamental question would sooner or later emerge, so he volunteered to pose that question himself and provide an answer:

Members of this house may ask what guarantee there is that this added cash flow [to the manufacturing industries] will be used by [them] for business expansion or reduce

prices, and not merely for higher profits. My answer is that I am confident that businessmen will see and recognize the underlying purpose of the government. Certainly we want to encourage a reasonable return on investment. But we also expect competitive prices both at home and abroad.... I expect business to get out and hustle, to grow, to compete, and to build jobs for Canadians. I am sure that the business community will justify this confidence and prove me right.⁵³

If the members of the House were content to share the faith expressed by the Minister in the sensitivity of business to its "social and moral obligations" as implied in the budget speech, labour could hardly have been expected to be equally optimistic that its objectives could best be realized through the formula Mr. Turner outlined. For actual experiences with rising prices, threats to job security and existing living standards, the publicity given to realized profits and shifts in income shares, as well as admission on the part of government of the need for a more equitable distribution of income, would seem to be among the central elements of economic reality that most adequately explain the behaviour of organized labour. So one would hardly expect that persuasive arguments in the House would replace these as the basis on which future labour strategies were to be planned.

An Interim Summary

We have observed that by 1968, after the Canadian economy had enjoyed eight years of rising prosperity, policy makers began to express deep concerns about the problem of rising prices. The fact that the rate of inflation had risen steadily from 0.9 per cent in 1961 to

⁵³Debates, May 1972, p. 2001.

4.1 per cent by the end of 1968 was particularly disturbing. The absence of any signs of a downward trend led to comments about a developing inflation psychology, the real danger of which, some commentators argued, lay in the possibility that inflation could come to be regarded as a permanent aspect of economic life. But the problem was further compounded by earlier external shocks when the international financial system witnessed the devaluation of sterling, followed shortly after by measures to protect the other reserve currency — the U.S. dollar. It was realized that in designing economic policy domestic concerns could not be isolated from external forces with which they were intricably entwined. Specifically, it was clearly established that the reality of the pervasive forces of international competition constricted to a large extent the mechanisms of domestic wage and price adjustments.

It has been noted also that from 1968 onwards Canadian monetary policy was as much concerned with the defence of the Canadian dollar — considering the implications this holds for the country's export trade — as with controlling consumer behaviour. And from 1969 to early 1972, policies regarding price control tended to be largely peace-meal and pragmatic. Government showed a preference for "selective" anti-inflation measures and espoused the wisdom of voluntary restraint. Much attention was paid to income protection for those on fixed lower incomes. But at times the government reverted to conventional demand management policies, restricting credit, and consequently investment. The government even resorted to lowering the tariff wall which in effect placed

the onus on the business sector to both achieve competitive prices with imports, and to release workers in order to place a downward pressure on wages. But while unemployment did in fact increase dramatically, the lower aggregate demand and general uncertainty led to a refusal on the part of business to increase investment. The shortage of domestic goods worsened the price situation and furthered the free flow of imported goods, leading thereby to a shift in consumer spending in favour of imported goods. In fact, workers were still demanding protection of real wages in order to obtain goods and services from whatever sources they might have come.⁵⁴

And since the (mainly Liberal) government associated the overall prosperity of the decade to 1971 with the appropriateness of its policies and claimed that such prosperity was shared by all, it was reluctant to accuse any sector of being responsible for the changing fortunes that were beginning to emerge. Indeed, by 1972, no sector was publicly singled out for blame; and it had not yet become fashionable to accuse Canadians of "living beyond their means."

Largely as a result of the first Turner budget, however, a turnaround toward rapid economic expansion was clearly evident by the last quarter of 1972. In this regard the budget proposals were undoubtedly producing their intended effects as investors reacted quickly to the

⁵⁴See Economic Council of Canada, Thirteenth Annual Review: The Inflation Dilemma (Ministry of Supply and Services, 1976), pp. 105-107.

measures announced. The government had apparently been persuaded to abandon its strategy of attempting to control inflation through selective demand-oriented means, and to focus instead on supply-oriented incentives that offered to depress prices through the realization of surplus goods and services. Of course it is not to be overlooked that external factors were still to be considered.

In reflecting on the pressures to which that rather significant budget attempted to respond, one could hardly fail to observe that whereas the business community structured its case on deeply entrenched tenets in which the existing economic system is rooted, for example, the "right" of the business sector to incentives and privileges (without guarantees of social benefits in return), and the notion of its monopoly over initiatives for economic expansion, labour rested its case on new values that were emerging and on objectives that as yet may not truly enjoy popular consensus.⁵⁵ For example, labour has been stressing job security, the moral — as opposed to the economic — justification of full employment, and the right of every citizen to unimpeded improvements in his or her standard of living. It is of course a matter of observation that the budget proposals leaned heavily on those premises upheld by the business sector.

⁵⁵It would be interesting to find out, for example, what percentage of the population would agree that business should not hesitate to "free" so-called "redundant" workers, especially when it is the "other guy" or the other family that is affected.

Finally it is to be observed that the period from the last quarter of 1972 through most of 1975 was one of vigorous economic activity, accompanied by skyrocketing wage and price increases that put the government through some of the severest tests that it had yet to face. On the surface at least, the turn of events seemed entirely predictable in light of the monetarist thesis. So it is reasonable to ask why the government remained hesitant to shift its policy emphasis more fully towards this theoretical frame of reference. It is hoped that the following chapter, which deals with the politics and policy developments of that very trying period, will help to provide some answers.

CHAPTER 5

THE POLITICS OF INFLATION, 1972-1975

INTRODUCTION

Shortly after assuming office as the new governor of the Bank of Canada, Gerald Bouey made the observation in the Bank's Report for 1972 that the "massive imbalance in world trade" that developed in the latter part of the 1960's when the United States moved to a deficit position and Japan and the continental members of the European Economic Community to a strong surplus position, "had yet to be corrected." Mr. Bouey noted further that while there was a marked acceleration of business activity in the United States during 1972, "the rates of growth in the other major industrial countries also picked up...." In Canada's case, evidence of economic improvement was particularly noticeable in the latter part of the year, but the rise in imports of 20 per cent outpaced the rise in exports by a substantial margin; and the current account of [the country's] balance of payments moved back into deficit."¹

It stood to reason, therefore, that since Canada so heavily relies on its export trade, the adoption of constraining monetary and fiscal measures domestically could hardly have been appropriate in view of the expansionary trend that was developing internationally. Thus it was easy to rationalize the stimulative thrust of the policy initiatives of 1972. As Mr. Bouey explained:

¹Bank of Canada, Report for 1972, pp. 8-9.

Both internal and external considerations influenced the monetary policy followed during 1972. It was apparent that large increases in demand, output and employment would be needed for a time in Canada if the economy was to regain more satisfactory operating levels. This was the dominant consideration underlying the expansionary policy followed.²

Doubts remained, however, that the upward spiralling of prices would be curbed once the envisaged increases in supply were being achieved. In fact, the new policy measures had barely begun to take effect when governor Bouey himself expressed his reservation that

[such an expansionary] situation ... inevitably involves a risk that at a later stage ... aggregate demand may grow too strongly and cause general demand pressure on prices and costs to develop ... [especially because] in Canada, as in other countries, there is already a certain amount of "built-in" inflation.... It would be unfortunate indeed if ... the underlying rate of inflation were to be ratcheted up yet another notch.³

Inflation was on the increase then. The rate for the whole of 1972 had climbed to 4.8 per cent after declining to 2.9 per cent the previous year. But in the economic turmoil that Canada experienced between 1972 and 1975, the rate skyrocketed to almost 11 per cent by 1974, continuing in that vicinity the following year. Evidently, quite serious flaws existed in the theoretical underpinnings of the policies pursued, and it soon became clear that more than the mere recycling of "scarcity" theory was needed to meet the challenge of the type of inflation that had emerged. Subsequent landmark developments in anti-inflation policy equally deserve attention, but at this juncture, a quick review of some of the short-run effects of the measures adopted in that

²Ibid., p. 10.

³Ibid.

turbulent three-year period, and the kinds of reaction they engendered in various quarters, would seem to be appropriate.

Some Consequences of Induced Economic Activity

As mentioned earlier, economic improvement was well under way by the last quarter of 1972, and by the first quarter of 1973, a discernible trend began to develop in terms of the accrual of benefits from the renewed expansion. So much so in fact that a brief study released by the C.D. Howe Research Institute was able to report by that time a "dramatic" increase in corporate profits.⁴ The CMA was quick to denounce the report as being premature, claiming that the authors were ill-advised in basing their conclusions on the results of a single quarter. In any case, the Association argued, "a profit rebound was overdue", inasmuch as statistics for the four-year period from 1969-1972 revealed that increases in wages, salaries and supplementary labour income outpaced those in profits 48 per cent to 33 per cent — the figures being even more striking for the longer period from 1966 to 1972 when the increase in compensation for labour outstripped the increases in profits by a commanding 2 to 1 margin. The Association went on to justify the bolstering of profits as a hedge against anticipated increases in labour costs, since "labour could be expected to demand a larger share of the new prosperity."⁵

⁴Judith Maxwell and Norman Mogil, "Observations on the Profit Recovery in Canadian Manufacturing," Montreal, C.D. Howe Research Institute, 1973.

⁵Canadian Manufacturers' Association, "Corporate and Manufacturing Profit: Comments on the C.D. Howe Research Institute's Study entitled 'Observations on the Profit Recovery in Canadian Manufacturing'," Toronto, 1973.

Noting also that the authors of the C.D. Howe Institute's report appeared to express doubts about the correctness of the tax incentives granted the business sector, the CMA proceeded to expound "the wisdom of Finance Minister Turner's policy towards manufacturing", reiterating, word for word, the rationale given in the budget speech of May 1972, that the stimulus to the manufacturing sector was warranted on the grounds that that sector is "the one that is most exposed to the challenge of international competition from [emerging] industrial giants...."⁶ Indeed the CMA went so far as to suggest that because of the difficulties experienced by some industries in earlier years, "even the tax inducements [direct reductions plus the two-year write-off] may not fully restore confidence and willingness to invest further."⁷

As it turned out, the pattern in profit recovery observed in the C.D. Howe Research Institute's study remained consistent. For while the proportion of national income shares going to labour and profits in 1971 was virtually unchanged from that of the previous year, from 1972 through 1974 a truly "dramatic" shift in income shares occurred. The portion going to profits increased from 12.3 per cent in 1971 to 13.6 in 1972, 16.3 in 1973, and 17.6 per cent in 1974; the corresponding figures for labour being 72.8, 72.3, 70.5 and 70.3 per cent respectively. The decline in labour's share was as striking as the increase in profit shares was dramatic.

⁶Ibid., p. 11.

⁷Ibid., p. 10.

At the same time, the CMA's concern that labour would "demand a larger share of the new prosperity" was equally well founded. The early indications of tough wage bargaining the Association observed simply mushroomed on a nation-wide scale. Indeed, measured both in terms of militant action and the size of pay increases, the build-up of pressure on the part of labour was enormous. In the words of the Economic Council of Canada, "the acceleration in prices and ... record profit levels spurred new bargaining vigour...."⁸ In this regard, two significant observations in the reaction of workers are worthy of note. One concerns the efforts by some groups to "catch up" to the wages of others as widening wage differentials reflected uneven development in the expansionary process. The other, and perhaps the more significant, is what some commentators have termed the "proletarianization" of white collar workers, in referring to the growing militancy within that sector. Regarding these developments the Council pointed out that

... rising inflation in 1973 and 1974 eroded most of the purchasing power of workers' wages, and workers in some industries were worse off, in real terms, than in 1972. Workers ... in the manufacturing, commercial, and service sectors, on average, experienced a reduction in wages [though some groups realized substantial increases....] The consequence was a widening of some traditional wage differentials and the creation of new expectations, catch-up pressures, and tensions in the bargaining process.⁹

While the observation concerning increased militancy in the public sector can be attributed in part to recent legislation permitting the

⁸The Economic Council of Canada, Thirteenth Annual Review: The Inflation Dilemma (Supply and Services Canada, 1976), p. 28.

⁹Ibid., pp. 25-26.

unionization of that sector, its greater significance lies in the adoption of bargaining tactics associated historically with "blue collar" workers. A plausible explanation for these new developments would seem to be that "white collar" workers in their day to day experiences have come to realize that no employee is in fact immune from the erosive effects of inflation on real wages, from the dislocations brought on by the accelerated pace of change we have been witnessing, and worst of all, from being "relieved" of their jobs on the basis of redundancies resulting from such changes, or the politically motivated objective of curtailing the massive growth in public spending. In short, workers in the public sector may now be more aware that their relationship with their employers is not fundamentally different from that between workers in the private sector and their employers, except in so far as the profit motive in the case of the latter imposes a different set of constraints from those of the tax-based revenue sources of the former.

Another interesting result of the mounting pressures for pay hikes observed in both the public and private sectors was that higher-than-average wage increases were won by employees in the public sector. The Economic Council reported that of 51 collective agreements signed at the provincial level in 1974-75, twenty five were first-time agreements and the others renewals. The wage increases averaged 23.5 per cent in the first-time agreements, compared to 13.2 per cent in the renewed contracts,¹⁰ and roughly

⁹Ibid., pp. 25-26.

¹⁰Ibid., p. 27.

18 per cent for all sectors. The Council went on to say that

Implicit in the overall wage gains achieved at the provincial level in 1975 ... were an unusually large number of settlements covering newly organized workers for whom an equalization of wages with those of similar occupations played an important role in the bargaining process.¹¹

What seems most striking in all of this is the extent to which the more general, long-standing social question of equity — as distinct from the immediate economic question of maintaining purchasing power — has found expression in the battle against inflation.

And the fact that the exceptionally high wage settlements did not lead more quickly to a reversal of the shift in income shares at a time when unit labour cost virtually trippled (output per person and per man hour being in decline), is indicative of the ease with which business was able to pass on higher costs in higher prices. Furthermore, it was difficult to find much evidence that increases in supply were forcing prices downward, the record increase in overall industrial capacity notwithstanding. As can be seen in Table 6, the consumer price index which had risen by 2.9 per cent in 1971, jumped 4.8 per cent in 1972, 7.5 per cent in 1973, and an astounding 10.9 per cent in 1974, at which rate it continued into 1975.

A closer examination of union activities is warranted at this stage. And in this regard, if the stated premise of greater access to information is borne in mind, one would logically expect to

¹¹Ibid., pp. 27-28.

TABLE 6

Consumer Price Indexes and Percentage Rate
of Price Changes, Canada, 1968-1980. (1971=100).

Year	Consumer Price Index	Percentage Rate of Change of CPI
1968	90.8	4.1
1969	94.2	4.5
1970	97.2	3.3
1971	100.0	2.9
1972	104.8	4.8
1973	112.7	7.5
1974	125.0	10.9
1975	133.5	10.8
1976	148.9	7.5
1977	160.8	7.9
1978	175.2	8.9
1979	191.3	9.2
1980	210.6	10.1

Source: Canada Year book 1976-77 (Supply and Services Canada, 1977); and Statistics Canada, Canadian Statistical Review, various issues from 1976-81.

discern improved clarity in the definitions of partisan claims, and certainly more decisiveness in labour actions in particular. This ought to have been evident in what has already been said, and should become even more so in what is yet to follow in the remainder of this chapter.

The Unions Gather Strength

It has been mentioned earlier that in real terms workers were worse off in 1973 than they were in 1972. Expressing this in more concrete terms, CLC analysts explained that the average worker's real earnings were \$5.50 per week less at the end of 1973 than they were a year earlier, "in spite of a flourishing economy" in which profits increased by over 47 per cent over the same period. Equally startling were the figures on income distribution, showing that the proportion of total income going to the bottom 20 per cent of the population (4.4 per cent in 1951) had declined after 20 years of "progress", whereas the proportion going to the top 20 per cent (42.8 per cent in 1951) had increased slightly.¹² It is against this background that one should reflect upon the CLC's statement in response to the new patterns of development associated with the Turner measures. The Congress declared that

... insofar as the interests of the majority of Canadians are concerned ... equity in both absolute income terms and distribution of rising incomes must be spelled out.... The time is at hand ... when this will either be defined officially,

¹²Canadian Labour Congress, Memorandum to the Government of Canada, March 1974, pp. 8-11.

with accompanying policies to enforce that definition, or this land will abound with unnecessary internal political problems.¹³

Addressing itself to what it termed the "grossly inequitable distribution of national income" and the observed reversal of income shares going to labour and profits respectively, the Congress warned that recent events had exacerbated the problem to such an intolerable degree that industrial unrest of "serious proportions" were likely to result. It went on to say that

... as far as organized workers are concerned, they will have no choice but to bargain as hard as they can to achieve settlements which will take into account rising living costs....

But we are not satisfied with [efforts] confined only to keeping up with the cost of living.... There is an improvement factor ... which should be taken into account. Otherwise there can be no change in the economic status of those who have toiled to create abundance of goods and services unrivalled by most countries of the world.¹⁴

Industrial unrest of serious proportions was hardly an overstatement, judging from the militancy shown in 1974 and 1975, and carried over into 1976 after mandatory controls had been imposed. In 1974 the number of strikes and lockouts had for the first time crossed the one thousand mark, reaching 1,218, which was more than double the number in 1972. The number of man-days lost set new records in three successive years from 1974 to 1976 - the figure for 1974 being 9.2 million, and that for 1975 10.9 million,

¹³Ibid.

¹⁴Ibid., pp. 10-12.

compared to the previous record of 7.7 million in 1972. And the time loss as a percentage of total estimated working time in 1975 was an all time high at 0.53 per cent, though this was to climb even higher the following year.¹⁵

But one of the more significant developments of the period under review has been the growth in union membership. (See Table 7.) For although it could be argued that the upward trend in unionization that started after 1969 merely re-established, by 1971, the proportion of non-agricultural paid workers unionized in the 1950's, and that the lull in membership growth from 1970-1971 (when membership remained unchanged at 33.6 per cent) suggested a lack of motivation for non-union workers to join trade unions, the growth in unionization that occurred after 1971 must be seen as a new phenomenon directly related to events of the 1970's. It could hardly have been coincidental that union membership as a percentage of non-agricultural paid workers, which in 1972 was below the 1955 level, recorded a 16 per cent increase in six years to reach 39 per cent by 1978.

It is sometimes contended that the recent increase in overall unionization is explained by the growing unionization of the public sector, due to the granting of collective bargaining rights to workers in that sector. The implication appears to be that such growth does not necessarily indicate an intensification of labour unrest. But what is often overlooked in this type of explanation

¹⁵Labour Canada, Strikes and Lockouts in Canada, 1978, p. 9.

is the effect of changes in the distribution of the labour force, by industry group. For whereas workers in the goods-producing sectors (excluding agriculture) — or those historically inclined to be in unions — constituted just under 34 per cent of the labour force in 1965, that figure had fallen to slightly over 29 per cent in 1975. At the same time, workers in the finance and service sectors — or the ones that tended to remain non-organized — made up 39.3 per cent of the labour force in 1975, compared to 31.7 per cent in 1965.¹⁶ Thus over the years, there has been a steady shift of the labour force from the traditionally more highly organized to the less organized sector. If such re-allocation of the labour force were not also accompanied by perceptual changes in the workers' outlook, union membership would have done well to maintain a constant level, let alone record significant growth in recent years. It would seem, therefore, that a plausible explanation of the rise in union membership that occurred in the 1970's must take into account both the opportunity for the public sector to become organized, and the changes in the workers' perception of their situation, vis-a-vis their relationship with their employers, their vulnerability to adverse economic conditions, and their definition of social justice.

