The Case For Price Controls

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OVER the past few years volumes have been written on the subject of inflation. Statisticians have compiled great masses of figures to relate the decline of the purchasing power of the dollar to the material standards of living. Social scientists have studied its effects on the lower income groups in terms of deteriorating health and welfare and educational standards. Different schools of thought, usually divided along party lines, have advanced their proposals for its solution. But the problem of inflation is still with us and threatens to grow worse before it improves.

Inflation, defined simply, is an excess of money in circulation over the available quantity of goods on the market. If this definition is translated into technical language, in terms of the law of supply and demand as economists like to do, it means that effective demand has exceeded supply, causing prices to go up.

The equilibrium of supply and demand has been upset largely as a result of the deteriorating international situation. The Korean crisis, the increasingly cool relations between our Western democracies and Russia since the end of the war, have necessitated the building up of rearmament programmes. This new and increasing demand for military or non-consumable goods came at a most inopportune moment for us, when the shortage of consumer goods resulting from a lag in their production during the War, had not yet been overcome. In addition, practically the total labour force was already employed at the time with little or no man-power available to meet the demands of re-armament.

There are some who claim that productivity, or per capita industrial production, has increased sufficiently to create a sufficient supply of goods to satisfy both the demands of consumers and a re-armament programme. Their thesis is without substance, as a brief analysis of Canada's economic position will show. If we examine the post-war period from 1946 to the end of 1950, we shall soon discover that while industrial production rose by nearly 25%, at the same time the non-agricultural labour force increased by 16%. There was an average per capita industrial increase of slightly more than 2% per year. It should be remembered, too, that the results of this small increase in productivity have largely been offset by the increase in our population during this period.

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NOW, it is conceivable that if productivity had increased substantially during the last few years, we should not be as troubled with inflation as we are to-day. The additional volume of production would have enabled us to allocate that portion of our gross national product necessary for defence and at the same time we should not have incurred the same degree of inflation.

I do not intend to examine the reasons why these post-war years have not reflected a greater increase in productivity, and consequently, a greater increase in the physical volume of goods. This would require another article itself. It should be noted in passing, however, that the increased rate of investment in capital goods industries, causing a certain re-allocation of labour and materials which ordinarily would have gone into the production of consumer goods, has been partly responsible for the relatively small increase in volume of production. This emphasis on the production of capital equipment may someday result in increased productivity and should be encouraged rather than deterred. However, the benefits from this will not be felt for sometime to come. In the meantime, there is no reason to assume from the present situation that the equilibrium between supply and demand will soon be restored; on the contrary all indications are that the gap between supply and demand will first grow wider, with the resultant increase in prices continuing.

I have purposely approached this subject in the above manner to demonstrate that while the real answer to inflation is increased productivity to equate supply and demand, this solution is too far off to be of any help in solving the inflation that now threatens us. The question immediately arises: can we do something *now* to control inflation; or, must we sit back and hope for some miracle to intervene in time to prevent our economy from running wild?

While there are not many who would suggest the latter, there are some who are willing to do very little. Indeed, the Liberal government has resorted to indirect and ineffective measures in its approach to this problem. Its belief that all would work out well if it increased direct and indirect taxes, imposed credit restrictions, increased the interest rate on bank loans and deferred for a period of four years the right of business concerns to charge depreciation on all capital assets except for certain defined ones, has not prevented the index from rising to 190.4 as of October 1, the highest in our country's history. In addition, the government and some associations proclaim that the onus is on the consumers to tighten their belts and employ self-discipline in restricting consumption.

These measures should be regarded as being incidental and not primary to the controlling of inflation. Some of them, notably credit restrictions, have proved regressive. While the latter have reduced the effective demand for goods, their net result in some instances has been to cause unemployment as few defence orders have been placed to keep these industries operating. This has only resulted in decreasing the supply of consumer goods in relation to demand, thus helping to stimulate inflation. Self-discipline for the purpose of cutting unnecessary consumption is good in itself, but the great majority in the lower income brackets cannot now afford to consume many of the essentials of life, let alone the non-essentials. Such a proposal thus becomes largely unreal and academic.

