Canada Erects a Price Ceiling

By Stewart Bates

ON October 18 the Prime Minister broadcast a statement that may yet prove to be second in importance only to the declaration of war itself. His speech foretold a new policy, hitherto tried only in Germany, a policy designed to control and stop the recent rise in many prices and in some wages.

In essence the new regulation, which was made public on 2nd November by Mr. Ilsley, is simple enough. At the moment of writing, the order declares that on and after the 1st December it will be an offence to sell, or to buy any goods or service above the ceiling price. This maximum price is defined as the highest price at which goods were supplied during a basal period (September 15 to October 11). If any price has risen between October and December, it will presumably have to fall again to get under its ceiling. In short, the intention of the administration is to cement the price and wage structure that existed at the basal date. The government will not object, however, if any goods are bought or sold below the basal price; prices may fall to the floor but they must not go through the roof.

The administration of this measure is to be left to the War-time Prices and Trade Board which as we shall see is given wide powers. The government order gives some guidance about exemptions from the above decree; goods sold for export are free from any maximum height, since naturally Canada will be pleased to accept higher prices when selling to foreigners: sales of securities, bills of exchange and title deeds are also exempt from the order, mainly because their prices are not always ascertainable for the base period: also certain odd and irregular sales are omitted: and most important of all the Department of Munitions and Supply is free in its purchases to offer higher prices for goods and services. Outside these cases all goods are included in the order, and even some services are given maximum prices, e.g., light, heat, water, telephone, transporting, warehousing, undertaking, laundering, beauty parlours, plumbing and repairing, restaurants and cinemas.

Such is the scope of the new order and it is obviously vast in comparison with the few price controls that have existed up to this time. In one night so to speak, Canada moves from a position in which her controls have tended to lag behind those of England and Australia, to one in which she is so far ahead of other democracies as to find only Germany as an example to which she can turn for experience in handling the difficulties and problems of administration that will emerge from the decree. Some of these difficulties are revealed in the order-in-council that followed on the heels of the price fixing order. This second order gave to the Prices Board new powers consonant with its new functions, powers that allow it to investigate costs, prices, profits, stocks in any business, powers to enter a business and examine records, powers to fix prices and markups, to regulate the conditions under which goods can be sold, to forbid advertising, to prescribe the models, sizes and qualities of goods that can be made, powers to suspend firms' licenses to sell, powers to prescribe what they can sell and powers to compel firms to produce, process or transport supplies as the Board sees fit. All this, and more, it can do and stiff penalties under the Criminal Code await sellers or buyers who try to seek personal gain by evasion of the new rulings (see Order-in-Council P.C. 8527 and P.C. 8528). What supplements or subtractions from these powers will be necessary as time passes are not yet known, but they may be as far-reaching in scope as was

EDITOR'S NOTE: Professor Stewart Bates is head of the Department of Commerce at Dalhousie University and a member of the Editorial Board of Public Affairs.

the original order. We must not be surprised if this twin order proves to be only the first of a whole family of controls that later contain their own Dionne-like surprises.

The full reasons for this momentous step are not quite clear to casual observers. To the outsider it has been obvious enough that some prices have been rising appreciably since the spring of this year. It was equally clear that if prices continued to rise, wages would have to rise also under the cost of living bonus scheme, and anyway there were sufficient strikes and slow-downs among labour to indicate that wages in some important occupations might be raised beyond the bonus levels. And such rises in wages would raise costs and prices still higher. All this was clear, as was also the fact that the Canadian budget was not being adequately supported by the savings of the Canadian people. The transference of the Wartime Prices and Trade Board to the control of the Minister of Finance in August last suggested that the financial policy might in future be bolstered by other measures designed to cut down consumers' expenditures. Whether this ultimate aim is now envisaged the outsider can merely guess. But as to the true causes for the significant change in price policy, the observer may feel that some subjects are better not inquired into too closely at the time—what women whisper to each other, what goes into the best soups and why the above method of complete price control was adopted.

To foresee the ways in which the new control is likely to affect households and firms in Canada, and to try to gauge the administrative problem that it raises, we have to remember the functions that the freely operating price system has hitherto performed.

The price system has operated as one of the main features of our individualist organisation, the organisation in which households and firms have been free to sell their services as they please, to determine what these services will be, and to buy what services they could afford as consumers or producers. In this system there was no planner; no single person or group had the task of allocating resources of men and materials to the production of different types of goods and services; no one said so much coal will be produced and so much wheat. The only planning that took place was within the individual firms: there rules were laid down, but outside that there were no planners. It was the price system that did the job of allocating resources. It was price and the amount they could sell at that price, that told business men what sort of goods consumers wished: the price system showed where profits and losses were to be made, it showed firms what consumers preferred and reminded them continuously how consumers changed these preferences. Similarly it was the price system that told the firm about its costs of operation: it showed how much had to be paid for this type of labour as against that type, how much for labour as against machines, how much for this site or location as against that, how much for this sort or quality of raw material as against another. In short the price system showed the probabilities of profit and loss in the different lines of human activity. And since goods and services would tend to flow to the highest bidders, the price system really acted as the allocator of the community's resources to different firms and households. In the capitalist order, the price mechanism did the job that is done by the Ministry of Planning in a socialist system.

It is the free operation of this mechanism that the new government order intends to overthrow. Instead of having a price system that constantly changes relative prices in response to changing conditions, it is to be fixed after December. The moving picture, with its rapid sequence of shots that ultimately showed the continuous motion of the whole economy, is to be replaced by a fixed photograph. The static picture of prices as they existed in the basal period is all that the price system is to be allowed to show (with the small number of exceptions mentioned in our third paragraph).