Taking the question of membership a little further, one finds that Hines' analysis assumes increasing relevance insofar as it leads to other questions as to what is responsible for the intensification of recruiting efforts and what are the major determinants of membership growth. Reference has already been made in chapter 4 to the

¹⁶Source: Canada Year Book 1976-77, p. 375.

TABLE 7

Union Membership with Estimates of Total Paid
Workers in Non-Agricultural Industries in Canada, 1968-80

YEAR	UNION MEMBERSHIP (THOUSANDS)	TOTAL NON-AGRICULTURAL PAID WORKERS (THOUSANDS)	UNION MEMBERSHIP AS PERCENTAGE OF NON- AGRICULTURAL PAID WORKERS
1968	2,010	6,068	33.1
1969	2,075	6,380	32.5
1970	2,173	6,465	33.6
1971	2,231	6,637	33.6
1972	2,388	6,893	34.6
1973	2,591	7,181	36.1
1974	2,732	7,637	35.8
1975	2,884	7,817	36.9
1976	3,042	8,158	37.3
1977	3,149	8,243	38.2
1978	3,278	8,413	39.0
—	—	—	—
1980	3,397	9,027	37.6

Source: Labour Canada, Labour Organizations in Canada, 1980.

developing cyclical pattern of labour unrest, and to be sure, when certain indicators are examined together, an interesting picture begins to emerge.

In Table 3 it can be seen that changes in a number of indices have coincided with significant changes in union membership. In 1955 and 1956, for example, changes in the consumer price index were relatively small, averaging 0.8 per cent, while changes in real wages averaged 3.7 per cent. However, for 1957 and 1958, increases in the C.P.I. had jumped to the 3 per cent level, and changes in real wages fell to 1 per cent by 1958. In the former two-year period, labour's share of national income averaged 63.9 per cent while the share going to profits averaged 10 per cent. For the latter two-year period the figures were 66.5 and 13.9 per cent respectively. If allowance is made for some time lag between the realization of a trend and the reaction to that trend, it can be seen that the level of unionization bears some relationship to the changes we have observed, for union membership as a percentage of non-agricultural paid workers in 1958 had for the first time exceeded 34 per cent, suggesting some reaction to the losses in real wages. It is to be noted also that the increase in union membership was accompanied by a significant increase in labour unrest, and that both developments occurred in spite of a dramatic increase in unemployment which reached as high as 7 per cent in 1958.

TABLE 8

Selected Indicators

Year	Union Membership % Of Non-Agricultural Paid Workers	% Change In Consumer Price Index	% Change In Real Wages	Unemployment Rate	Labour Income % Of National Income	Corporate Profits (Before Tax) % Of National Income
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1955	33.7	0.2	3.2	4.4	63.5	15.9
1956	33.3	1.4	4.1	3.4	64.3	16.1
1957	32.4	3.3	2.0	4.6	67.0	14.0
1958	34.2	2.7	1.0	7.0	66.0	13.8
1964	29.4	1.7	2.2	4.7	67.3	15.5
1965	29.7	2.5	2.7	3.9	68.4	15.3
1966	30.7	3.7	2.1	3.6	68.8	14.5
1967	32.3	3.6	3.1	4.1	70.9	13.7
1968	33.1	4.1	2.8	4.8	70.4	14.2
1970	33.6	3.3	4.5	5.9	72.7	12.0
1971	33.6	2.9	5.6	6.4	72.8	12.3
1972	34.6	4.8	3.6	6.3	72.3	13.6
1973	36.1	7.6	0.0	5.0	70.5	16.3
1974	35.8	10.9	0.1	5.4	70.3	17.6
1975	36.9	10.8	3.4	6.9	71.9	15.5
1976	37.3	7.5	4.2	7.1	72.6	13.5

Sources: Compiled from tables given elsewhere in this study; and (for columns 3 and 4) calculations based on data from Statistics Canada, Prices and Price Indexes 1975 and earlier issues; Statistics Canada, Consumer Prices and Price Indexes, December 1976; and Statistics Canada, Employment, Earnings and Hours, 1965 and 1977.

Means who examined the parallel pattern of development in the United States attributed it to "administrative" pricing that was initiated as a "profit push", particularly in the steel-using industries.¹⁷ There can be little doubt that this had a bearing on economic activities in Canada. In any case, whatever might have been the precise cause of the upward movement in Canadian prices and the consequent impact on real wages at the time, the link between such development and the mobilization of organized labour can hardly be disputed.

The recession of 1960-61 witnessed a substantial decline in unionization and labour militancy, but the prosperity which characterized the remainder of the 1960's saw a resurgence of militant action and membership growth. And again one observes that when a relatively mild inflation averaging 2.1 per cent, and a 3.5 per cent average increase in real wages in the 1964-65 period gave way to significantly higher increases in the C.P.I. and corresponding decreases in real wages, the pace of union growth accelerated, and labour unrest, as measured by the number of strikes and man days lost, mounted and set new records in 1966. Consequently, the declining trend in real wages was reversed, and labour's share of national income resumed its upward climb, in contrast to the overall decline in the share that went to profits.

¹⁷Means, "Simultaneous Inflation and Unemployment," p. 12.

The key to labour's success in this period would seem to have been a full employment situation in which the unemployment rate for 1966 reached as low as 3.6 per cent.¹⁸ However, the subsequent increases in the rate of unemployment had little impact on labour militancy. Indeed, in spite of the heightening unemployment and the reduced pace at which unionization continued until 1971,¹⁸ labour's political activities were remarkably vigorous over the same period of time.

Reference has been made earlier to the increasing tendency for government to intervene where events appear to hinder the accumulation process. This has in fact been one of the outstanding features of policy developments in the 1970's. The budgetary measures of 1972, in particular, were among the more far-reaching efforts by the government to strengthen the position of the business sector, in view of the growing militancy of organized labour. But other forces at work were also to play their part. For yet again, in the 1972-1975 period, as in earlier years, a close relationship could be observed between the growth in unionization and the very significant changes that occurred in other economic indicators, especially the steep climb in the cost of living index and the decline in real wages. In this regard, the crucial point of note is that the

¹⁸ Although the Public Service Staff Relations Act extended bargaining rights and the right to strike to public servants since 1967, it could not be said, five years later, that this factor by itself accounted for any dramatic change in overall union growth, for membership as a percentage of non-agricultural paid workers was still significantly lower in 1971 than in 1958. Hence our insistence on a more complete explanation of the surge in membership following 1972.

combination of high unemployment, government action to shift market advantage to the side of business, and even recessionary conditions, did little to curb the growth in unionization and the intensification of labour unrest. The relevant statistics for this period are stated largely in superlatives: The average increase in the C.P.I. from 1973 to 1975 was the highest for any three-year period since the war; changes in real wages in both 1973 and 1974 sank to their lowest in the postwar era; the share of national income going to profits, bolstered as they were by government intervention, recorded a 16.4 per cent average for the three years from 1973 to 1975, and showed a record jump of 29.4 per cent from 1972 to 1974. At the same time, union membership which for more than two decades previous to 1972 fluctuated on a plateau in the 29 to 33 per cent range, for the most part, began a steady upward climb, commencing with a new record in 1972; and as already indicated, the number of strikes and lockouts set a series of records beginning with that of 1974. Finally, the "catch up" phenomenon spread rapidly, not only in terms of inter-industry wage rates, but also in international terms, thus narrowing more quickly the traditional gap of some 25 to 30 per cent between the average United States and Canadian wage rates. Nor did the rise in unemployment that approached 7 per cent in 1975 appear to exert any dampening effect on wage demands.

In light, therefore, of such overwhelming statistics which reflect the exercise of political pressure on the part of the two sides of industry, and of the government as acknowledged arbiter in this situation of ongoing conflict, it is inconceivable that explanations of the

current inflation and the prescriptions for its cure can ignore the political implications of the foregoing observations. That the outlook and behaviour of labour, for example, can be brushed aside or treated as incidental, while proposals for "fixing" the money supply are being slyly put forward as a cure-all, would seem to be one of the most blatant bits of paranoia in socio-economic reasoning. In fact, the evidence examined thus far in the present analysis appears to be leading inevitably to the conclusion that the struggle between profit and wages on which Plangin made his historic comment, even before Marx expounded the "laws" of capitalist production, lies at the very heart of the battle against inflation in Canada, as in other capitalist economies. What is also becoming increasingly clear is that in spite of the headline-snatching suggestions to cure inflation, such as devaluation, a floating exchange rate, control of the money supply¹⁹ and concessions to big business, in practice — and despite assertions to the contrary — the most vulnerable element in the price adjustment process has tended to be the worker's pay cheque. For in a situation

¹⁹In a belated study originally commissioned by the Anti-Inflation Board, Reid states, for example, that inflation could be eliminated "simply" by adopting a floating exchange rate and reducing the rate of growth of the money supply. (See Frank Reid, An Analysis of U.S. Wage Controls and Implications for Canada [Supply and Services Canada, 1978], pp. 49-51.) But as we have discussed in chapters 3 and 4, this "solution" may not be quite so simple when other countries decide to use similar tactics to accomplish the same objectives. Furthermore, it may have escaped Reid that Canada has been pursuing both policies (though perhaps not too aggressively) for many years now, and inflation, far from being eliminated, has worsened. For a truly insightful commentary on the dynamics of external factors in the inflation process, see John E. Burbidge, "The International Dimension," in Alfred S. Eichner (ed.), A Guide to Post-Keynesian Economics (White Plains, New York: M.E. Sharpe, 1979), pp. 141-143 and 148-149.

in which adverse external pressures present problems of economic instability for industry and the state, it is to the wages of workers that both ultimately turn for a solution, even if this might involve the erosion of concessions already won by labour. When, for example, difficulties arise in a country's balance of payments, due to external factors outside domestic control, pressures to suppress wages would tend to increase. But to fulfil its legitimization function, the state must attempt to conceal the underlying motives, inasmuch as coercion remains an essential element of the means that are normally employed. Even so, the problem is further magnified as labour leaders elucidate the workers' situation and the labour movement demonstrates its readiness to resist the threats upon the gains that it has made.

Given, therefore, the political implications of the above observations, influential opinions have tended to differ on the degree of coercion it is possible to build into particular anti-inflation measures. Hence at a time when vehement arguments were being put for trading off inflation for unemployment, Rasminsky, the former governor of the Bank of Canada, stated clearly that while theoretically it was conceivable that significantly tough measures could be introduced to avoid any possibility of generating inflationary pressures domestically, "it goes without saying that an approach that relies on continuing high levels of unemployment must be avoided."²⁰ And even in more pressing circumstances, Rasminsky's successor,

²⁰Bank of Canada, Report for 1970, p. 11.

Mr. Bouey, in outlining the options for policy, expressed similar sentiments when he said, "quite rightly, no country will choose to try the drastic remedy for inflation of deliberately creating whatever degree of slack is required to bring it to a halt in a relatively short time."²¹ It could well have been added that any strategy that might be construed as making a culprit of organized labour should be avoided since, in Rasminsky's words, it would be fallacious to act as if "the public would never adjust its behaviour...." Surely, "the public would soon realize what was happening and would take whatever economic or political actions were available to it to protect itself against the officially-sponsored [plans]."²²

Implicit in such statements is an underlying awareness of the dangers of the potential socio-political fall-out that would have to be weighed against the dangers of delaying the "boldest efforts" to eradicate the current inflation. Indeed, as the problem of inflation heightened and practical solutions remained elusive, the intensified debate reflected greater recognition of the socio-political complexities involved, and this became increasingly evident, especially in the parliamentary debates in which the human aspects of the question vied for predominance over the purely mechanistic and technical aspects. Needless to add that even in the House of Commons, not all of the

²¹Remarks by Gerald Bouey, Governor, Bank of Canada, to the Men's Canadian Club of Winnipeg, 26 November 1974, p. 9.

²²Submission of Louis Rasminsky, Governor of the Bank of Canada, to the Standing Senate Committee on National Finance, 17 June 1971, pp. 22-23.

people's representatives could be identified with the kind of sensitivity to public reactions that Rasnitsky expressed.

The Debate in the House

Nevertheless, to the extent that the advice of the governor of the Bank of Canada influences government policy, the present governor's appraisal of the economic situation should provide a useful backdrop to the debate on inflation that has been taking place in the House of Commons. Thus it is important to note that whereas in April 1973, Mr. Bouey gave the assurance that "we are not moving to a tight money situation and that the banking system will continue to be in a position to accommodate reasonable growth...",²³ by the end of that year there was a significant shift in outlook at the Bank of Canada. For in his subsequent Report to the Minister of Finance for the year 1973, the governor of the Bank had this to say:

... The strongly expansionary monetary policy that had been followed for some time would, if continued, merely serve to intensify the mounting upward pressure on prices and costs....

Looking back on the experience of Canada ... over a longer period, it is difficult to avoid the impression that from time to time there have been more substantial and persisting departures from reasonably steady monetary growth than would appear in retrospect to have been desirable....

In the light of [this], I have a certain amount of sympathy with the case that is often made for more stable monetary growth over time.... The Bank of Canada, in framing its judgements about the appropriate policy to be followed, ... has been giving considerable weight to underlying rates of monetary growth.²⁴

²³"What Central Banking is About," Remarks by Gerald K. Bouey, Governor of the Bank of Canada, to the Canadian Club of Toronto, 30 April 1973, reprinted in Bank of Canada Review, May 1973, p. 9.

²⁴Ibid., pp. 5-7.

Although a clearly defined policy of tight monetary control was to come much later, this was the first indication of the Bank of Canada's inclination toward a truly monetarist position. Indeed Mr. Bouey confirmed in a speech in November 1974, that "the opening months of 1973 marked the beginning of a gradual shift in the posture of monetary policy in Canada... [when] interest rates ... kept moving upward [to reflect] the interplay of the Bank of Canada's less accommodative policy stance."²⁵ We shall return to this later, but at this stage a brief review of certain highlights of parliamentary debates would provide some useful insights into the political and economic developments that preceded the more coercive policies introduced by both the government and the Bank of Canada near the end of 1975.

Two overriding influences weighed heavily on the debates on inflation in the House of Commons in the 1973-74 period. One was the pro-business thrust of the Turner budgets that demanded continuous effort to justify the implicit faith the government had placed in business initiative.

²⁵Remarks by Gerald K. Bouey, Governor, Bank of Canada, to the Men's Canadian Club of Winnipeg, 26 November 1974, p. 11. One year later, to the day, Mr. Bouey declared: "The Bank of Canada has focused increasingly on the growth of M1.... I have also reminded people that, on this definition, the money supply in Canada grew at an average rate of about 15 per cent per year over a two-year period ending in the second quarter of 1973. Over the subsequent two-year period ending in the second quarter of 1975, this rate was brought down [emphasis mine] to about 10 per cent a year" - a figure corresponding with the low end of the first target range established in November 1975. There is no question, therefore, that the Bank adopted the principles of monetarism as early as 1973, and not in 1975 as some who wish to conceal the ineffectiveness of this policy would like to suggest. (See "Remarks by Gerald K. Bouey, Governor of the Bank of Canada, to the Saint John Board of Trade Seminar," Saint John, N.B., 26 November 1975.)

enlightening arguments arising from the divergent party positions on what was essentially at issue here.

Thus, consistent with his conviction that supply growth was the key to anti-inflation strategy and that business should be entrusted with the responsibility to take the initiatives toward that end, the Finance Minister proposed extensions to measures introduced earlier to reduce the federal tax liabilities of corporations in the areas of exploration, manufacturing and processing — the most notable of these measures being the fast write-off concessions with respect to new machinery, and the increased rate of write-off — to as much as 100 per cent — in other cases.

Workers, on the other hand, were to benefit from an extension of the series of tax cuts initiated in 1973; and of special significance was the fact that automatic indexing, first introduced to protect pensioners' incomes from the erosive effects of inflation, was to be extended to the personal income tax system, effective the following year. But for those concessions workers were expected to give up something in return. Both the Minister of Finance in his budget speech, and the Prime Minister in the subsequent budget debate, went out of their way to emphasize this point. The Prime Minister explained:

We are saying to the working man, 'Here's an income tax cut which gives you this year between \$150 to \$500 extra take home pay, non taxable, and even more next year.... We want you to take this into account when you're making your wage demands. You don't have to get as much more pay as you otherwise might, because we're giving you a portion of it. And remember, if we're

by members on both sides in the House of Commons.

In April 1973, for example, when reports showed that the food component, which had risen by over 17 per cent, was the major contributor to the alarming increase in the consumer price index, the NDP seized the opportunity to argue for an anti-inflation policy biased toward the control of prices - commencing initially with prices in the food producing and distributing industry. The contention was that prices were being unjustifiably "fixed" at high levels, especially by the "middle men". But Ron Atkey, expressing the Conservative point of view, declared that in any price review mechanism, to ignore wages would be "almost criminal ... - an absolute sell-out to the selfish aims of organized labour...."²⁷ Of course, not all statements by parliamentarians should necessarily be assessed in partisan terms, and one might be willing to concede that Mr. Atkey's damning portrayal of the aspirations of a substantial proportion of the working people might have been the type of unguarded remark that slips through from time to time in heated debates. Yet further observations reveal that such sentiments were in keeping with the party's stance on the issue of inflation, although the bluntness was often avoided.

Hence a few months later, in a motion of non-confidence against the government, Mr. Gillies, then Conservative member for Don Valley, and an economist by profession, argued that "the forces which created inflation in Canada [two or three] years ago, which was cost-push inflation [and] never been dealt with."²⁸ And since, as we have seen, "cost" in this

²⁷ Debates, 10 April 1973, p. 3147.

²⁸ Debates, 14 June 1973, p. 4759.

context invariably referred to wage costs in particular, one can only conclude that the member was attempting to persuade the government to adopt stricter measures to control wages. But the government was still reluctant to openly accuse labour of being the central cause of inflation, as evidenced by the Finance Minister's reply. Mr. Turner assured the House that there had not been any break-out in wages, and that Canada, like "every other industrial economy of the world", was in a process of expansion that was "producing contagious results."²⁹

Yet the Conservatives, seizing every opportunity, persisted in pressing the point that labour costs were the primary source of inflation. Thus during the debate of the Competition Bill, Paul Hellyer declared that the Prime Minister was "full of hops" when he stated earlier that he found it "appropriate... to destroy the myth that cost of labour had been a dominant factor in contributing to the present inflationary round in Canada." The former Liberal minister went on to produce impressive evidence to show the inroads the labour movement had made and the impact this was supposed to have had on prices. Mr. Hellyer pointed out that whereas in 1870 labour's share of national income was 45 per cent, that figure had climbed to some 70 per cent in our time. But even more telling were his own findings that the rate of change of money wages alone explained the widening gap between the rates of change in the consumer price index and productivity. According to Mr. Hellyer,

²⁹Ibid., pp. 4762-4763.

... in the ten year period from 1963 to 1974 the average annual percentage increase in wages and earnings in Canada was 6.5 per cent; the average annual percentage increase in productivity was 3 per cent, the average annual increase in consumer prices for the ten year period was 3.5 per cent. The increase in consumer prices was exactly the difference between the wage increases in dollar terms and real productivity ... on an average throughout the ten year period.³⁰

So here, apparently, was "proof positive" that labour was all along the villain of the piece.

Still, the government was far from anxious to castigate labour at a time when published reports and the government's own statements in the House indicated that profits were showing strong recovery. But even while the Conservatives were so bluntly accusing labour of being the central cause of inflation, their tacticians were introducing a second line of approach that coincided with the Bank of Canada's gradual conversion to the monetarist point of view. Thus in one of the Question periods, Mr. Gillies asked why the government was continuing to increase the money supply, and whether it was "the position of the Minister of Finance that the 50 per-cent increase in the money supply in the last three years [had] not been a major factor in the inflation that [had] taken place in this country."³¹ While Mr. Turner took pleasure in ridiculing the Conservatives for apparently not being able to decide among themselves whether the root cause of inflation was "cost-push" or "demand-pull", there might well have been greater consistency in the Conservative viewpoint than seemed on the

³⁰Debates, 14 March 1974, p. 513.