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HAVING examined the above measures that have been adopted or proposed as a means to control inflation, and having seen their weaknesses, we can come to only one conclusion; a system of price controls and subsidies, comparable to what we had in the last war, is our only real effective solution. A comparative study of the cost of living indexes based on two periods, one with price controls and the other without, indicates the efficacy of this policy. For example, the Report of the Royal Commission on Prices pointed out that from September, 1939 to November, 1941, during the early part of the war when we had no controls, the cost of living index reflected a 15% increase. On the other hand, during the period when we had controls, from November, 1941 to September, 1945, the index showed an increase of only 3%.

Again, if we compare the rise in the cost of living during the period of controls mentioned above with the rise in the cost of living in the period from February, 1946 when the decontrol period began, up until the present, we discover a startling difference. During the former period—when there were price controls—the index rose 3.4 points; since the period when decontrols began, the cost index has risen by 70.5 points.

In the above examples we have clear and indisputable empirical data to prove that price controls are indispensable to controlling inflation when circumstances beyond our control upset the equilibrium of supply and demand, causing the latter to exceed the former. It should not be overlooked that the inflationary pressures on our economy during World War II were even greater than they are now, when a much higher percentage of our gross national product was allocated for purposes of war.

The mention of price controls raises various objections in some quarters. There are some who point out that subsidies are a necessary accompaniment of controls and that they are costly. The best answer that can be made against this complaint is to recall the statement made on this subject by the former Minister of Finance, Mr. Ilsley. He estimated in the House of Commons on April 1, 1947, that while subsidies and expenses involved in administrations of controls had cost the Canadian people $200 million annually in taxes from 1941 to 1946, they had saved our people, in lower prices, an estimated $2½ billion every year.

IT should be kept in mind that our war-time experience proved that the cost of subsidies could be completely paid for by the imposition of an excess profits tax. For example, during the fiscal period of 1944-45, when the payment of subsidies was at its peak, revenue from the Excess Profits tax was $465 million—more than twice the amount necessary then to pay all the required subsidies on consumer goods. Thus, if we were to adopt controls and subsidies to-day, and at the same time restored the excess profits tax, we could expect the yields from the latter to compensate fully the expenses involved in administering controls and subsidies.

An objection which the Liberal government used to raise against any suggestion of price controls was that Canada could not undertake these unless the United States did likewise. It was loudly proclaimed at that time that since our economy was so dependent on American imports, controls over our own products would be impractical. But this condition for controls has been fully satisfied since the United States introduced a system of price controls in January, 1951. Now it is common to hear some official in the U. S. Office of Price Stabilization declare that Canadian prices are rapidly increasing over those in the United States. For example, Mr. James G. Lyons, O.P.S. Regional Director for New York and Northern New Jersey, recently stated that Canada's average retail price level had risen almost nine times as fast as it did in the U. S. from January's general price freeze to August, 1951.

ANOTHER objection which one sometimes hears expressed against price controls is rationing. Rationing may not at all be necessary with price controls under current conditions, or if it is, it would not have to be invoked to the extent that it was during the war. But if it should prove necessary to administer an equitable form of rationing, is this not more just than the present kind of rationing which is determined by the size of one's purse? Today we have an oppressive form of rationing which literally prevents many of the lower income groups from receiving their fair share of the essentials of life. This condition, if allowed to continue, will cause grave discontent which is not conducive to the kind of unity we need in building a healthy and prosperous Canada.

It should never be forgotten that inflation is a danger which threatens to destroy our economy at a time when it is of the utmost importance to strengthen ourselves against internal weaknesses. The present government policy of resorting to indirect and ineffective measures in dealing with this problem is highly unrealistic and contributory to disaster. Only a wisely administered system of price controls and subsidies based on experiences gained during the war, will prove to be an adequate solution at this time.