³¹Debates, 13 September 1973, pp. 6498-6499.

surface to have been the case. For it may have been the feeling that if labour was not to be confronted directly in efforts to curtail wages, control of the money supply might indirectly have produced the same effects since, theoretically, the disincentives against investment resulting from a shrinking money supply should have a negative effect on employment and therefore dampen the pressure for higher wages. Mr. Turner's reply to this specific question, that "the money supply has been expanding only at a rate to accommodate the expansion in the economy",³² merely underlines the difficulty of reconciling the desirable goal of industrial expansion, on the one hand, and suggestions to simultaneously depress wages, on the other.

At any rate, why the government remained obstinately opposed to more decisive action against inflation, even in light of the disturbing statistics of 1974, remains an interesting question. Part of the answer has already been suggested, namely, the minority situation in Parliament through 1973 and the earlier months of 1974, prior to the government's ultimate defeat in the House. But while the day to day uncertainty over the life of the government must in itself have infused a precautionary element into government actions, more substantive reasons for the general approach could also be discerned. For example, after the government's majority was restored in the summer elections, the Finance Minister in his budget speech of November 1974, made reference to "the changing character of recent inflation." According to Mr. Turner, the difficulty was to be found not so much in "general excess

³²Ibid.

demand" as in "other factors". Yet although his elaboration emphasized "increases in prices of food and energy throughout the world", and a "fundamental change in the supply of cheap resources in the face of constantly increasing demand", the conclusion reached, and the decisions following therefrom, betrayed the government's real concerns that went beyond the question of supply to include far deeper, underlying behavioural considerations. For in the same context the Finance Minister explained that the government's overall approach was to be "a comprehensive series of consultations with all sectors of the economy to seek to develop a co-operative national effort to slow down increases in costs and prices." The government had by then become convinced that "the changing character of inflation" demanded a genuine quest for "a better way of reconciling the competing interests of various groups which make up our society...", and that what was needed was "a national consensus" about each group's fair claims upon the economy. "Co-operation," according to the Finance Minister, "must be the watchword."³⁸ Quite evidently, the results of the supply-oriented policies which formed the backbone of the first Turner budget and promised to be the panacea for Canada's inflation, had fallen disappointingly short of expectations.

It is interesting to observe that seven years of wrestling with inflation had brought the government little beyond recognizing the

³⁸Debates, 18 November 1974, p. 1423. (Emphasis added.) It may be mentioned in passing that the idea of "a strong national consensus" was expressed two years earlier by the former chairman of the Prices and Incomes Commission, Dr. John Young, at the time of his departure from the Ottawa scene. (See The Citizen, 27 December 1972.)

deep underlying conflict between business and labour in particular. Even so, the new approach rested largely on the assumption that both sides of industry could yet be convinced that the economic situation called for all-round co-operation as never before, and that the government genuinely desired to find a solution that would be essentially fair to all. (The actual outcome of the consultations and "consensus" meetings will be dealt with in the following chapter.) But other facets of the debate in the House were indicative of the lines of argument that were shortly to emerge elsewhere when attempts were made to effect the conversion from specious proposals to reality.

Insofar as the 1974 elections were won largely on the government's anti-controls campaign, it was not surprising that critical scrutiny awaited what the government had to offer as a more equitable package. And as expected, the post-election budget devoted considerable attention to inflation which by then had more than doubled the rate when the minority government was returned barely two years earlier. In fact, inflation was for the first time in 23 years running in the ominous double digit range.

The highlights of the November budget could be considered broadly under two main headings -- those of direct benefit to business and those that directly affected consumers. Of particular interest are the different interpretations of the distribution of benefits, and indeed at bottom, the different perceptions of what constitutes fairness both in apportioning the social product and in protecting the various sectors of the economy from the impact of inflation. Nor was there a dearth of

enlightening arguments arising from the divergent party positions on what was essentially at issue here.

Thus, consistent with his conviction that supply growth was the key to anti-inflation strategy and that business should be entrusted with the responsibility to take the initiatives toward that end, the Finance Minister proposed extensions to measures introduced earlier to reduce the federal tax liabilities of corporations in the areas of exploration, manufacturing and processing — the most notable of these measures being the fast write-off concessions with respect to new machinery, and the increased rate of write-off — to as much as 100 per cent — in other cases.

Workers, on the other hand, were to benefit from an extension of the series of tax cuts initiated in 1973; and of special significance was the fact that automatic indexing, first introduced to protect pensioners' incomes from the erosive effects of inflation, was to be extended to the personal income tax system, effective the following year. But for those concessions workers were expected to give up something in return. Both the Minister of Finance in his budget speech, and the Prime Minister in the subsequent budget debate, went out of their way to emphasize this point. The Prime Minister explained:

We are saying to the working man, 'Here's an income tax cut which gives you this year between \$150 to \$500 extra take home pay, non taxable, and even more next year.... We want you to take this into account when you're making your wage demands. You don't have to get as much more pay as you otherwise might, because we're giving you a portion of it. And remember, if we're

allowing you to keep \$250, for example, through the tax cut, it's really equivalent to about \$380 if you had to get it through taxable income from your employer.³⁴

From the standpoint of the labour movement, the most significant aspect of the "workers' package" was undoubtedly the indexing of the income tax system. And although the argument for indexing has been strongly put by academics who contended that government is one of the major beneficiaries of inflation insofar as increases in the tax base due to rising prices lead to increased taxes — and therefore windfall revenues — without any action on the part of government,³⁵ it is difficult to determine precisely what led the government to concede this point. For it could be argued that any proposal that guaranteed individuals permanent alleviation of the burden of inflation also diminished the incentives to curb inflation. Certainly, the advocates of induced hardship to bring the workers to their knees were denied support in this specific measure adopted by the government. Evidently, the threat of increased labour militancy outweighed other considerations in the determination of policy at the time. Indeed, CLC officials have suggested two reasons for the actions taken. One was that the government was so anxious to win the goodwill of the labour movement that it was prepared to grant what may have been interpreted as the most desirable concession the movement had long

³⁴Debates, 27 November 1974, p. 1734. See also 18 November 1974, p. 1427.

³⁵See footnote 18 on p. 68 above; and Milton Friedman, "Facing Inflation," an Interview with Challenge: the Magazine of Economic Affairs, November-December 1973, pp. 29-30.

been seeking. The other was the personal beliefs of Finance Minister Turner himself who, "for all his conservatism", desired to secure a fair deal for the workers. In the eyes of CLC executives, it was more than mere symbolism that Mr. Turner "was the first Minister of Finance to visit the CLC headquarters to engage in formal consultations."³⁶

In any case, the measure of protection for real wages offered in the budget of November, 1974 serves to bring into proper perspective the two major functions of the state, namely, accumulation and legitimization. For although a decline in real wages could have a disciplinary effect on labour, to the extent that it may lead to an increase in the supply of labour (at the going wage) as households attempted to make up the short-fall in income, there could, on the other hand, be damaging consequences for the government if it appeared to circumvent every opportunity to act overtly in favour of labour over capital. Such of course is the legitimization process. But the case could be made, nevertheless, that the measures adopted, ostensibly to please labour, in fact had substantial symbolic content, since it should not be overlooked that other programmes in place were at the same time giving a tremendous boost to investment. And since, as Kalecki had pointed out, "the ... investment outlay finds its way directly and through the workers'

³⁶Interview with Ronald Lang, director of research for the Canadian Labour Congress, 13 January 1981.

spending into the pockets of capitalists",³⁷ an increase in purchasing power resulting from tax cuts would provide even greater impetus to investment. Therefore, measures purporting to protect the workers' income often serve equally to fulfil the state's accumulation function.

Even the stated rationale behind the direct tax cuts (as distinct from indexing) serves largely to bear out the dichotomy between legitimization and accumulation. The Prime Minister made it unmistakeably clear that such cuts were to provide a palliative in the confrontation between business and labour. And since, as we have seen, tax cuts of whatever type increase demand and stimulate investment, the effects of the direct tax rebates on the economy promised to be no different from those of the indexing measures.

The crucial point of note in all of this, of course, is the salience of the business-labour relationship — an observation some would regard as the emergence of the "class struggle" as the central factor in the formation of anti-inflation policy in Canada. For quite aside from the indirect benefits that were certain to accrue to business from the "pro-labour" part of the budget, the unusually strong appeal to labour for industrial peace was in itself significant. And this new thrust in the government's approach became more evident in the opening months of 1975.

³⁷Michal Kalecki, Selected Essays on the Dynamics of the Capitalist Economy, 1933-1971 (Cambridge: Cambridge University Press, 1971), p. 29.

As expected, the NDP made the argument for a different ordering of priorities. But in light of the party's weakened position in the House, following the summer elections, the significance of its posture rests more on its reflection of labour's stance than on the degree of effective pressure the party might have brought to bear on the Liberal majority government.

Thus Lorne Nystrom, reworking some of the arguments presented from time to time by the CIC, stressed the widening gap between rich and poor as sufficient justification for rejecting whatever entreaties were being made for labour-business co-operation. Nystrom condemned the government's unwillingness to "intervene in the so-called free market place", and argued strongly against the continued reliance "on incentives to wealthy individuals and corporations in the hope that they will provide the jobs and guide the economy" — an approach he contended does not really work.³⁸

The case against any scaling down of demands on the part of labour was strongly put by Nystrom who quoted figures to show a grossly unfair shift in the tax burden unto the shoulders of the individual. He pointed out that in 1950 individuals paid 27 per cent of the tax bill of the federal government and corporations 28 per cent. In the 1968-69 period individuals paid 34 per cent and corporations 20 per cent; and by 1973-74 the burden on individuals had moved up further to 41 per cent, while that to corporations had

³⁸ Debates, 20 November 1974, p. 1303.

declined yet again to 18 per cent.³⁹ The government was making much of the tax relief it was granting individuals; but as if to parody the Canadian Manufacturers' Association which earlier declared that a profit recovery was long overdue, Nystrom's argument seemed to suggest that a tax break to individuals was more than overdue.

Furthermore, other members were questioning the method employed by the government to calculate the dollar value of the tax relief for individuals. The contention was that the government was adding previous tax rebates to the new amount in a cumulative way to obtain a more impressive figure; and since the earlier tax cuts took care of past inflation, the argument went, the actual benefits to individuals in the November 1974 budget was merely \$50. As one member of the NDP exclaimed, "the Minister [of Finance] called on workers who will be receiving a \$50 tax rebate in the coming year to be moderate in their wage demands", while to the corporations whose profits were already quite excessive "he gave even more concessions."⁴⁰

Such was the nature of the debate in the House on what to that point was the government's most decisive response to the challenge of inflation. And to the extent that the NDP comes closest to representing labour's viewpoint among the political parties, there could be no illusions as to how the battle lines were being drawn. Yet the government insisted that the major power groups could find common ground for co-operation in the uphill struggle against inflation. Precisely how this could be done has never been a simple

³⁹Ibid., p. 1505.

⁴⁰Debates, 21 November 1974, p. 1542.

question, considering the conflicting interests of business and labour in the context of capitalism. Nevertheless, it seems appropriate that the Prime Minister himself should attempt to provide an answer. And he deserves to be quoted at length:

It has become increasingly clear to everyone that the vicious circle we have created is self-defeating; ... that there must be a better way.... In normal non-inflationary times we all accept the vigorous jockeying for positions among the various economic groups.... Buyer and seller, producer and consumer, business and labour pitted their strengths against each other in the marketplace and thereby established the share each received of total national income....

[Within that economic framework] we could apply selective judgements designed to achieve greater economic and social justice....

[But] in inflationary times, the relative size of the shares gets thrown out of whack....

[Obviously,] if one economic group increases its share of the pie another group gets a smaller share. If labour gains, business pays through lower profits.... [And] the fact [remains] that no group, even though it recognizes the inevitability or desirability of a larger share going to someone else, is willing to accept a smaller share for itself. When we ... give a larger share to ... our farmers because justice demands it, then there are only two possible consequences - either other groups in Canada accept a proportionately smaller increase in their incomes and we have a non-inflationary redistribution, or those other groups insist on maintaining their traditional shares and we have to increase the money supply, resulting in inflation. Which do we want?

... it makes no sense to say, 'Yes, I agree that [particular groups] deserve a bigger share; but don't try to take it from me.' Where are these bigger shares to come from if everyone refuses to budge?... We can succeed only if all the power groups in our national community, and all the strong countries in the community of nations, are willing to scale down their demands so that those in need may survive....

How do we start on the road toward ... an agreement about how the pie should be divided equitably? We start by talking to each other.... If business and labour, government and the press, the farmer and the consumer could learn to understand

each other's problems it should be possible to co-operate on the basis of that understanding.

... Obviously, the federal government must take the lead in bringing together competing interests to serve the national interest.⁴¹

This rather lengthy excerpt from one of the Prime Minister's addresses to Parliament on the topic of inflation is particularly interesting, not so much from the standpoint of solutions offered (for nothing concrete was in fact proposed), as from the balanced perspective the speech attempted to provide. The Prime Minister clearly recognized the process by which resources are allocated in a capitalist framework; the redistributive function the state must sometimes serve; the normal relationship between the monetary institution and the total economy — even the international dimension was not overlooked.

But in his attempt to point out the "road toward an understanding of inflation" and the means of "wrestling it to the ground", to borrow that now famous phrase of his, the Prime Minister merely presented a constantly recurring paradox — the notion that at some stage it becomes essential to introduce into the existing system a type of solution whose roots are considered to be deeply entrenched in a different ideological context. This is the idea of co-operation and sharing. But the question yet to be resolved is how, in a system of competition, with its inherent conflicts of interest — a system motivated by "the vigorous jockeying for positions", as the

⁴¹Debates, 27 November, 1974, p. 1733.

Prime Minister put it - would it be possible to find incentives for co-operation and sharing. How could the transition from the one system of motivation to the other even be made without fundamental changes in the socio-economic structure itself? More specifically, how could the accumulation of private capital be assured if capitalists were to abandon their historic role and embark on the "sharing" bandwagon? Or perhaps the question ought to be put differently: In the grandiose, idealistic scheme the Prime Minister outlined, were capitalists to be asked to alter their role in any meaningful sense (regarding ownership and control of property, for example), or was this simply to be a convoluted way of asking labour to relent in the struggle against capital in the quest for social justice?

The Prime Minister suggested that we "begin by talking", in the hope of reaching some understanding of each group's "just" share of the economic pie. But the process of talking had been embarked upon since 1969 with the setting up of the Prices and Incomes Commission. We shall deal with those efforts in the chapter that follows, but it is necessary at this point to raise the question of what, short of a restructuring of the economic order, was the government hoping to achieve at that later stage by talking.

One interpretation offered by a leading participant in the "consensus talks"⁴² that promptly followed the budget debates was

⁴²Interview with Stanley Cameron.

that the government had envisaged something akin to the "social contract" — an idea which at the time the leadership of the British Labour Party had retrieved from the dusty pages of eighteenth century political philosophy, in an endeavour to preserve the credibility of Labour governments in Britain that had to face from time to time the dilemma of dealing with militancy within their own power base, often against a background of exceptionally high inflation, unfavourable balance of payments, undercapitalization, and stiff world competition. In short, Canada, like Britain, was after an arrangement to be adopted "in place of strife"⁴³ in the labour market, though the credibility gap would seem to have been wider in Canada, given the absence in this country of a direct link between a leading political party and the labour movement.

In theory, the arrangement sought in the consensus talks would have involved a forfeiting by the major power groups of much of their bargaining rights. But inasmuch as the question of property ownership and control was not to be addressed, the exercise, in reality, would merely have secured a guarantee of labour's acquiescence to a plan that would in effect have denied that group the right to challenge the owners of property on the matter of income shares. Nonetheless, the government's approach was to try to convince all

⁴³For an interesting account of the British experiment, notably from 1964 to 1974, see Leo Panitch, Social Democracy and Industrial Militancy: The Labour Party, the Trade Unions and Incomes Policy, 1945-1974 (Cambridge: Cambridge University Press, 1976), especially pp. 171-175 and 231-234.

parties of the "fairness" of all of this, on the premise that at times particular interests should give way to the common "national interest".

The need, expressed in the budget speech of November 1974, to initiate "a comprehensive series of consultations" in yet another attempt to find a strategy to halt the surge in prices, was said to have arisen from "changes in the character of recent inflation." But what needs to be noted is that the observed changes in the nature of inflation were explained entirely in terms of international factors, and that no sector of the Canadian economy was accused of being a leading contributor to domestic inflation.

Yet barely a few weeks later, as plans for consultations and consensus talks were getting under way, defenders of labour's interest, in Parliament as well as in the labour movement, reacted harshly to certain remarks by the Minister of Finance in a Toronto speech which seemed to indicate that, for all its denials of partisan behaviour, the government was always inclined to make a scapegoat of the workers whenever it faced the difficult choice of bringing pressure to bear on one or other sector of an ailing economy. Thus it was in an atmosphere of renewed mistrust that the ambitious consensus efforts were to be launched. And to this theme we shall be returning later in the chapter that follows.

CHAPTER 6

A SUCCESSION OF ANTI-INFLATION COMMITTEES AND AGENCIES: MORAL SUASION, SYMBOLISM AND COERCION

The First Few Steps

From the standpoint of the present analysis, the anti-inflation efforts of the one-year period immediately preceding the imposition of mandatory controls in October 1975, were perhaps the most significant, insofar as they brought most sharply into focus the inherent contradictions of the economic system in which we operate. But it is important to touch upon earlier initiatives taken by the government, if only to put the later endeavours into proper context. Furthermore, to fully appreciate the varying levels of commitment and degrees of urgency reflected in each succeeding effort, it would not be out of place to make a brief excursion into recent history to note the politico-economic climate in which each undertaking was conceived.

Hence the question arises as to why the first significant step to control inflation occurred as late as 1969, long after many European countries, and even the United States had begun to experiment with control measures of one kind or another. A quick glance at the records readily reveals that except in the immediate post-war period, there were few years prior to 1966 in which the rate of inflation in Canada exceeded 3 percent. Indeed from 1950 to 1965, it was only on two occasions — in 1951 and 1957 — that the rate

exceeded 3 percent. And in the more extreme case of 1951, the exceptional 10.6 percent inflation rate has been largely explained in terms of the expansion associated with the Korean War. In fact, if the abnormal rate for 1951 is ignored, the average rate for 15 years from 1950 to 1965 was only 1.6 percent. But the pattern changed significantly thereafter, and what was becoming quite apparent was that the fluctuations in the rate of price increases typical of the earlier years was giving way to relatively steady acceleration in the rate of inflation, and a noticeable absence of any marked declines in the consumer price index.

Growing concern over this phenomenon, reinforced by studies by influential international bodies such as the ILO and OECD,¹ led to preliminary steps in Canada to investigate the problem of domestic inflation. Thus the Joint Committee on Consumer Credit Prices which reported its findings in April 1967, laid the groundwork for the establishment of the Department of Consumer and Corporate Affairs. And by December 1968, a ministerial study from that department led to the tabling in the House of Commons of a White Paper entitled "Policies for Price Stability" the purpose of which was

... to examine the problem of rising costs and prices that has emerged in the past few years; to outline some of the

¹For example, H.A. Turner and H. Zoeteweig, Prices, Wages and Incomes Policies in Industrialized Market Economies (Geneva: International Labour Office, 1966); and Organization for Economic Co-Operation and Development, Policies for Price Stability (Paris, 1962).

possible causes of this upward-price pressure; the range of policies that can be used to combat it; and to propose a combination of policies that should improve our ability ... to maintain acceptable prices and cost behavior,"²

Commenting a decade later on the appearance of that White Paper, the Anti-Inflation Board declared that its publication

... marked a major change in government policies regarding inflation. It led to the introduction for the first time in a peacetime environment, of policies, other than conventional demand management to contain inflation. In addition, it was the beginning of a consultative consensus approach to the inflation problem.³

The major outcome of the White Paper, or the Basford Report as it later came to be known, was the establishment by order-in-council of the Prices and Incomes Commission (PIC) in June 1969. Thus the issue of inflation had moved to centre stage as the primary policy concern.

The Prices and Incomes Commission

The terms of reference set forth for the new agency was "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the government on how price stability may best be achieved." In essence, therefore, the Commission's role

²Minister of Consumer and Corporate Affairs, Policies for Price Stability (Ottawa: Queen's Printer, 1968), p. 3.

³Anti-Inflation Board, Chronicles of the Anti-Inflation Board (Supply and Services Canada, 1979), p. 8.

was to be primarily an informative one; though it was soon to find itself engaged directly in efforts to obtain commitments from the major interest groups on a package of voluntary restraints.

Two important points are to be noted in regard to the activities of the PIC. One concerns the experimental nature of its endeavours, stemming naturally from the lack of Canadian experience and expertise on the question of controls. The other pertains to the pluralist rhetoric in which its initial approach was expressed. For notwithstanding the predominance of the relationship between big business and organized labour in the PIC's deliberations, the impression was often conveyed that the conclusions reached were influenced as much by inputs from such sources as the professions, the bureaucracy and the different levels of government, as by the actions of business and labour monopolies. In any case, the point to be made is that these two factors — inexperience and the pluralist (indeed idealistic) approach — should not be overlooked when considering the evolution of the group's ideas over its three-year tenure, as it shifted emphasis from the expediency of voluntarism to the necessity for mandatory controls.

At the outset the PIC decided that conventional demand management policies alone were inadequate to address the inflation problem we were witnessing; that a supplementary incomes policy was also needed; and that the latter would have the greatest chance for success if it were voluntary in nature. Accordingly, the Commission consulted with

representatives of varying economic interests in an attempt to develop a "package" of constraints and a workable strategy for its implementation.

But the first major setback was quick to emerge. By October 1969, in an unusual display of solidarity, the CLC and the Confederation of National Trade Unions (CNTU) of Quebec issued a joint communique announcing their withdrawal from any further participation in the discussions on controls. They contended that any incomes policy resulting from those deliberations could only be unfair to labour; for while it would be easy enough to control wages and salaries, no mechanism was available to effectively control other forms of income such as professional fees, profits, rents and interests. Hence one could hardly escape the fact that there existed, as the Commission later expressed it, "mutual suspicion that others in the community are in a position to 'beat the system'".⁴

Nevertheless, encouragement from business representatives led to the decision "to go ahead on a more limited basis on a price restraint programme",⁵ the details of which were eventually to be worked out at the National Conference on Price Stability held in Ottawa in February 1970. The Conference provided an opportunity

⁴Prices and Incomes Commission, Final Report: Inflation, Unemployment and Incomes Policy (Ottawa: Information Canada, 1972), Appendix B: Summary Report, p. 52.

⁵Ibid., p. 50.

for business to proceed with its side of the original plans which Dr. Young, the Commission's Chairman, later explained as follows:

The essence of the proposal we put forward earlier to representatives of business, professional and union groups and senior officials of government ... was that business would agree to forego some of the short-run profits they could realize from price increases in return for some moderation in cost increases [from] wage and salary [sources].⁶

The major outcome of the conference was an agreement "that any price increases in 1970 would be less than were required to cover cost increases." Ostensibly, such initiative on the part of business was taken in the hope "that demonstration of a workable price restraint mechanism would help dispel the apprehensions of organized labour about joining the programme."⁷ Still, however, labour's support was not forthcoming, in spite of even further overtures from the PIC. And since it "was recognized from the outset" that moderation of the rise in the price level was likely to be limited and temporary, unless an effective way could be found for curbing wage and salary increases, the Commission acted unilaterally in June 1970, in proposing an upper limit of six percent for wage and salary hikes, with provision for exceptions. Needless to add, the suggestion was strongly opposed by employee groups and did not gain the degree of

⁶Address delivered by John H. Young, Prices and Incomes Commission, to the Ontario Federation of Construction Associations, Wednesday, 10 March 1971, p. 4.

⁷Chronicles of the Anti-Inflation Board, p. 12. It is interesting to observe the number of occasions on which similar strategies were subsequently employed, especially by the government, to win the support of labour. See, for example, Debates, 19 February 1973, p. 1435; 18 November 1974, p. 1427; and 27 November 1974, p. 1734.

general support from the public and governments which was necessary [for its success]."⁸

Such, then, were the highlights of the efforts of the PIC in the first year of its tenure. Thereafter, the Commission became increasingly sympathetic to the idea that coercion was a necessary element in any realistic system of controls. In this regard the Commission, in co-operation with "technical" committees involved in related activities, devoted considerable time to the matter of "contingency planning" which, in the context of subsequent references by members of government,⁹ clearly implied coercive measures that might be imposed, should the economic situation worsen and efforts at persuasion in terms of voluntary restraint continue to fail.

In its Final Report, the PIC linked the current inflation to a variety of factors. It stressed in particular a "build-up of unusually strong demand pressures" from the early part of the 1960's to the beginning of the 70's. Related to this, according to the PIC, were the expansionary policies pursued by government for that lengthy period of time, and the "inflationary expectations" — in both the

⁸Prices and Incomes Commission, Final Report, Appendix B, p. 51.

⁹On the editorial page of the Globe and Mail of 20 January 1973, George Bain, in an article entitled "Wage and Price Controls," quoted the Prime Minister as stating in Parliament, "There are contingency plans which may be resorted to...." And Bain added "... as far back as May 1971, the Cabinet committee on economic affairs was considering what measures would be taken under a system of income and price controls. Consequently the contingency plan referred to by the Prime Minister has roots at least 20 months deep."

labour markets and the product markets — such sustained policies were likely to promote.¹⁰ Another factor the Commission considered to have played a significant part was the inflationary "stimulus from abroad". But most interestingly, while the PIC found that it "was in fact the case" that union activities resulted in higher wages than employers were willing to pay — a fact which "lent ... plausibility to the union-push theory" —¹¹ this was seen to be secondary to the matter of excess demand. Indeed, on the entire question of "market power", the Commission declared that "such changes as appear to have occurred in the degree of monopoly power exercised by organized labour or business have not been a dominant factor in the substantial increase in costs and prices experienced over the period as a whole since the early 1960's."¹²

In light of the foregoing, therefore, it is understandable that the PIC, in pointing out the two policy instruments to which it felt serious consideration should be given in dealing with the problem — general demand management and incomes policy — came to the conclusion that "demand management must play the central role." Furthermore, while acknowledging the risk of "uncomfortably high unemployment" inherent in such an approach, and that strict control of demand expansion "is not ... very helpful advice" in situations where the

¹⁰Prices and Incomes Commission, Final Report, pp. 56-57 and Appendix B, pp. 9-12 and 45.

¹¹Ibid., pp. 40-44.

¹²Ibid., Appendix B, p. 22.

economy is in serious disequilibrium..." the Commission was nevertheless quite explicit in suggesting that "stabilization of the expansion of money demand — and indeed of demand in general — offered "the best available hope of resolving the problem over the longer run."¹³

Regarding the other policy instrument, that of incomes policy, the Commission saw "a full-fledged control system as the only form of intervention likely to be worth attempting in the near future."¹⁴

So what emerges most clearly in this brief review of the efforts of the PIC is the substantial element of coercion in the anti-inflation strategy it proposed at such an early date. And it is significant also that by April 1972, a few months before the Commission completed its assignment, the Prime Minister announced the establishment of a contingency planning unit.

One recognizes, finally, that it was partly the lessons of its own experience that led the PIC to conclude that "the place of 'voluntarism' in a price and income restraint program should be largely restricted to agreement on the criteria to be followed," but that the application of such criteria required an "effective means of enforcement."¹⁵ It remains therefore to ask why, in light of such

¹³Ibid., p. 7; and Appendix B, p. 46.

¹⁴Ibid.

¹⁵Ibid., Appendix B, p. 55.

pronouncements, mandatory measures were so desperately avoided in the more tumultuous years immediately following the demise of the PIC.

Quite clearly, no simplistic monolithic answer would suffice. Rather, a number of factors would seem to have influenced the government's behaviour. Firstly, the expansionary measures introduced in 1972 in the attempt to beat inflation through increased supply had to be given a chance to work. By the same token the resultant surge in profits could hardly have escaped publicity. In fact newspaper articles were quick to point out the findings of Statistics Canada that profits grew more than twice as fast as sales for all industrial corporations in 1973, indicating a substantial widening of corporate profit margins.¹⁶ And David Lewis, holder of the balance of power in the House of Commons, declared to the media: "I know profits were pretty good in 1972 and too good in 1973."¹⁷ It goes without saying, therefore, that the reversal of income shares associated with that trend (see Table 1) would have made mandatory wage and salary restrictions unpalatable medicine for labour at the time.

Secondly, Canada was basking in the glory of its relative prosperity — "thriving as seldom before in our "history", as the Finance Minister boasted, adding that "our growth of output ...

¹⁶See, for example, Wayne Cheveldayoff, "Corporate Profits Rise at Twice Rate of Sales," Globe and Mail, 2 April 1974, p. 82.

¹⁷The Citizen, 1 May 1974.

surpassed that of virtually every other industrial country¹⁸ in the world. In short, it was hardly the climate in which a government could convince the workers of the need for any form of sacrifice on their part.

The questionable effectiveness of the American experiment with controls was a third consideration. For while in the opening months of 1973 Conservative front benchers, pressing for mandatory controls, made much of the lower inflation rates of the United States at the end of 1972 and the beginning of 1973, it turned out that the third phase of the Nixon controls introduced in January 1973, soon encountered a resurgence of rapid price increases that advanced to double digit rates by the end of the year, and re-established the traditional close relationship between price movements in the United States and Canada.¹⁹ This of course greatly weakened the case for Canada to follow the American lead.

A fourth factor pertained to what the PIC termed "the ideas and interests which have gathered over the last three or four decades

¹⁸Debates, 6 May 1974, p. 2076.

¹⁹In a study prepared for the Food Prices Review Board, David C. Smith pointed out that over the twelve-year period from 1960 to 1972 the average rates of inflation for Canada and the U.S. were almost identical at about 2.9 per cent (Wage and Price Control in Britain, September 1973, p. 30). Richard Lipsey calculated figures for an even longer period — from 1946 to 1975 — and found the difference between the Canadian and U.S. inflation rates to have been, for the most part, "within two percentage points ... and frequently within one point." (Appendix to Factum of Canadian Labour Congress, 10 May 1976, p. 20.). It may be added that the larger differences of recent years could be associated with specific events such as the 1969-1971 food price war in Canada, and government intervention in the U.S. from 1972-1973.

around the institutions of free collective bargaining."²⁰
Unquestionably, elected governments would hold some reservations concerning the scale of intervention associated with mandatory controls, bearing in mind the possibility of vigorous reaction from groups that might consider long-standing rights and practices infringed upon. Indeed the charge was later to be made by the CLC that the "collective bargaining system, which labour painfully constructed as its first line of defence and its most powerful weapon to gain workers a fair share of the wealth they produced [was being] seriously [threatened]."²¹

The fifth factor to be mentioned was the reality of a minority government and the fact that the party holding the balance of power placed at the top of its so-called "shopping list" the control of prices — commencing with food prices — to redress what it saw as unfairness to consumers in the "rip-off" pricing practices of the corporate sector.

What remains to be stressed is that the evolution of the central instrument of anti-inflation policy at the time — the Food Prices Review Board — which some considered to have been entirely symbolic, reflected to a large extent the stamp of political bargaining arising out of the precarious distribution of power in the House of Commons.

²⁰Prices and Incomes Commission, Final Report, Appendix B, p. 52.

²¹Canadian Labour, 2 June 1978, p. 27.

The Food Prices Review Board. — Symbolism and Expediency?

Following the return of the Liberal minority government in October 1972, the NDP, realizing the new opportunity afforded it by its balance of power position, immediately intensified its usual pressure for the introduction of policies that favoured labour over business. As Grace Mac Innis, then the party's most articulate debater on pricing matters declared:

... the picture had changed somewhat ... and there was a much greater disposition on the part of ... government to consider certain matters that it had not considered necessary to deal with before.... We had prepared a shopping list of those items we considered vital to the Canadian people and on which we felt action must be taken by this administration if we were to be able to support it.... Very high on this shopping list [was] ... a prices review board.²²

The initial outcome of the political bargaining that took place was the appointment as early as January, 1973, of the Committee on Trends in Food Prices. Some idea of the reluctance and apparent lack of conviction with which the government committed itself to the series of developments that started then is to be gathered from the remark by the Prime Minister in a speech in Sudbury at the time, that the Committee "won't find 'simple answers to difficult problems', but it would educate people to the complexity of the food prices issue."²³

In its First Report of April, 1973, the Committee recommended the setting up of an independent Food Prices Review Board, and by

²²Debates, 10 April 1973; p. 3143.

²³The Citizen, 19 February 1973, p. 4.

May, such a board was established by order-in-council, with a mandate to provide "detailed and timely information and analyses with regard to price movements amongst food products." Later that mandate was extended to permit publication of the Board's findings "on its own authority" — a significant provision insofar as it theoretically freed the Board from the direct influence of the politicians. However, despite relentless pressure from the NDP, the Board was denied the power to roll back prices.

The Board set out immediately to examine "the cost-price-profit situation" in the production and processing of food, and was not long in reaching the conclusion that both farmer prices and processor prices were lagging behind cost increases, a major element of which was represented by wages and salaries. Consequently, a "substantial catching-up" of net income by both groups was seen by the Board to be warranted. This "balanced judgment", as the Board's chairman, Beryl Plumptre, admitted, was hardly the sort of thing the public (and we might add, NDP members of Parliament²⁴) wanted to hear; but she felt it was the Board's duty to "tell it like it is", and to state the more general finding that the Board's analysis "did not identify any group, as a group, as being the villains of the piece...."²⁵

²⁴Grace Mac Innis, the NDP's food price critic at the time, was no doubt expressing her party's viewpoint when, in contrast to the "balanced" perspective subsequently developed by the Review Board, she spoke of a trend toward "monopoly control and dictatorship by the conglomerates that run the food industry in Canada." (Debates, 18 January 1973, p. 4360.)

²⁵"The Food Prices Review Board, What Has it Done? What is it Doing?" Notes for Speech to the Canadian Institute of Public Affairs, by Beryl Plumptre, 13 November 1973, pp. 8-9.

Proceeding on the basis of selective, rather than comprehensive action — a preference reflected in earlier approaches to anti-inflation policy by the government — the Board reported on a wide range of food items on an industry-wide basis, and often, as in the hotly debated "bread issue" of February 1974, found itself haggling over a difference of one cent on what it considered to be "justifiable" price increases. But perhaps the most significant aspect of the Board's efforts was its cross-country on-the-spot check-up on retail food price relationships by its own team of "sleuths" — an exercise which by early 1974 resulted in twenty two charges of illegal merchandizing practices from a total of some 150 reported cases.

Attempts to evaluate the effectiveness of the Food Prices Review Board — even by the Board itself — tended to focus on estimates of the amount by which food prices might have risen in the absence of the Board. In this regard, the modest claims made by the Board to justify its existence have hardly been convincing. Indeed the efficacy of such a board is often to be sought in induced rather than direct effects —²⁶ difficult as this might be to measure. Surely, the case could be made that the government's decision to create the Board was largely a symbolic gesture intended to "take the heat off" and divert attention away from a government under severe pressure to act.²⁷

²⁶For this point the writer is indebted to Professor David C. Smith of the Department of Economics, Queens University, Kingston, Ontario.

²⁷Food Prices Review Board, Final Report, February 1976, p. 26.

And the fact that opposition members outnumbered government members on the Special Committee that originally defined the purpose of the Board, may explain to some extent the type of mandate that — at least theoretically — permitted the Board to be free from partisan and sectoral biases, to the extent that it was able to report directly to the public and make recommendations that could at times be as embarrassing to the government as to the opposition parties on different occasions. So if initially the government acted to "pass the buck", the Food Prices Review Board found itself in a position to pass it back to the government through "recommendations ... the Board considered ... appropriate".

Yet few will deny that the activities of the Food Prices Review Board drew closer attention to, and intensified the debate on marketing behaviour in the food industry; forced producers and processors to be less flagrant — or at least more sensitive to public sentiments — in their pricing practices; and even induced the government to take some actions it might otherwise not have taken. One of the Board's favourite examples of its effectiveness concerned improvements in the wheat subsidy programme;²⁸ but not unrelated to the entire question of food prices was the drafting of the Anti-profiteering Bill of May 1974 (which, incidentally, was never enacted).

In its self appraisal, the Board concluded that its existence "constituted an experiment in government ... — [the] concept of ...

²⁸Ibid., p. 11.

a fully independent, adequately funded, apolitical agency ... [that, unlike traditional Boards and Royal Commissions, could] report directly to the public."²⁹ But this "unusual departure" from conventional practice should not be abstracted from its proper context of political expediency, as the Board must have realized when it declared that "perhaps in 1973 it was inevitable that ... [the] minority government ... was forced to concentrate on rather piecemeal measures designed more to give the appearance of action than to alleviate and solve the basic problems", and that perhaps the polarization that occurred later on the issue of controls "prevented the type of flexibility Government probably could have used in the months ending 1974 and early in 1975."³⁰

It would seem, therefore, from the bulk of evidence examined in this brief review of developments immediately preceding the establishment of the Food Prices Review Board and many arising out of the Board's activities, that political factors, to perhaps a greater extent than the economic imperatives, constituted the dominant influence in charting the course of anti-inflation policy from late 1972 to the middle of 1974. The situation, of course, had changed in the latter half of 1974 when the government, once again in a majority position, could afford to be less compromising.

²⁹Ibid., p. 33.

³⁰Ibid., p. 26.

The quest for Consensus, or Prelude to Coercive Action?

Events at the end of 1974 and in the opening weeks of 1975 did little to resolve the quandary faced by policy makers on the matter of national anti-inflation strategy. The advantage of a majority situation in Parliament and the impact of the tax incentives on which the government pinned its hopes for a measure of goodwill among the labour ranks, had to be assessed in the context of continuing high inflation and the fact that the pressure for higher wages that reached unprecedented heights by then had shown no signs of easing. At any rate, the government had placed itself in an untenable position by campaigning so strongly in the last election on a platform vigorously opposed to statutory controls.

Against this background the government chose to reaffirm its faith in a last-ditch proposal to seek "consensus".³¹ It wanted, in Mr. Turner's words, "to give this voluntary process every chance." However, concerns were again being expressed in the business sector about the threat to Canada's competitive position posed by the continuing escalation of wages. The inevitable question was that if no group was to blame for the current predicament, on what real — as opposed to hypothetical — basis was commitment to modify behaviour to be founded? It seemed then that the time had come for more forthright statements on the sources of inflation and less concern about

³¹The consensus proposal was actually mentioned in the throne speech of 30 September 1974, although it is to the subsequent budget statement that one refers for precise expressions of intended courses of action.

antagonizing the major interest groups through remarks that might seem discriminatory to some; for on 27 January, 1975, the Minister of Finance, Mr. Turner, stated in an address to the Canadian Club in Toronto that "the major driving force ... [behind inflation was] coming from the rapid escalation of wage and salary costs...."³²

Not surprisingly, the president of the CLC reacted sternly terming it "unfortunate" that at a time when the Finance Minister was "talking about trying to achieve a consensus", he should be shifting the blame for inflation on "labour's push for 'excessive increases in wages, salaries and other income.'" Mr. Morris also seized the opportunity to reiterate the congress's contention that labour could hardly be blamed because in 1974 labour's share of national income had declined to its lowest level and corporate profits had climbed to their highest since 1966; and further, that real wages had been falling significantly since 1972 (when Mr. Turner made tremendous concessions to business), while profits per unit of output were up substantially.³³

Nor was reaction to the Finance Minister's statement any milder in the House of Commons. In fact for months after, several senior ministers found themselves engaged in lengthy defences of the message they felt Mr. Turner was attempting objectively to convey. In his budget speech of the previous November, the Finance Minister

³²The Citizen, 23 January 1975, p. 3.

³³Ibid.

had stressed that there was a notable change in the character of inflation, traceable to the changing pattern of international circumstances. So the thrust of the January speech, with its pointed reference to wage demands, was interpreted by the critics as a clever twist in the explanation of the changing nature of inflation. This was of course vigorously denied. For example, Mitchell Sharp, then President of the Privy Council, insisted that "the nature of the inflationary problem was in fact changing in a fundamental way", and offered the clarification that while hitherto the Finance Minister had said that "initially the forces of inflation were set in motion internationally" when demand for many commodities outran available supply, this did not mean that there was any inconsistency in the Toronto speech in which the Minister was merely expressing what the OECD also confirmed — that subsequently, the escalation of wage and salary costs was occurring, not only in Canada, but "in virtually every country", in "response to the sharp increase in the cost of living" associated with those "international inflationary pressures."³⁴ It is interesting to note in passing that, consciously or otherwise, Mr. Sharp's statement strengthened the argument that wage increases occur in response to price increases, and could therefore hardly be said to "cause" inflation.

For his part, Mr. Turner, with strong support from the Prime Minister, drew on and maintained throughout the familiar theme

³⁴Debates, 20 March 1975, p. 4329.

that the government's main concern was over the threat to the country's competitive position. Dismissing the argument by Mr. Broadbent, leader of the NDP, that increases in labour cost were significantly lower in Canada than in many other major industrial countries, and that wage increases in the 16 to 17 percent range covered merely 3 percent of the labour force, the Finance Minister declared that what was relevant was the fact that for a considerable period Canadian wages and salaries had been rising at a very much faster rate than those of our major trading partner, the United States. And what to him was equally disturbing was that those wage settlement figures of 16 to 17 percent that purportedly covered only 3 percent of the work force were "setting a trend."³⁵

It should not be overlooked, however, that throughout the inflationary period under review, maintenance of a healthy competitive position has always been a central objective in anti-inflation policy, although in previous years the government often went out of its way to avoid accusing any single sector of the economy of fuelling inflation. So it is indeed significant that at this particular time the higher wage claims ceased to be seen in terms of the "contagious effects" associated with high economic activity.

But interestingly enough, independent analyses tended to disprove the government's claims regarding the "stark reality" of pricing Canadian goods out of the foreign market. For as Peter Cook pointed

³⁵Debates, 14 May 1975, p. 5797.

out at the time, the faster rate of increase in Canadian wages, relative to those of the United States, should not have been surprising, given the superior performance the Canadian economy had been enjoying. Cook went on to say:

Mr Turner's claim that the rapid rise in wages is pushing Canada out of foreign markets is not borne out by the facts.

In the case of trade in end products, which have the highest labour content and therefore are most susceptible to the wage-price spiral, the price Canada has to pay for foreign manufactured goods has gone up 38.4 per cent since 1968. In the same period, the prices other countries are paying for Canadian goods has risen only 32.7 per cent.³⁶

The crucial point here is not the weight of the argument on either side; rather it is the fact that such was the climate of conflict and disharmony in which some type of national consensus on inflation was expected to be reached.

Of the various committees, including technical groups, that were involved in the consensus endeavours, the two that played the leading

³⁶Peter Cook, "Government Overstates Case on Wage Demands," The Citizen, 22 April 1975, p. 9. See also the same author's "Canada No Less Competitive Now," Financial Times of Canada, 1 September 1975, frontpage. It is interesting to note that in reviewing the situation four months later, Cook found the government's case to be even weaker. Trade figures for the first quarter, 1975, showed a considerable advantage for Canada when export and import price increases were compared — the figures being 27 and 42 per cent respectively. Furthermore, an important consideration not often mentioned when workers are being castigated is the impact of a depreciating currency. Such depreciation in effect lowers export costs — which include labour cost — to the advantage of foreign buyers. On this basis Cook observed that reduction in the cost of exports to the U.S. was estimated at 5 to 8 per cent in 1975, compared to 1974.

role were the Ad Hoc Committee of Senior Officials on Inflation, steered by the Finance Minister himself and, subordinate to it, the Ministerial Inflation Consultations Secretariat. What was significant about both of these committees was the direct involvement, for the first time, of senior ministers and their deputies where formerly independent agencies were relied upon to assess the inflationary situation and submit recommendations accordingly.

A series of meetings was conducted in Ottawa and elsewhere between members of these committees and representatives of various interest groups across the country. From January to April 1975, more than twenty meetings were held and several proposals submitted for consideration by the Cabinet. In accordance with the expressed objective of obtaining popular consensus, the earlier meetings involved groups of varying levels of economic and political influence, but the later meetings were more selective, and participants included only committee members and high-ranking representatives of major corporate enterprises and the labour movement.

And inasmuch as many positions in the new committees were filled by members of previous anti-inflation groups, it was not surprising that several elements of earlier recommendations resurfaced in the new proposals. Here again, the central problem was not to reach agreement on the desirability of moderation in wage and price increases, for this

³⁷For numerous insightful details the writer is grateful to Stanley D. Cameron who headed the Ministerial Inflation Consultations Secretariat.

has often been readily conceded on all sides. The fundamental challenge was to determine what would constitute an equitable sharing of the burden of sacrifice.

The government had already come to the conclusion that there were only three possible options open to it. The first was to adopt highly restrictive fiscal and monetary policies; the second to implement a comprehensive programme of price and wage controls; and the third was to work out "a mutual understanding among all sectors of the economy in an attempt to gear down fairly and equitably the inflation rate through voluntary means."³⁸ The notable element in the first two was clearly coercion, while the main characteristics of the last were gradualism and moral suasion. The government decided that the third was still the most appropriate; and to translate this into a proper working strategy was essentially the task of the committees named above.

It has been emphasized that the substance of the proposals that resulted from the consensus talks reflected, for the most part, many of the concerns expressed by the major interest groups. Thus on the side of wages, workers were firstly to be allowed to gain increases equivalent to the target range of price increases (estimated at 8 percent for the first year). Secondly, there was to be an adjustment factor to compensate those who had fallen behind. This was to be limited to plus or minus 2 percent. Thirdly, there were to be provisions for workers

³⁸ Debates, 14 May 1975, p. 5798.

to share in the benefits of productivity increases. And further to these was the stipulation that for workers in the lower income brackets the minimum increase would be set at \$600, while for those in the higher brackets the maximum increase was to be held at \$2400.

On the price side, it was decided that "for the first year of the consensus the price increase would be limited to amounts sufficient to cover increases in unit costs...." Wholesalers and retailers were to undertake not to increase the mark-up on various merchandise so that "in effect profit margins would come down as prices went up, unless volume increased."³⁹ In short, these proposals were remarkably similar to earlier ones put forward by the Prices and Incomes Commission before its demise in 1972.

In any case, a series of pertinent questions were still not fully addressed in these proposals. Indeed, in a derisive appraisal of the outcome of the consensus meetings, Mr. Stanfield, then Leader of the Opposition, exclaimed that "on professional fees, prices for export industries, dividends, rents, marketing boards, financial institutions and monitoring mechanisms, the government [stood] exposed as indolent, irresolute, weak and rhetorical."⁴⁰

Hence two important questions may appropriately be raised at this point. The first is whether, in light of previous experience, there

³⁹Ibid., p. 5799.

⁴⁰Ibid., p. 5802.

existed sufficient common ground on which hopes of reaching a consensus could realistically be built. The second is whether the entire consensus undertaking was simply an exercise in opinion formation to legitimize possible subsequent coercive action the government was known to have been contemplating for some time. The first question may be dealt with promptly; the second will need to be deferred.

In answer to the first question, some who were deeply involved in the consensus discussions maintain that the efforts constituted a genuine attempt to find a broadly-based solution to inflation. We are told in fact that the majority of participants held the impression that agreement would be reached. Such optimism was supported by the fact that more than seventy five "ministerial hours" were put into the talks, and that in addition to the Finance Minister, the then Ministers of Labour and Trade and Commerce, Mr. Munro and Mr. Gillespie respectively, were also deeply involved. The subsequent announcement of the failure of the talks may therefore have been quite perplexing to some; moreso in light of the triviality of the primary reasons given.

The leader of the New Democratic Party suggested in the House of Commons that failure occurred because "the proposals ... were unduly weighted against labour"; but the comment immediately aroused the Finance Minister who rebutted that "the programme ... applies to every sector of the economy and not just to labour." However, he was quick to concede that "because wages, salaries and supplementary labour income

compose some 70 per cent of Canada's national income it is obvious that they are the most important single element in the income picture."⁴¹ The point was hardly debatable, for it was labour's rejection of the proposals that rendered futile the latest and most ambitious attempt thus far to find a formula for voluntary controls.

The official explanation of the failure of the consensus talks in terms of establishing an accord between labour and business is not altogether convincing. The version presented to parliament — and the one most often quoted — holds that "working papers", the contents of which set out the basis for an agreement, were leaked to the press, resulting in the publication of the details in the Toronto Star on 5 May 1975. This, it is said, "seriously jeopardized the chances of arriving at an understanding among all sectors of the economy."⁴² The event was considered to have been particularly embarrassing for representatives of organized labour who were scheduled to convene a special meeting on 7 May "to discuss an appropriate response to the proposals."⁴³ So "embarrassing" was this in fact that labour's support was instantly withdrawn from what some participants at the meetings still insist was a "near agreement".⁴⁴

⁴¹Ibid., p. 5798.

⁴²Ibid.

⁴³Chronicles of the Anti-Inflation Board, p. 26.

⁴⁴Interview with Stanley Cameron. It should be pointed out that the government put it on record that the proposal was merely "a focus for continuing discussions." (Debates, 14 May 1975, p. 5799.)

Yet one is led to question whether a labour movement that may have found itself persuaded by the weight of the argument, after months of deliberation, to lend support to a programme, could on such seemingly flimsy grounds reverse position. On the other hand, there is the possibility that the over-anxiety of committee members led to a misreading of the true positions taken by representatives of the major economic groups. And labour's version of the entire episode would tend to suggest that the latter was really the case.

Labour representatives denied that there ever was an impending agreement - that there was even a chance at any point in the discussions of reaching an agreement. As one member of the CLC put it: "Half way through the series of consensus meetings Mr. Turner must have realized that he would not win the support of labour."⁴⁵ It is said also that at one stage, while the president of the CLC was attending an ILO meeting in Geneva, word had been circulating that the various parties at the meetings appeared to be finding common ground for a consensus. Forthwith, one member of the labour panel at the meetings flew to Geneva on his own volition to clarify with the president that labour's position of non-co-operation was to remain unswerving.

This impression of labour's recalcitrance did not escape the media completely. For example, in its editorial of 10 May 1975, the Globe and

⁴⁵Interview with Ronald Lang. However, some analysts argued otherwise. Maslove and Swimmer, for example, have found that the voluntary and consensus exercises "helped the government to gain the private, if not the public, acquiescence of most (notable CLC) labour leaders", even for the eventual mandatory controls programme. See A. Maslove and G. Swimmer, Wage Controls in Canada 1975-78: A Study of Public Decision Making (Montreal: Institute for Research on Public Policy, 1980), pp. 5-6; and fn. 12, p. 14.

Mail cited its reporter Wilfred List as saying: "The CLC never did consider voluntary ceilings on wages; it was only interested in giving a response that would reveal its concerns regarding the economy to sit opposite the Finance Minister's concerns regarding the economy."

So from the evidence we have, it would appear that the basis for optimism in the earlier stages of the meetings was rather frail. In fact, even as the eventual proposals were being appraised, the CLC issued its so-called "nine-point plan" outlining a set of demands it felt had to be met as a prerequisite for labour's support. Shortly thereafter, the Finance Minister expressed in the House of Commons his belief that (in the context of the government's proposals) "it was quite possible to meet many of the concerns voiced by labour."⁴⁶ The point of course is that some of labour's demands could not be easily accommodated. For while, theoretically, some could readily be dealt with, for example, rent controls, improved housing supply, and a negative income tax for workers below a certain income bracket, several other items touched on the very structural foundations of the economic system itself. It remained questionable, for instance, that in a capitalist framework, a precise, positive relationship could ever be established between tax and other concessions to business, on the one hand, and (risk-taking) capital investment on the other, as labour appeared to be demanding. To take the point a little further, what guarantees could in fact be given regarding the attainment of higher employment levels when this continues to be tied, not only to

⁴⁶Debates, 14 May 1975, p. 5799.

immediate private sector expansion, but also to the ability to sell the final product afterwards, especially in a highly competitive foreign market?⁴⁷ It is merely an assumption that concessions to the business sector are necessary precursors to business expansion.

At any rate, the important question that remains is why labour so uncompromisingly rejected a set of proposals that offered to tie wage increases to increases in the cost of living; permitted a measure of flexibility to redress particular cases of inequity; and included an improvement factor in wage increases - all of which labour had consistently demanded in the past. And the most satisfactory answer would seem to point toward the underlying historical relationship between labour and business. For it is undoubtedly the case that, given the existing economic structure, the imperatives of capital accumulation associated with the very maintenance of the capitalist system precludes any artificially conceived harmonious arrangement between the two sides of industry, to the extent that the dynamics of the system render inevitable a continuing struggle over income shares - especially in an export-oriented economy such as Canada's. Thus when

⁴⁷It is to be recalled that when the Canadian Manufacturers' Association lobbied so strongly in 1972 for major tax concessions, to strengthen its case, it cited the unsatisfactory figure of 5.5 percent projected unemployment. Yet the investment boom that followed the historic tax giveaway that highlighted the first Turner budget, failed to reduce unemployment below an average of that very 5.5 percent figure for 1973 and 1974. It is therefore understandable that one labour delegate at the consensus talks reportedly challenged representatives of the government and the business sector (in hypothetical terms) to demonstrate how a decision by, say, the INCO workers (then engaged in wage negotiations) to forego justifiable pay claims, would be translated into projects of immediate and direct benefit to the workers.

market forces dictate the undertaking of capital expansion, merely to ensure production at internationally competitive prices, the most likely source of financing this is through a wage squeeze⁴⁸ which, unlike credit arrangements, has the advantage of non-repayment later, and thereby affords a cushion to business under adverse trade conditions.

Labour could scarcely overlook such realities; nor could the labour movement fail to recognize that its most effective means of securing a fair share of the wealth the workers help to generate is through whatever pressure it is capable of bringing to bear on the collective bargaining process. Hence in a situation in which the forces of international competition in particular limit the extent to which business can offer guarantees to labour, it is unlikely that labour leaders would hasten to take action that might render sterile the entire bargaining process, the most specious and well-intentioned proposals notwithstanding.

In fact, it is the case that throughout the struggle against inflation labour remained consistent in its response to entreaties from business and the state alike. Typically, organized labour would

⁴⁸Herein lies the fundamental contradiction in the capitalist system, which Ernest Mandel explains rather well when he says: "each capitalist always likes to see other capitalists increase the wages of their workers, because the wages of those workers is purchasing power for the goods of the capitalist in question. But he cannot allow [unbridled increases in] the wages of his own workers ..., for this would obviously reduce his own profit." (An Introduction to Marxist Economic Theory, Second Edition [New York: Pathfinder Press, 1972], p. 51.) It is simple enough to deduce from this what to the capitalist would be the desirable relationship between foreign and domestic wages..

agree to participate in discussions on the topic of inflation and controls, but would invariably opt out when invited to make any binding commitments to limit wage demands. While the two outstanding examples of this were the experience of 1969 with respect to proposals by the Prices and Incomes Commission, and that of 1975 regarding the consensus effort, labour continued to apply this strategy of isolation from dubious "corporatist" schemes intended specifically to secure industrial peace.

It is essential, therefore, to ask what lessons have been learned from such experiences, especially the consensus endeavours of 1975. Unquestionably, the build-up of pressures to compromise the position of the workers elicited a more precise definition of the role of the labour movement in Canada and contributed to greater clarification of the objectives, responsibilities and long-term obligations of the leadership within organized labour. It may even be claimed that the efforts to achieve voluntary controls in Canada brought about a new awakening on the part of the government, the corporate sector, and the labour movement itself; for in the wake of the consensus experience — indeed in spite of it — all became caught up in the idea of a "tripartite" solution to the problem of inflation — although the very concept of tripartism ran into definitional problems of its own. To the government and the business sector, for example, having labour in a three-way partnership seemed to imply the welcoming of inputs from the workers' representatives, to be considered by the traditional economic decision makers, namely business and the state. But apart from confirming the recognition in these quarters of the need for labour's support to ensure the

success of any form of controls, this definition of tripartism is rather limited. For strictly speaking, labour has long been involved in tripartite activity of this type by virtue of its very presence on the Economic Council of Canada from the time of its inception early in the 1960's.

On the other hand, organized labour had perceived for itself a share in the policy-making process with respect to economic matters that affect the condition of the working class. Thus it became commonplace to hear references to the "European model" which was seen to epitomize the type of system that granted a significant role to organized labour in the formation of national economic policy. In a word, then, the debate concerning the cure for inflation had come to focus on the types of structural change that might be required to overcome the existing crisis.⁴⁹ The underlying idea in labour's thinking was apparently to

⁴⁹A splendid illustration of this apparent change in perception was the speech by the then deputy minister of labour, Thomas Aberlee, at a conference on industrial relations at Jordon Station, Ontario, barely a fortnight before the imposition of statutory controls. Mr. Aberlee declared: "I have speculated from time to time about [the European model] which is ... to deinstitutionalize the adversary approach and put in its place a co-operative ... system" whereby a company's board of directors would be comprised of matching numbers of representatives of the ownership and of the employees, "and a neutral chairman selected by agreement of both groups." (Financial Times of Canada, 13 October 1975, p. 11.) But perhaps the most provocative statements on the need for a change in perspective were those the Prime Minister introduced in a year-end television interview and elaborated upon thereafter. Mr. Trudeau argued that the economic system was "out of joint" in Canada as in "every industrialized country in the free world." He went on to suggest that existing challenges, the chief of which was the inflation-unemployment dilemma, required fundamental "changes in legislation, institutions and attitudes", and that the growing complexity of the problems we were witnessing pointed to more, rather than less, authority in our lives, as the state would be required more and more to intervene for the purpose of regulating and restoring stability to the system. (The Citizen, 5 January 1976, p. 7; and 20 January 1976, p. 31.)

gain some measure of worker control. But this is not to suggest that there was any inclination on the part of the owners of property to give quarter in any way. Indeed, to fend off such advances by the labour movement, the coercive option remained very much alive in the minds of policy makers.

Furthermore, while it would perhaps be hasty at this point to suggest a conclusive answer to the question posed earlier as to whether the consensus effort was mainly an opinion-forming scheme intended to legitimize subsequent coercive action by the government, the following observations are worthy of note. Firstly, following the announcement of the failure of the consensus talks, the government grew decidedly less equivocal in attributing blame for the continuing surge in prices. Thus in his budget speech of June 1975, Finance Minister Turner declared: "The fact is that we have been building serious cost increases into our economy.... The major cause of this ... has been the accelerating rise in wages and salaries." Continuing in this candid vein, Mr. Turner lamented the threat posed by inflation "in its present cost-pust form." A second observation is in regards to what the government considered to have been the "most useful result of the consensus meetings" — the "increased public awareness and understanding."⁵⁰ Third was the new-found faith in statutory measures. As Mr. Turner expressed it:

... in the absence of a consensus, I had to consider other options.

⁵⁰ Debates, 23 June 1975, pp. 7022-7024.

We gave careful consideration to the imposition of statutory controls.... In [the present cost-push] circumstances controls could provide the most direct response to the problem. Thus unlike our [previous positions], we did not reject controls in principle. Indeed, [using the power of the law to make all groups obey] would have had an advantage over a voluntary consensus.⁵¹

The greatest uncertainty here was the possibility of winning a favourable public reaction. But a series of opinion polls began to reveal a growing support for mandatory controls. Gallup found that whereas 45 percent of respondents favoured compulsory action to limit wages, just prior to the initiation of the consensus talks, by April 1975, some 58 percent expressed support for stronger measures against inflation. And by August, another survey, this time by The Financial Times of Canada, found the same figure (58 percent) in favour of imposing control on wages.⁵² As it turned out, this pattern was to remain unchanged for the remainder of the year.

So from the summer of 1975 the way was clear for all-out coercive action in the fight against inflation. And in preparation, Canadians were beginning to hear more and more about the dangers of living beyond their means.

The Advent of Statutory Controls

By the end of summer 1975, preparatory plans for the imposition

⁵¹Ibid.

⁵²This should not be construed as a general willingness to sacrifice wage increases, for example. Rather it often stems from the view that "the other guy's" pay should be restricted, but certainly not mine.

of controls were already under way. And on October 13, the Prime Minister appeared on television to inform the nation of his government's decision to impose a system of "severe restraint". To fully appreciate why the government may have found it necessary to resort to the exercise of such sweeping powers at the time, it is essential to put in perspective a number of factors which undoubtedly featured in that crucial decision.

Ironically, as economists focusing on short-run indicators were quick to point out, this most drastic step in anti-inflation policy coincided with an apparent easing of inflationary pressures. Indeed a glance at the month-to-month changes in the consumer price index for 1975 readily reveals a sharp decline in the rate of change from a peak of 2.0 percent in June, to a low of 0.3 percent in September. By itself, this could hardly be credited with much significance, judging from previous fluctuations in the price index and the fact that the annual rate was nonetheless approaching the double digit range. The more significant observation was that these changes were occurring in the context of a drawn-out world-wide recession that was witnessing a moderation in the rate of inflation, together with heightening levels of unemployment, in the United States and other countries.

For these reasons, some observers greeted the restraint programme with cynicism, contending that the introduction of the new measures was timed to enable the government to claim credit for improvements that were being predicted for the economy on the basis of the easing of inflationary pressures from abroad. The situation was seen to offer

the best opportunity thus far for the government to demonstrate, in the short run, that it was still quite capable of designing policies to deal effectively with inflation. And yet one finds it much too simplistic to suggest that a policy as far-reaching in its implications as that regarding the first peace-time effort at mandatory controls would be based entirely on such limited considerations.

To be sure, other important factors were brought to bear on the government's decision, thereby reflecting greater consistency with our theoretical framework in terms of the state's accumulation and legitimation functions. This is evident in the types of input that were transmitted to the central decision makers from the most influential sources, as the following summary of major concerns about the economic situation in the summer of 1975, given by the governor of the Bank of Canada, clearly illustrates:

Prices were continuing to rise at rates appreciably in excess of 10 per cent a year...; the [annual] increase in real output per worker [was negative]; rates of pay were being inflated by increases averaging in excess of 15 per cent a year, with many settlements substantially above that figure; ... [a] gap of well over \$4 billion a year had opened up between our spending on foreign goods and services and the export earnings we were generating to pay for them; [the] unemployment rate had risen to 7 per cent ...; [and at] the same time Canada was entering the recovery period with a significantly higher continuing rate of inflation than that of its main trading partner....

These ... were in my view [among] the main grounds for concern about the course the Canadian economy seemed to be on ... just prior to the launching of the anti-inflation programme.

53"Remarks by Gerald K. Bouey, Governor of the Bank of Canada, to the Fredericton Chamber of Commerce," Fredericton, N.B., 23 June 1976, pp. 4-6.

But more disturbing than the balance of trade position were obviously the labour-related factors that threatened to impede a reversal of pattern. Specifically, the major concerns were low productivity and the persistence of exceptionally high labour costs long after the economic boom of 1974 had ended. Furthermore, since the heightening unemployment appeared to have exerted no dampening effect on wages during the recession, the fear must have been for even further deterioration, should the subsequent recovery be allowed to develop into an inflationary boom.

Some indication of the government's thinking had already been given in the budget speech of the previous June, in which it was made clear that statutory controls were being seriously considered. The overriding concern was stated quite explicitly in the following excerpt from that speech:

It was natural that workers should have pressed for increased wages and salaries when faced with rapidly rising costs for almost every purchase and when corporate profits were apparently soaring to record levels. But the increase in corporate earnings, much of which was generated by temporary and illusory gains from inventory profits, has been sharply reversed during the past six months. The share of wages, salaries and supplementary labour income in the national output declined significantly in the earlier stages of the inflation, but the balance has since been fully restored. [Not only are] wage and salary increases ... now running well above the increase in the cost of living ...; a number of recent ... demands appear [also] to bear little relationship to economic reality.⁵⁴

Of course such expressions of concern about the tilting of the

⁵⁴Debates, 23 June 1975, p. 7023.

balance in income shares away from business are not new. But at the time, as the wide publicity given the unsuccessful consensus efforts of early 1975 drew increased attention to the ineffectiveness of anti-inflation policy over the previous seven-year period, despite renewed pledges on the part of government to "wrestle inflation to the ground", the pressure for a proper explanation of and a final solution to the problem mounted also. Quite clearly, the risk was increasing that the credibility of the government could suffer badly, unless decisive action was soon taken. And in this context, two important factors would seem to have made the difference in choosing between the controls option and the non-interventionist stance that short-run economic rationality then seemed to imply. The first factor was that the government was still at a very early stage in its renewed five-year term; and the second was the growing public support, revealed by the polls, for more drastic control measures than had hitherto been tried. So if in the past the government perceived a legitimization problem in any attempt to restrain wages when profits were strong, it saw at this time the best opportunity for coercive action, given the unprecedented high rates of pay increase in the public and private sectors alike, the immunity from immediate judgment at the polls, and the advantage of favourable public opinion.

The policy statement presented to the House of Commons on 14 October 1975 indicated that the guidelines Canadians were being asked to follow drew heavily on proposals arising out of the consensus discussions of the earlier part of the year. But to be precise, it might have been said that the guidelines reflected even earlier

proposals by the Prices and Incomes Commission, which were reworked in the 1975 discussions. The explanation that the emphasis would be on "voluntary compliance" and "consultation", with provision for "statutory enforcement" of guidelines; and the assurance that there was room for modification of the "initial" guidelines⁵⁵ was very much in keeping with the original principle set out by the PIC that voluntarism should be restricted to the criteria to be followed, while the application of such criteria should rely on an "effective means of enforcement".

Furthermore, the price guidelines permitting increases to cover only increases in unit costs, and stressing the underlying notion of holding constant or narrowing profit margins, with the possibility of price reductions,⁵⁶ deviated little from proposals put forward in January 1970, at the PIC-initiated National Conference on Price Stability. Similarly, the stipulations regarding wage and salary increases reflected the principles set out in the PIC's June 1970 guidelines for such increases, which included compensation for inflation, adjustments for productivity increases, and provision for exceptions. Even the proposal for dealing with exporters who stood to gain enormously from uncontrolled export prices while domestic wages were held in check, retained the essential thrust of the 1970 version.

⁵⁵ Attack on Inflation, A Programme of National Action: Policy Statement tabled in the House of Commons by the Honourable Donald S. Macdonald, Minister of Finance, 14 October 1975, pp. 12-15.

⁵⁶ Ibid., p. 16; and Anti-Inflation Board, Anti-Inflation Act Regulations, December 1975, p. 22.

Two interesting comments may be made with respect to the foregoing observations. Firstly, one becomes aware of the built-in (largely bureaucratic) rigidities in the approach to policy development, stemming partly from the deployment of the same small group of policy advisers, and the carry-over of deeply entrenched conceptions, specifically in regard to the structures regulating wages and profits, and indeed, to what constitutes a "proper balance" between profit and income shares. Nor is this rigidity less evident in the face of new phenomena such as the baffling inflationary situation we are continuing to witness.

But the more important comment to be made is that one should not underestimate the impact of the political determinants of anti-inflation policy by dint of which the government struggled over a period of nearly six years, first to reject, and later to embrace, the policy position its own technical advisers and special commissions had recommended at such an early date. The launching of the controls programme coincided with the establishment by the Bank of Canada of a target range for monetary growth. Thus a stricter monetarist approach promised to add substantially to the impact of wage and price controls.

It is of course beyond the scope of this study to touch upon the operation of the Anti-Inflation Board, since our primary concern is with the evolution of anti-inflation policy. And inasmuch as this incomes policy was to remain in effect for three years, our focus of attention should appropriately be shifted to events of the post-control period. Suffice it to say, therefore, that one important corollary to the controls programme was the "political fall-out" which was to add

its own impact on the shaping of policy in the period after controls.

Quite naturally, organized labour and business observed with special interest the AIB's handling of its first cases which included the Metro Toronto secondary teachers' arbitrated settlement (of more than 39 per cent pay increase over two years), and the Irving Pulp and Paper workers' settlement.⁵⁷ The big challenge for the AIB was to adhere as closely as possible to the 12 per cent maximum permitted in the guidelines, notwithstanding the flexibility allowed in the "historical relations" clause. In a very real sense, the government, through this powerful agency, had placed itself on trial. Consequently, strict adherence to guidelines was crucial to the legitimization of the coercive route upon which it had embarked. Thus from the outset, the Board rolled back substantial proportions of the settlements it had reviewed. For example, the increase allowed the Irving Pulp and Paper workers was reduced from 23.8 per cent to 14 per cent over a one year term — a significant difference, yet still above the strict arithmetic application of the guidelines.

Not surprisingly, organized labour was quick to charge that collective bargaining was in many instances becoming almost a farce, since management could very well pretend to be bargaining in good faith and to be most reasonable in wage offers, secure in the knowledge that settlements exceeding the guidelines would be promptly rolled back. In short, there was little hesitation in the launching of labour's vigorous campaign against wage and price controls.

⁵⁷For a number of case studies covering the early activity of the AIB, see Chronicles of the Anti-Inflation Board, pp. 49-70.

In Labour's Manifesto for Canada, approved at the 1976 Constitutional Congress of the CLC, special emphasis was placed on the need for the application of political power by the union movement to resist controls. This theme was to be repeated with increased fervour in subsequent conventions. But one of the more significant developments following that summons to increased radicalization of the labour movement was the national strike on the first anniversary of the launching of controls, as a symbol of protest against the programme. The significance of that event lay mainly in the fact that for the first time in Canadian labour history a million workers, representing every region of the country, acted in concert to express opposition to a major national policy. And if openly the government scoffed at the effort on the ground that barely 19 per cent of the labour force participated, the potential for even more forceful national action of this kind could hardly be overlooked when future policies were being designed. For indeed, one of the more substantive developments of that era of wage and price controls was a noticeable acceleration in the growth of unionization, following the spurt that began in 1972 and the slight decline in 1974.

Business's opposition to controls stemmed less from notions of unfairness than from the desire to preserve freedoms and privileges the business community has traditionally enjoyed. For example, in briefs submitted to the government, the Canadian Manufacturers' Association, expressing concern over what it saw in the programme as built-in disincentives against investment, offered only qualified

support for controls. Stressing the need to "put profits first", the association argued for an early end to such a massive intrusion by the government into the economic domain. Specifically, the association considered the compensation guidelines "a major redistribution effort", insofar as it appeared to guarantee no loss in real wages, in addition to allowing workers to engage in "productivity bargaining", that is to say, to exercise the "right" to share in "every instance of a rise in output per man hour, regardless of workers' efforts."⁵⁸

It is interesting to note that less than a year after the imposition of controls, the government, "in response to criticisms from the business community regarding the disincentives [against investment]", announced revised guidelines addressing, among other things, the matter of correcting "the problem of 'unusual productivity gains resulting from the activities of suppliers'"⁵⁹ Thus at once, the government demonstrated both its unwavering commitment to the system of private accumulation, and acceptance of the notion that productivity increases need not always be linked to workers' efforts.

In the initial stages, the controls programme appeared to be amazingly successful. During the first year, for example, the rate of inflation fell from slightly under 11 per cent to 7.5 per cent; and from

⁵⁸Canadian Manufacturers' Association, "Follow-up Submission to the House of Commons Standing Committee on Finance, Trade and Economic Affairs," 19 November 1975, pp. 3-9.

⁵⁹Chronicles of the Anti-Inflation Board, pp. 84-85.

the third quarter of 1976, wage settlements began to show significant decline. In addition, the average rate of growth of the money supply (M_1) slipped below the target range, where it remained for a significant length of time.

However, by the second year of controls, only wages continued on a steady downward path. Indeed, when the programme ended in 1978 the rate of inflation had climbed two and one half percentage points above the first year's rate. And to make matters worse, the rate of unemployment had risen from 6.9 percent in 1975 to a menacing 8.4 percent in 1978 — a rate unheard of in post-depression years.

The debate on the more challenging question of decontrols began shortly after the launching of the controls programme, and grew more and more intense as developments transformed predictions of programme failure into reality. Perhaps the government's most valuable contribution to the debate was its publication entitled The Way Ahead:

A Framework for Discussion, released a year after the introduction of controls. A superbly written Working Paper, The Way Ahead provides a splendid summary of the government's interpretation of the inflation problem; the underlying philosophy regarding economic policy; and most importantly, how the problem of curbing inflation and the pursuit of fundamental social goals were to be reconciled.

The Way Ahead defines inflation as being not merely an economic phenomenon but rather, "a result of a complex interplay of economic, social and political forces." And it suggests, along the lines

of Mishan's thesis, that "a basic factor in the inflationary process" has been "the growth experience of the past thirty years."⁶⁰

The essential argument presented in The Way Ahead may be summarized briefly as follows: to understand the inflationary process, it is necessary to examine those aspects of our social and economic structure that lead to inflation directly, or indirectly through demands on the government to intervene in the economic arena. In addition, the imperfection and continuously changing characteristics of the market, associated with the evolution of private organizations and institutions within it, need to be recognized. The key point, however, is that the growth process which governments have fostered in the private market brought about a substantial increase in average levels of economic well-being; but "the equity of the distribution of its benefits has been a principal source of restless quarrel over shares that has seriously escalated over the past few years, leading to demands on the government to intervene." The growing involvement of the government in the market place is therefore a consequence of the incapacity of the private market economy to serve social goals, including the pursuit of greater equity in income distribution. It follows, too, that government-induced inflationary activities should be regarded as an inevitable corollary to this entire process.

Grant Reuber, among other critics, contends that government documents on the inflation question (of which The Way Ahead is a prime

⁶⁰Government of Canada, The Way Ahead: A Framework for Discussion, October 1976, pp. 12 and 21.

examples have been less than explicit in terms of the theoretical basis on which policies have been structured. But even so, Reuber has not failed to recognize the growing emphasis on "sociological explanations" which centre on the idea that many of the difficulties regarding inflation are associated with "recent developments in private attitudes" and implicitly, the consequent government responses to them.⁶¹

But perhaps the most noteworthy point arising from the entire debate is that even in the midst of Canada's version of "severe restraint" the government's explanation of the nature of the problem focused precisely on the sociological aspects rather than on sophisticated, mechanistic, economic postulates entangled in webs of projection figures that have so often missed the mark completely.⁶² From this one would logically expect to witness, in the period of decontrols, a flurry of propositions to change the relationship between the two major forces in the market place, rather than a reaffirmation of faith in traditional economic regulators alone. Indeed the "tripartite" discussions that began early in the period of controls would tend to support this point of view. In fact, in the years since

⁶¹See Grant L. Reuber, "Recent Government Economic Policy Documents: Description is not Analysis," The Canadian Journal of Economics 10 (1977): pp. 159-161.

⁶²A good example of the latter would be the projections (based of course on expert advice) for the controls period itself. A steady decline in the rate of inflation over the three-year term was projected; but instead, inflation decreased in the first year, only to begin a steady upward climb from then on.

1976, CLC officials have commented positively on the process of "formal consultations" that started at that time, and of the "fundamental change" said to be taking place in the relationship between the state and both sides of industry as a consequence of this.⁶³

After the AIB

During the winding down of the controls programme in 1978, the government created the Centre for Studies on Inflation and Productivity (CSIP), to operate under the aegis of the Economic Council of Canada.

Evidently, the government wished to reaffirm its commitment to the task of curbing inflation; but more importantly, it wished to discourage the revival of wage and pricing patterns of the pre-controls period. Thus CSIP's special function was to monitor and report on wage and price movements in the post-controls period.

By the end of 1978 (when the AIB's mandate officially came to an end), CSIP, in one of its first important reports, revealed that profits in the food and beverage industry for an 18 month period to the third quarter of 1978, had risen by some 63 percent. This infuriated not only the business community, but also the very government itself; for perhaps the worst news the government could have received from one of its own agencies during the process of decontrols was confirmation of labour's repeated charge that only wages could be

⁶³Interview with Ronald Lang. See also "Remarks to the Conference Board in Canada's Session on 'Formal Consultation: A New Era in Public Policy Formulation?'" by Ronald Lang (Ottawa: Canadian Labour Congress, 20 November 1979).

effectively controlled under the programme carried out by the AIB.

The CSIP report gave credence to the idea that in spite of token roll-backs in company profits from time to time, business could still circumvent the guidelines and realize substantial profits.

Comments from the government echoed the sentiments of the business sector that the CSIP report was "hastily produced" and was "misleading". By the second year CSIP's role was drastically altered when the agency was transformed to the National Commission on Inflation. Then following the elections of 1979 that saw the defeat of the Trudeau Liberals, the short-lived, pro-business Conservative government, declaring the agency to be serving no useful purpose, dismantled it altogether.

So from 1979 on, after 12 years of effort by a host of "inflation fighters" the government of Canada had, for the first time, neither an anti-inflation agency nor a declared anti-inflation policy. Indeed, the last bastion of the lengthy battle against inflation in Canada has been the monetarist policy pursued by the Bank of Canada. Yet even here, it is debatable whether the Bank of Canada's policies can claim to be influenced as much by domestic policy objectives as by external developments over which the Bank has no control, and to which it merely reacts. Specifically, the question is to what extent has monetary policy in Canada in recent years evolved as part of a carefully designed anti-inflation programme, and to what extent it is being determined by the impact of foreign monetary policies on the

Canadian exchange rate. Furthermore, it is not out of place to question whether monetary policy in Canada, as it has evolved, has helped at all to curb inflation or remains, ironically, one of the greatest contributors to it.⁶⁴

The Bank's response to this has been that despite the understandable questioning of its credibility in light of the discouraging results of the policy to which it has adhered for seven years or so, all the alternative policies considered would certainly be worse. Thus by asserting the correctness of a policy position which has never been actually tested, the Bank of Canada flagrantly violates one of the most basic rules of empirical analysis. But such has been the nature of the remaining effort in the losing battle against inflation.

⁶⁴The Bank of Canada's overall policy and its defence of the Canadian dollar in particular have become the subject of severe criticism. H. Lukin Robinson, for example, makes the interesting argument that the competitive advantage of a lower exchange rate is not sufficient to produce a balance of payments surplus for Canada because this country's exports are mainly food, raw materials and partly manufactured goods which do not generate enough revenue to pay for the manufactured imports — the additional revenue from services and other sources notwithstanding. So it is hardly relevant for the Bank of Canada to speak of the "right amount of devaluation" since at any rate, according to Robinson, foreign debt must still be incurred to compensate for the imbalance between revenue from exports and expenditures on imports. (Canada's Crippled Dollar: An Analysis of International Trade and Our Troubled Balance of Payments [Toronto: James Lorimer, in association with the Canadian Institute for Economic Policy, 1980], especially pp. 8-10; 56-62; and 167.) What this argument suggests is that Canada, under existing trade patterns, will have greater difficulty in overcoming inflation than its more highly industrialized trading partners; but it does not explain why all the leading capitalist countries of the world have been plagued by inflation.

CHAPTER 7

CONCLUSION

It was decided at the outset that a proper analysis of the development of anti-inflation policy in Canada called for a departure from the popular practice of confining debate to the narrow limits of the monetarist — cost-push framework alone, as this has tended in the past to understate the socio-political aspects of the question, while propagating the idea that policy choice was "simply" a matter of accepting or rejecting the "informed opinion" of the "experts". This rather superficial view of the essentials of policy formation, with specific reference to the problem of inflation, has held its widest appeal among those overwhelmed by the simplicity and persuasive logic of "pure economic rationality"; but as we have seen, it was necessary to include in our framework for analysis a review of existing theories of the state, to gain a deeper understanding of the determinants of anti-inflation policy in Canada in the most disturbing experience of rising prices in post-war years.

Our approach has been to observe the movement of wages and prices in Canada in both their political and economic contexts over the twelve-year period from 1968 to 1980, and to focus attention not only on the major economic groups and institutions involved, but also on some of the principal decision makers in the political arena, as they acted to interpret and seek ways to control the inflationary situation as it emerged. Thus considerable attention was paid to the question of why

the government decided on the kinds of anti-inflation policies it chose at different stages, and what were the prevailing forces that seemed to have influenced the decisions taken. In this regard, our underlying assumption has been that the necessity to fulfil the state's legitimization function has tempered the major economic policy decisions to the extent that policies designed essentially to enhance private accumulation (in accordance with the basic tenets of capitalism) are guaranteed public acceptance. In short, the state is seen to be ever mindful that its actions can be justified on the grounds of serving not merely sectoral interests, but ultimately the broader interest of the nation as a whole. Nonetheless, it has been recognized that coercion, however expressed, is an essential element in the pronouncements and actions of the state, with respect to the performance of its two major functions.

From this perspective also, the disjuncture between experience and economic theory becomes all the more apparent. For it is to be recalled that from the time of the earliest expressions of concern about inflation in Canada, anti-inflation policy decisions occurred in the context of an economy in some state of disequilibrium — the kind of situation for which the Prices and Incomes Commission conceded it could find "no helpful advice". Yet some theorists insist that government is always in a position to introduce and sustain — largely through monetary control — whatever degree of hardship may be deemed necessary to stabilize the economy, regardless of the nature of the disequilibrating forces, or the likelihood of virulent public reaction, should the policy appear to contradict the basic premise on which it purports to rest. If in fact it is accepted

that the rationale for any major policy must be in tune with some underlying premise the public is willing to share, then one can readily conceive that in the prosperous years to 1971, for example, policies that could have been interpreted as deliberate attempts to induce unemployment to serve some obscure end, would have been inconsistent with the widely expressed premise that a growing GNP was the best assurance of widespread and continuing prosperity for all. It must therefore have seemed expedient, in the eyes of policy makers, to consider alternative approaches less likely to create legitimization problems for the state. Indeed, our analysis reveals that the course of anti-inflation policy development in those earlier years — as well as later — has reflected this general interpretation. It should be added, of course, that while in practice the pattern has been to coerce the public into accepting even unpopular policies, the degree of coercion has often borne some relationship to the balance of political forces both "within the parliamentary framework" and "outside".¹

To proceed now in more specific terms, it is to be noted that anti-inflation policy in Canada evolved in five observable phases, the first of which lasted from 1958 to 1972, and may be described as one of experimentation insofar as the country had had no previous experience in combating peace-time inflation. During this first phase, efforts were launched to identify and deal with domestic sources of inflation; but it was also acknowledged that a not too insignificant part of the problem

¹For an interesting commentary on the interplay of these two bases of political power, see Maurice Duverger, Political Parties: Their Organization and Activity in the Modern State, trans. Barbara and Robert North (London: Methuen, 1964), esp. introduction.

originated externally, especially in terms of reserve currency dévaluation in the context of international competition. It should also be stressed that anti-inflation policy in Canada at the time centred mainly on the activities of government-appointed commissions that endeavoured to promote a better understanding of the inflationary process and present the case for voluntary restraint.

The second phase began in the fall of 1972 and continued to the summer of 1974. It was characterized by intense political bargaining arising largely from the government's minority position and the balance-of-power role performed by the pro-labour New Democratic Party in the House of Commons. It was also a period marked by a heightened degree of polarization in terms of the demands on the government for a redistribution of benefits to capital and labour respectively. Thus we recall, in this context, the generous tax incentives and fast write-off provisions of the 1972 budget, which were defended on the basis of the reigning idea that, the records notwithstanding, business should always dictate the direction the economy ought to take. On the other hand, the subsequent indexing of the personal income tax system, which promised a measure of protection against the erosion of real wages by inflation, resulted from the increased pressures "from below" for equity and socio-economic reform, and from the fact that in its minority position the government was hard pressed to offer some concessions to the workers to win that sector's support for the programme of wage and price restraint that was being considered. This phase also witnessed the creation of the Food Prices Review Board, itself a product of the vigorous political bargaining that ensued, and the proclaimed symbol of "balanced judgment" in those politically turbulent years.

The third phase barely lasted from the fall of 1974 to the spring of 1975, but its significance should not be obscured by its limited duration. This was the consensus-seeking phase that brought most sharply into focus the conflicting interests of labour and business, and the mutual mistrust they share.

In this period the government continued to stress its preference for voluntary controls, despite its strengthened mandate at the polls in the summer of 1974. Of course, as the election was won on a platform opposed to mandatory controls, policy options to curb inflation were limited indeed. This opened to speculation the real intent of the government's bid to find consensus; for on the basis of previous experience it seemed a lot to hope that the consensus efforts would so alter market relationships that the pressure on wages and prices would instantly be eased. In fact, the most that could be claimed for the consensus endeavours was that they contributed much to public enlightenment on the complexity of the problem, and boosted sympathy for future coercive action the government claimed it was obliged to take.

The fourth phase was that of statutory controls which lasted from October 1975, to December 1978. Its first impact seemed to be a significant easing of the pressure on wages and prices; but nearer the end of the programme only wages appeared to be effectively depressed. Even worse, the renewed surge in inflation and unemployment had become embarrassing. And the intensified protests on the part of labour were hardly surprising. But the opposition expressed by the business sector to the large-scale government censure of the market remains to be

explained. The fact was that although the business community fared better than labour in the period of controls, the autonomy enjoyed by both was drastically reduced. Indeed, to the extent that business was now obliged by statute to expose and justify its transactional and pricing arrangements, the government's action was viewed by that sector as effectively taking much of the initiative in setting the parameters for activity in what was supposed to be a "free" market system.

It is therefore of interest to note that in this fourth phase business displayed unusual willingness to co-operate with labour in certain aspects of strategy planning. To appreciate such behaviour one needs to recall that the capitalists, as Offe has stated, have never acted in concert as a class with a clearly defined set of common goals. By and large, they have earned their privileges through a highly effective system of lobbying, buttressed by the fact that national economic policies are on the whole based on the premise that fulfilment of the needs of the business sector automatically translates into fulfilment of the needs of other sectors as well. But when, in the period of controls, the actions taken by the state appeared to be at odds with the privileges traditionally accorded the business sector, that sector found it expedient to exploit the opportunity for a limited alliance with the labour movement — an opportunity derived from the common objections by both groups to the greatly diminished market freedoms. It was therefore not surprising to observe a revival of interest in

"tripartism",² as the two sides of industry explored the idea of a "common front" approach in opposing the controls programme. And for a while, labour perceived its role in the process of "formal consultations" to be advancing to the status of meaningful partnership.³ However, the stark reality that the burden of controls was weighing disproportionately heavy on the shoulders of the workers soon shocked the labour movement into recognizing the true relationship between capital and labour that the mere proclamation of equitable penalty could not conceal for long. Indeed, as the programme continued, the increasing disclosures of excess profits stood in sharp contrast to the steady erosion of real wages; and by the time of the 12th constitutional convention of the CLC in April 1978, labour, evidently taking a hint from the posture of several major unions, was seen to be flinching from the cosiness it had been developing with the business sector.⁴

At any rate, the persistence of high inflation in itself raised doubts about the efficacy of monetary controls and it seemed as well that the experiment with such measures in Canada in peace-time was disbanded on schedule.

Currently, we are going through the fifth phase in which monetary

² An attempt was being made to redefine tripartism. Henceforth, labour and business were to confer prior to making representations to government, whereas in the past labour was invariably the last of the three parties to be consulted on major economic issues.

³ See Ronald Lang, "Formal Consultations," pp. 5-11.

⁴ For an insightful overview of these developments, see Gord Henderson, "The Jobless: Labour to give its Solutions," The Citizen, 15 March 1978, p. 37.

policy has advanced from its hitherto supportive role to become the only observable aspect of anti-inflation policy since the dismantling in 1979 of CSIP and its short-lived successor, the National Commission on Inflation, both of which operated within the purview of the Economic Council of Canada. But the question of strict monetary control, for which the Bank of Canada assumes direct responsibility, has become a subject of severe criticism, as it is now abundantly clear that in the eight or so years since the Bank began its shift toward monetarism, the impact of this policy on inflation has been precisely opposite to that envisaged. In fact, the entire controversial question of monetarism has so dominated the debate on anti-inflation policy in recent years that more than passing reference to it is required at this point.

Perhaps the biggest area of confusion lies in establishing a clear link between the anti-inflationary aspect of monetary policy and the defence of the Canadian dollar. Invariably, the defence of the dollar is explained by the government and the Bank as a safeguard against "imported" inflation, although this problem should be of serious concern only if the relatively higher cost of imports, due to a declining exchange rate, is not sufficiently offset by an increased volume of sale in the export market, as Canadian goods become relatively cheaper to foreign buyers who would need to convert a decreasing amount of their currency to acquire such goods. In short, to assess the net impact of a depreciating currency, the rising cost of imports should be weighed against the increase in revenue that would normally result from rising exportation, and consequently, the benefits of a healthier

balance of payments position. The fact of the matter, of course, is that the tight money policy and the related high interest rates are restrictive in terms of business expansion, to the extent that full advantage cannot be taken of the opportunity to exploit the more favourable foreign market situation associated with the weakening currency. The Toronto economist, Arthur Donner, expressed it aptly when he said: "Monetary policy instruments are blunt; they cannot discriminate between true excess spending and productive investment spending - the latter [of which is] widely regarded as a necessary part of any longer-run anti-inflation strategy."⁵

To press the point a little further, it is inconceivable that any significant expansion could occur in the export-oriented industries in response to foreign demand, without at the same time stimulating general expansion in the domestic market and thereby facilitating the creation of substitutes for some of the expensive goods that would otherwise be imported. And since few economists, including those at the Bank of Canada, would cease to uphold that most fundamental "law" of their discipline that associates expansion and increased output with lower prices, the Bank puts its credibility on the line when it insists that its restrictive monetary policy, despite its negative impact on investment, is the best anti-inflation option available under existing

⁵"Results of High Interest Policy will Plague Canada for Years," Toronto Globe and Mail, 26 May 1980, p. B4.

circumstances.⁶ The reality is that we are witnessing, in the fifth phase of anti-inflation policy development, the culmination of the drift from least coercive to most coercive policy position, in keeping with Lowi's theorization. In fact, given the persistence of unemployment in the 7 to 8 per cent range and inflation at record levels in this drawn-out period of monetarism, it would be difficult for the Bank of Canada to escape the charge that the policy to which it is adhering so tenaciously is perhaps the biggest single contributor to inflation, insofar as it creates shortages in the supply of goods and services by ensuring that money for productive investment remains expensive. Ironically, in its desperate bid to cure inflation, the Bank of Canada discards a precious cornerstone of modern economic reasoning — that abundance is the key to lower prices.

What needs to be said, of course, is that the real intent of the policy being pursued by the Bank of Canada — and ultimately by the Canadian government — is to create economic hardship with a view to bringing wage and salary earners to their knees. The entire policy is plain and simply a blatant attack on the aspirations of working people as a whole, inasmuch as the major objective is to drastically limit their spending behaviour. Indeed, as we have noted earlier, governor Bouey had long ago alluded to the feasibility of the current approach

⁶The governor of the Bank seemed well aware of this when he declared before the Commons Finance Committee in October 1979, that "we have reached a crisis of credibility...." See "Bouey Explains Reasons for Raising Interest Rates to Commons Finance Committee," Toronto Globe and Mail, 26 October 1979, p. B4.

when he suggested that it was possible to squeeze inflation completely out of the system by "deliberately creating whatever degree of slack was required." And though the governor may have thought it inappropriate to pursue that route at the time,⁷ he most certainly finds it expedient to do so now.

But the irony of the situation lies in the fact that there is yet to be established in contemporary capitalist society the linkages between the inducement of hardship as a policy measure and the desired change in workers' attitude and expectations on a lasting basis. In short, there is not one shred of evidence anywhere to suggest that if such policies were to succeed in their objectives (of curbing inflation) workers would tend subsequently to refrain from pressing for a redistribution of economic benefits in their favour. On the contrary, the evidence would seem to suggest that the more likely pattern leans toward a resurgence of demands to compensate for previous sacrifices. As the CLC observed, and even the predecessor of the present governor of the Bank of Canada explained, the public would soon realize that the austerity was "officially sponsored", and would react to protect themselves with whatever economic and political means are available to them. It would hardly be stretching the point, therefore, to suggest that the intensification of labour unrest we have been witnessing in recent years reflects, to a large extent, that very realization.

⁷The remark was made a few months after the government had been returned to power in 1974, on a platform opposed to increased market interference, and at a time when the consensus effort was about to be launched. So it was hardly the proper context in which to threaten increased coercion.

Much closer attention needs to be paid to the tendency for those "below" to seize every opportunity to redress what they perceive to be social and economic inequities, and to wrest concessions from the dominant class. In this regard, not only does the issue of inflation create a greater awareness of this tendency, it provides also a new avenue through which to express the more deep-seated social question involved here. It was in fact one of the manifestations of this phenomenon in the capitalist context that seemed so forcefully to have struck the former minister Paul Hellyer when, citing Aubrey Jones,⁸ he pointed out to the House of Commons that labour's share of national income had climbed from 45 per cent in 1870 to a startling 70 per cent in our time. The point to be noted here, of course, is the growing conviction that the source of the present inflation is located in the context of the age-old struggle over the distribution of the proverbial "economic pie".

Furthermore, the increasing recognition that the struggle over the distribution of the social product is endemic to the very system itself holds serious implications for the application of monetarism as the ultimate tool to restrain wages. For if indeed each perceived setback in the struggle for equity is followed by a redoubling of effort to recover lost ground, then this implies that the cruel monetarist

⁸The New Inflation: The Politics of Prices and Incomes.

formula now being employed to put down what has come to be known as the "revolution of rising expectations", will have to be retained as a permanent feature of contemporary economic life. And herein lies one of the greatest contradictions in the overall monetarist scheme: That the authors of this formula for curing inflation, while buttressing their case with the argument for less intervention by the state (in keeping with capitalist ideals) remain wedded to the idea of employing a most highly centralized, pervasive and authoritarian means of achieving this end. Indeed, to take the monetarist on their own (rationalist) ground, the advocacy of monetarism is not an appeal for government to remain neutral on the economic scene, ready to act (impartially) only in response to market signals for some specific function performed by the state (such as monetary accommodation to boost investment). Monetarism in fact represents intervention on an extraordinary scale, but it is intervention with a definite anti-labour bias. The hope, quite clearly, is that the slack deliberately created would spread despair among the labour ranks and heighten competition for scarce jobs to such an extent that the price of labour would ultimately decline.⁹

⁹This of course is the thinking behind the theory concerning the "natural" rate of inflation, which posits that rising unemployment should be permitted to run its full course. Even in the current crisis-ridden economic situation in which unemployment rates are exceedingly high by historical standards, there are those who support the view of avowed monetarist, Robert Hall of Stanford University, that "far from having too much unemployment today, [government] has been trying to sustain too low a level ..., thus helping to generate inflation" (See Leonard Silk, "High Inflation Blamed on Not Enough Jobless," Toronto Globe and Mail, 8 April 1980, p. B2).

Nor does the controversy over the sources of inflation rage as fiercely as was once the case. Little in fact is heard today about natural shortages being a major cause of inflation, because the creation of shortages is officially condoned — indeed encouraged — as a means of managing demand. That inflation is now seen by policy makers to be directly linked to labour costs in particular, and conversely to increased purchasing power, is evidenced by the declared and actual direction of anti-inflation policy since 1974, following Mr. Turner's widely criticized Toronto speech in which he finally decided to name the villain and place the blame for inflationary pressures squarely on the shoulders of the workers. But closer to the point, the typical reaction of the governor of the Bank of Canada to signs of industrial buoyancy, in spite of the Bank's restrictive monetary policy, should be taken less as reassurance that the Bank's approach can curb inflation without completely stifling investment, than as evidence that the primary purpose of the policy being pursued is to bring pressure to bear on the workers, while the mechanism for capital accumulation remains intact. In what has been perhaps his most forthright and comprehensive statement to date on the subject of anti-inflation policy, Mr. Bouey, in his address to the Commons Finance Committee in October 1979, made much of the claim that business was continuing to prosper within the

framework of his policy.¹⁰ As a gesture of unshaken faith in the Bank's policy position, Mr Bouey declared that

... in many of our export and import-competing industries, business has increased to the point where they are now operating at, or close to, existing capacity.... Efforts by these industries to increase their productive capacity are [also] under way....

... In present circumstances we are much closer than is generally recognized to a situation in which most firms and industries, because they can readily sell about all they can produce on a profitable basis, see little risk in incurring large cost increases or in posting large price increases....¹¹

¹⁰There are various reasons why business on the whole can continue to do relatively well under the conditions being considered here. One is the ability of multinationals, as Emminger reminds us, to avoid part of the impact of harsh domestic economic policy through transnational movement of capital. Another is the ability to capitalize on favourable conditions in the export market (where, for example, costly imported inputs are minimal).. It must of course be added that small business, which is usually more labour intensive and has limited financial resources, tends to be the most vulnerable to failure. But aside from the more extreme situations, there is a general situation that provides a "wind-fall" advantage to business under inflationary conditions. It pertains to "unexpected" inflation; and although the technical explanation is beyond the scope of this study, suffice it to state the essence of one economist's explanation: Many people go to work because they receive the increase in nominal wage they were looking for; but they do not realize that this increase is being more than offset by rising prices. Management finds that the actual real wages are lower and is able to increase labour input, while the workers think, incorrectly as it turns out, that real wages have risen. Unexpected inflation thus appears to be a costless way of increasing output. (For a full explanation, see Samuel A. Morley, The Economics of Inflation [Hinsdale, Illinois: The Dryden Press, 1971], pp. 34-43.) It may be added that experience in the movement of real wages and profits in Canada since the advent of controls would seem to confirm this theory.

¹¹"Bouey Explains Reasons for Raising Interest Rates ...", Toronto Globe and Mail, 26 October 1979, p. B4.

Given the situation described in this passage, and the existence of considerable surplus labour in the economy, the typical market response under "normal competitive" circumstances would be an increase in demand for labour to effect the expansion in productive capacity — albeit with the likelihood of an initial inflationary spurt. Even so, the consequent overproduction should eventually counteract this trend. Yet it was in the context of high unemployment and close to full utilization of existing industrial capacity that interest rates were being pushed up to record heights. The logical conclusion to be drawn from this, quite clearly, is that the monetary authorities considered it less desirable to fully exploit the product market than to stifle activity in the labour market to avoid the risk of wage explosion. And this implies that even the state shares doubts about the efficacy of the "free market system" and, by extension, upholds the concept of "administered pricing" in place of "competitive pricing". Needless to add that the question still to be answered is precisely how higher interest rates, with their depressing effects on output, could help to lower inflation — how in fact could a policy be geared at one and the same time to create shortages and cure inflation.

So far, we have reviewed the phases in which anti-inflation policy developed in Canada, paying particular attention to the fifth and current phase. But what needs to be emphasized at this point is that each phase, as we have seen, emerged within its own peculiar set of circumstances — some originating externally, some domestically — not discounting the common, underlying threads in the entire evolutionary process. In the

1968-1972 period, for example, the problem appeared to have surfaced in the international financial market with the devaluation of sterling, and the U.S. efforts to obtain flexibility in the par value of the dollar.¹² During that period also, business and government began to recognize more clearly the full impact the "emerging industrial giants" — Japan and the European Economic Community — were having on other economies. Policy makers were once again being rudely awakened to the realities of what Burbidge referred to as the "international dimension", and Robinson before him as the "new mercantilism". In short, it was becoming increasingly clear that the problem of inflation was inseparable from the imperatives of capital accumulation and capitalism's insatiable need for an ever expanding market. And further, there was the growing realization that at the present stage in the development of capitalism, international competition has become the predominant fact in foreign trade relations.

The second, third and fourth phases, in particular, brought out most clearly the political implications of the international aspects of inflation. For we have noted the state's helplessness in insulating the economy against the negative impact of certain external forces, and how, in the internal adjustment process that becomes necessary to mitigate their effects, labour invariably finds itself pressured by the combined might of business and the state to forego much of its current claims on national income, and even to relinquish some of the gains already made.

¹²For a full explanation, see Plumptre, Three Decades of Decision, pp. 246-248.

The shift in income shares in favour of business, and the steady erosion of real wages that characterized the greater part of the 1970's would tend to validate this point. We have noted also that one of the consequences of these tendencies was a conscious extension of "countervailing power", manifested in "a growing mobilization of organized labour", as Jamieson puts it. But most significant, perhaps, has been the trend toward greater involvement by the state in its redistributive and regulatory roles, to ensure (a) that in spite of the challenges of international competition and imbalances in the domestic market, the process of accumulation still goes on and, (b) that the system remains stable despite the heightening conflict over the distribution of the social product.

— Against this background, it is not difficult to put into proper perspective the strong political actions taken by the majority Liberal government in 1972 to shift advantage to the side of profits, following the squeeze on profits that had occurred; and to recognize how the realization of that shift influenced the pattern of debate in Parliament in the 1972-1974 period, when the government was in a minority position, with the allies of labour holding the balance of power. Nor is it difficult to appreciate the closing of ranks that took place outside the parliamentary framework as the recruitment efforts of organized labour intensified, union membership climbed, and labour unrest increased dramatically. And although wages and prices also soared to record levels at the time (in apparent support of Hines' thesis), one can readily understand why the more symbolic anti-inflation measures

were adopted then, and the more coercive policy positions delayed until the government regained majority status and public acceptance was assured.

In light of the foregoing, therefore, it can be said that while the source of the present inflation seems clearly to be rooted in class conflict, and that the strategy employed by government to fight inflation ultimately reflects the recognition of this fact, a number of intervening variables nonetheless play a major role in the shaping of anti-inflation policy. Furthermore, it may be added that the purely political elements in the existing setting, especially those "extra-parliamentary" elements such as trade union and corporate power, become crucial considerations in dealing with the problem of inflation. For these reasons, there could hardly have been a monolithic approach to the formulation of anti-inflation policy in Canada — the current extended monetarist experiment notwithstanding.

So what in fact we are witnessing is a dynamic process involving business, labour and the state, in which the interacting elements change over time, leading to changes in relationships that impinge upon the decision-making process in quite a fundamental way. For example, in establishing the ground rules for labour relations, the type of policy developed in the era of monopoly capitalism would be decidedly different from that developed in an earlier period; for whereas in the earlier period the statutory minimum wage was likely to be the wage, in the later period the wage would either be that negotiated across the

bargaining table or one that is greatly influenced by wage leadership, as Hicks has argued.

But it is this dynamic, "dialectical" process (which often works to confound the principles of free competition) that Nobel Laureate, Milton Friedman, so consistently rejects. And it is this rejection of the obvious that enables him as chief proponent of monetarism to equate today's inflationary society with that of Diocletian¹³ and recommend for all types of inflation, in all societies, in every epoch, the same prescription. It is this rejection also that permits him to declare, with reference to the United States that "inflation is not ... imported from other countries.... [It] is made right here [in the seat of government]. And the politicians and the bureaucrats are creating it at the request of the ... people."¹⁴ If in fact, this statement holds a measure of truth for America, because of that country's enormous influence in shaping the pattern of world economic behaviour, the same can hardly be said for Canada.

Yet a similar statement by Grant Reuber seems equally to ignore the dynamic element to which we have earlier referred. As Reuber sees it, "the way external developments impinge upon the Canadian economy is greatly conditioned by the particular policies followed by governments

¹³Third century Roman Emperor whose anti-inflation edict carried the death penalty for would-be contravenors.

¹⁴Ron Blunn, "Top Economist Casts Doubts on Ability of U.S. to Beat Inflation," The Citizen, 12 June 1970, p. 23.

within the country."¹⁵ Admittedly, this statement, as worded, is difficult to dispute. Nevertheless, it seems to imply that through the "correct choice" of policy severe external shocks can be avoided. And this is debatable in light of the powerful competitive mechanisms (including those affecting exchange rates) employed by trading nations throughout the world.

In reviewing the Canadian experience in the formulation of anti-inflation policy, we have found to be more descriptive of actual occurrences Charles Lindblom's observations regarding "the distinctly political aspects of policy making, ... and the strikingly different ways in which policies emerge." As he puts it:

A policy is sometimes the outcome of a political compromise among policy makers [and] sometimes policies spring from new opportunities, not from "problems" at all....

Clearly, then, policy is moulded by a variety of forces beyond those within the policy-making system itself.¹⁶

This conception of the policy-making process and Therborn's notion of "the dynamic ... provided by the developmental logic of the class struggle ... and its changing relationship of forces",¹⁷ would seem to embody the threads of thought by which we were guided throughout the present study.

¹⁵Grant L. Reuber, "Recent Government Economic Policy Documents: Description is not Analysis," p. 159.

¹⁶Charles Lindblom, The Policy-Making Process (Englewood Cliffs, New Jersey: Prentice-Hall, 1968), p. 4.

¹⁷Goran Therborn, What Does the Ruling Class do when it Rules?, pp. 37-38 and 45-48.

We have attempted above to draw attention to weaknesses in some of the more sweeping pronouncements on the sources of the present inflation, most notably on the insistence by leading spokesmen on the subject that the origin of the current inflation lies less in external factors than in ill-conceived domestic policies. This of course remains debatable. For in reviewing Canada's experience, especially in the first as well as the fifth and current phases of anti-inflation policy development,¹⁸ one cannot but wonder whether anything, short of a radical change in policy that would impinge upon traditional trading patterns and relationships, could have succeeded in insulating this country from the impact of external forces.¹⁹ Nor can the imperatives of international capitalism, with all that this implies, be assumed away simply to give credence to the type of rhetoric being considered here.

Other monetarist assertions to which we have earlier drawn attention have turned out to be equally dubious, if not downright

¹⁸According to Plumptre (Three Decades of Decision, pp. 250-253), Canada's decision to allow the Canadian dollar to float freely upward in 1970, in response to pressures from its major trading partner, was not enough to win this country exemptions from the protectionist measures adopted by the Nixon administration. The picture of senior Canadian ministers rushing frantically to Washington to plead for, but to be denied, special consideration in light of Canada's demonstrated spirit of co-operation, was perhaps pathetic; but in the context of international competition, the U.S. behaviour was entirely understandable. And yet again, under the current administration in Washington, characterized by its high interest policy, history seems clearly to be repeating itself.

¹⁹"In selecting the appropriate mix of ... policies to achieve desired domestic objectives the authorities will ignore at their peril the international effects; indeed the international effects may actually thwart the attainment of domestic objectives." Ibid., p. 225.

invalid in their claims. For example, Jack Carr's declaration that inflation always soars when monetary growth rates "reach the sky" calls for revision, for on the basis of Canada's experience, it would be more correct to say that when monetary growth rates "reach rock bottom" inflation nonetheless "climbs to the sky". Indeed, as we have seen, although the growth of the money supply (M_1) remained below the lower end of the (downward moving) target range for lengthy periods of time, the rate of inflation continued its upward surge. Not to be undone, apologists for monetarism now suggest that the monetary aggregate employed by the Bank of Canada grossly understates the real magnitude of monetary growth. But instead of merely focusing attention on the academic question of weaknesses in the Bank's methods, such observations could more appropriately be interpreted in terms of the efforts on the part of business to circumvent the stringency of tight money policies²⁰ through "non-bank transnational movement of capital carried out by corporate entities"; as Emminger has put it.

Yet another questionable assertion is that "confirmed" by Parkin that there is a time lag of "some three years" between the rate of monetary expansion (or contraction) and the observable impact on inflation. Again, from Canada's standpoint, this observation would need to be revised, for since the Bank of Canada began its "less accommodative

²⁰ A case in point is the current practice adopted by the automobile companies of offering loans to prospective vehicle buyers at interest rates substantially below the going Bank Rate. It should prove to be a valuable exercise to trace the source of financing for such loans.

policy stance" in 1973, followed by its establishment in 1975 of a target range for monetary growth, the rate of inflation has shown no lasting sign of easing. So what in fact is confirmed here is that theory is very much in conflict with experience.

And at the same time that such fallacies were being revealed, one could also observe dramatic reversals and contradictions in the positions taken by the state on this baffling issue of inflation. A good example of this has been the complete turn-around from recognition of the serious limitations of monetarism, as expressed in the Chronicles of the Anti-Inflation Board,²¹ to a vigorous defence of that very policy today. But perhaps the most disturbing development, and certainly the biggest irony of all, has been the total abandonment of the initial objective of overcoming the inflation psychology that was seen to be setting in when the government first undertook to fight inflation. Unquestionably, the current high interest rate policy serves to reinforce, rather than break, inflationary expectations. The real danger here lies in the fact that when Bank Rates of over 20 per cent come to be regarded as a recurrent fact of economic life, such rates will carry their own built-in ratchet effect. Thus a marginal decline in high interest rates, instead of a return to the significantly lower, single digit traditional rates, is likely to be interpreted as signalling "the opportunity to buy". The result will be a premature rise in the demand for credit and another upward spiralling of interest rates; only this time from a higher plateau

²¹Page 35.

than in the previous round. Needless to repeat that the higher cost of borrowing is inflationary in itself.

The essential question to ask at this point, then, concerns the conclusions to be drawn from the abundant evidence we have so far examined. First and foremost it is clear that while the monetarists may be having a heyday in terms of the influence they are currently exerting on anti-inflation policy in Canada and other leading world economies, serious flaws nonetheless exist in the basic assumptions of monetarism. Most notable, perhaps, is the idea that even in the context of a highly mobilized labour movement, working people will overlook the "officially sponsored" policies that place the burden of sacrifice largely on their shoulders in the efforts to cure inflation, and remain passive and manipulable in the face of inhuman demand management propositions. In short, monetary theoreticians have consciously downplayed the "social conflict and adjustment in economic processes" which others consider to be "vital to the mechanism of inflation".²²

It is therefore important to recall that efforts by the Canadian state in recent years to induce austerity as a means of forcing a change in public attitude and expectations, have been matched by a growing militancy within the labour movement, as union membership climbed by an unprecedented 9 per cent over the four-year period from 1974 to

²²Dudley Jackson and others, Do Trade Unions Cause Inflation?: University of Cambridge Department of Economics Occasional Paper 36 (Cambridge: Cambridge University Press, 1972), pp. 111-112.

1972 — the period in which the most coercive anti-inflation measures were introduced. In this context, therefore, if the problem of inflation and the efforts to find its cure are seen to be bound up with the reality of monopoly power and the class struggle, then one cannot but wonder by what process monetarism — or any other coercive measure — can be expected to cure inflation while the very institutions that emerged to defend the workers against such impositions are becoming more deeply entrenched. Admittedly, monetary control can be effective in restricting economic activity, but this says nothing about the political consequences the government must face in terms of the demands of its constituents or of public reaction to induced austerity.

From all of the foregoing, it should be quite apparent that any plausible theory of the current inflation must endeavour to touch on the very roots of this phenomenon. Such a theory would need to be consistent with past and present experiences and be more accurate than has hitherto been the case in predicting future patterns of behaviour in the market place. Thus it is incumbent upon the modern theorist to explain the ubiquity as well as the persistence of inflation in our time, and it would be necessary to identify certain elements that are common to so many leading economies now being plagued by inflation. It is hardly constructive to ascribe entirely to policy makers in Canada the blame for weaknesses in the economy that are not peculiar to Canada alone. In this regard, a more realistic starting point would seem to be to recognize and attempt to find the reasons for the reactions that come from the masses when governments in so many countries today, acting on the advice of the "experts", or bowing to the whims of the capitalist class, bring severe and disproportionate

pressures to bear on the backs of the working class.

Indeed, it would be well to reflect on the fact that at no time in the history of capitalism has there been total complacency on the part of the workers. There has always been a struggle over the sharing of the social product. But what is all too often overlooked is that pressure from the dominated class requires some favourable opportunity to fully manifest itself. Such an opportunity would seem to have been provided — and enhanced — by the growth-oriented thrust of economic activity in the post-war years and the associated inflation, which organized labour in particular has been using to advance its more general case against the persistence of social inequities in the system, especially with regard to income distribution. Quite clearly, then, the problem of coming to grips with the present inflation is in reality one of coming to grips with a more deep-seated and pervasive social question.

Earlier in this study, the reasons for the observed extension of the state's regulatory and distributive functions were discussed, and mention was made also of the importance of the state's "relative autonomy" that put it beyond the status of mere "instrument" of the capitalist class. This latter point, however, requires qualification, for it says nothing about the most absurd element in the relationship between capital and the state. We are referring here to the "privateness" of capital that permits the owners of property to hold an entire economy to ransom while the most profitable "deal" is being extorted from the state. It was this element, above all, that enabled the CMA to remark, at the time of the "great Turner giveaway", that "even the tax inducements may not fully

restore confidence and willingness to invest further. Inevitably, therefore, policy initiatives to cure economic ills tend largely to favour business and help convince the working class that its only recourse is to employ whatever political means it has at its disposal to wrest concessions from business and the state.

We have stressed also another fundamental reason why co-operation between business and labour in a joint attack on inflation remains elusive. Business, we have observed, thrives on the traditional privileges it has enjoyed, and strives consistently to preserve the status quo; whereas labour fights to alter values and relationships and "break new ground" in pursuit of equity and social justice. It should therefore not be difficult to conceive how this obvious conflict of interest militates against participation by both sides of industry in co-operative endeavours within the existing socio-economic framework.

But perhaps the most important theme sustained in the present study is that the problem of inflation and the key to finding its cure are essentially a social matter. Recently, as we have seen, a few influential economic commentators, including Carl Biegie of the C.D. Howe Research Institute, and Robert Gordon of Northwestern University, have been shifting support toward this line of thinking. And at times, support came also from the most unlikely sources. For example, the Canadian Imperial Bank of Commerce is quoted as stating in one of its commercial letters, that "it is in political and social adjustments that we must look for answers [to inflation]"; although, somewhat equivocally, the bank proceeded to recommend the application of "responsible" monetary and fiscal policies as the route

to follow.²³

However, it is heartening to find that the eminent Robert Heilbroner, in a joint effort with Lester Thurow, has entered the debate in a recent, and timely work. In complete support of our major thesis, Heilbroner and Thurow emphasize that "it is politics that sets the limits for economics". And recognizing "the clash of interests" that is the "hidden political core" of the major economic challenges of our time — of which inflation unquestionably heads the list — these writers quickly shed the restrictive straightjacket of "pure" economic reasoning (by which so many of their colleagues often shield themselves from questions about the social cost of their stock "solutions" to the major economic problems of the day) to offer an unusual list of priorities for dealing with those challenges. The list includes a fairer distribution of burdens and benefits, and greater objectivity and impartiality in the evaluation of government and private economic activity alike. But Heilbroner and Thurow have ventured even further to make a value judgment on what, in the present study, we have identified as the two divergent "cases" for labour and business respectively: They would "accord to the aims of justice and decency at least equal consideration to those of efficiency and market freedom."²⁴

Prime Minister Trudeau once suggested that in our economic system the greater benefits have tended to go to those who speak with "louder voices". That comment, on which the late David Lewis, former leader of the NDP, based the title of his book on "corporate welfare", expressed rather aptly

²³The Globe and Mail, 24 February 1975, Editorial.

²⁴Robert Heilbroner and Lester Thurow, Five Economic Challenges (Englewood Cliffs, New Jersey: Prentice-Hall, 1981), pp. 131-133.

the traditional distribution pattern which the current inflation issue brings more sharply into focus. And yet, the slowly growing concerns about the socio-political aspects of the present economic crisis would seem to suggest that the "softer voices" are becoming more audible now.²⁵ It is to be hoped that the final decision makers will pay attention, and that the moral questions so often neglected in the drawn-out inflation debate will be properly addressed.

It was intimated at the outset that the justification for the type of analysis undertaken here lies largely in the fact that it raises questions about the efforts of an influential group to establish limited criteria for analysing the current inflation, and suggest policy options that embrace in the main the concept of tighter monetary control as a means of lowering expectations and curbing the build-up of pressures from "below". If this study has contributed in any way toward advancing the arguments for greater attention to the social and political aspects of inflation, as opposed to monetary obsession, it would have served its purpose.

²⁵Even as the last few sentences of this study are being written, the historic news is heard (CKBY Radio, 15 February 1962) that in an agreement between the Ford Motor Company and the United Auto Workers, profit sharing and job security, both of which are generally considered to be anathema to business, were granted in exchange for guarantees of wage restraint. While the cynic would naturally scoff at the idea of sharing negative or declining profits, it nonetheless appears that the "softer voices" are beginning to reach the corporate sector as well. At any rate, deeper insights are to be gained from the "background" to that news which tells, among other things, of the capturing by Japan of the top place in world automobile manufacturing, and of the recent agreement between that country and several European countries to lower their interest rates to counter the effects of U.S. economic policy. One readily observes here that the combined effects of foreign competition, a depressed North American economy, low worker morale and the threat of industrial unrest — all in the context of high inflation — are not unrelated to that rather unusual contract.

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