The immediate question that must arise in men's minds is this: if the price system is no longer to be allowed to play its supremely important function as the indicator of the alternatives facing the producer and consumer, if it is not to act as the allocator and distributor of resources, what is to take its place? No Order-in-Council has, at this moment, suggested the answer to this, the most important of all matters arising out of the fixation of all prices. Lawyers however may be able to show that the War-time Prices and Trade Board has been given enough power to act *directly* in place of the price system, and to allocate resources as would the Ministry of Planning in a socialist state. Whatever the legal power given to the Board in Order 8528, the common man knows that an Order-in-Council and its proper realisation are two different things: he is aware of gaps, great or small, that so often get between a promise and its achievement. He is perhaps aware that the same measure, when applied in Germany in 1936 raised great administrative difficulties, despite the large and efficient civil service available for administering it, and despite the great propensity of German firms to step into line at the smallest state demand. On this continent the experience of the United States National Recovery Administration in its price codes is too recent and too instructive to create easy confidence in the administrative feasibility of any project that envisages a swift transition from a system that was automatic, elastic and responsive, to one that is controlled and inflexible. The previous system, because it was automatic, threw up no supermen who could now be used to reorganise it in its infinite detail; such men do not exist. So the common man is still left asking the question: what is to take the place of the price system, who is to perform the job already done by it?

It is conceivable that the answer to this question might not be difficult. If it happened that after December, the demands of firms and households for material and services, and the available supplies of resources all remained much as they were at the basal date, then the frozen price system would still be the appropriate one. If conditions remained static, if incomes, consumers' desires, methods of production, sources of material and labour supplies, were all to remain unchanged, there would be no particular problem arising for business or government. For the fixed price system would still be the one suited to these conditions. Even if conditions did not remain quite so static, but if there were only small changes in any of these factors, the price ceiling would not create any major difficulties. There would then be only certain minor problems confronting firms and the government. These might be summarized as follows:

1. The methods to be followed when prices of imported goods changed from the basal level. These prices are of course outside Canada's control. If the cotton importer has to pay more for cotton in December than he did in September, is he to be allowed to raise his selling price to the manufacturer of cotton goods? This question can be met in many ways. The government or the Board will likely decide in such instances to meet the rise in import prices out of treasury funds, that is the government might pay for the price increase and so permit the importer to maintain his previous selling prices to manufacturers. The administration of this may require the establishment of some sort of commodity import corporation by the Board.

2. The base date itself is not likely to be just and reasonable for every individual firm. During September and October some firms may have been selling at unusually low prices. To be required to adhere to that for the remainder of time would be unjust. The Board will have many such cases of special problems arising out of basal date conditions, and will require probably special tribunals to make a speedy review and settlement of the individual cases. Other firms may have been charging unusually high prices on that date, and justice to consumers requires that some government agency

be available to enquire into this sort of case, since consumers who are treated unjustly are likely to be less well organised and less vocal than firms which happen to be unjustly handled by the selection of the base date. In the same way, the administration will require a tribunal to decide what some prices really were during this period, as well as to consider divergencies of price in the same locality: for example what was the price for plumbing contracting in Halifax at the basal date? These prices differ considerably as between firms; and what about such prices as between localities? Worst of all perhaps is the case of a business which finds its costs of materials unchanged, but through diminishing volume of business as consumption decreases, finds its overhead increasing. Is it to be allowed to increase its selling price on this account, or is it just to take the loss? Or consider questions of quality and service; although price may remain unchanged, a firm (say a grocer) may stop his delivery service and continue to sell at the fixed price; has he really raised the price? Or if he curtails his previous credit terms, does this amount to a rise in price? Or if manufacturers selling to retailers cease to send free window displays, or other aids to dealers, are they in effect raising prices? Or if a firm was price-cutting at the basal date and ceases to do so now, has it broken the law? For all these questions answers have to be quickly provided by the Board and rules have to be made to ensure rapid removal of inequities. The confidence of business is important for the war effort and obvious injustices will quickly ruin that confidence.

3. The law has determined the new price structure, but it has exempted the Department of Munitions and Supply. This Department, to get necessary men and materials, can bid to any price it deems fitting. Since the activities of this Department are widespread, there may result two sets of prices for many things —the legal price for households and firms and the Departmental price. The illogic of having two sets of prices, and the sort of difficulties likely to emerge have already been studied by theorists interested in the socialist state, and no doubt these findings have been taken into account by the government, although there has not yet been any indication of the steps to be taken to meet the awkward economic and social consequences of such a condition.

4. The fixing of all prices will mean that some scarcities arise, even if the economic conditions remain essentially as they were at the basal date. Some scarcities of materials and finished goods are likely, as was true of gasoline this autumn. Some firms or households who strongly desire certain things will be tempted to offer higher than legal prices. Such action will be unpatriotic, but still very natural to some people who have always been accustomed to that way of getting materials. In short, black markets will emerge, and to limit this in the beginning positive action by the Board, including ready prosecution, will be necessary. This requires much inspection and investigation by the Board or its agents, and occasionally it will be difficult to distinguish a justifiable from an unjustifiable price increase. For example if the Department of Munitions begins to withdraw additional labour from certain firms, through offers of higher wages, some firms may attempt to hold their workers by offering raises of pay, which are disguised as promotions. Who decides whether the firm has justifiably promoted men, or has simply raised the wage rates of better workmen, the former being legal, the latter not? Again we have to look to the Board for quick rules and guidance.

While all these matters of detail are important, the major question arises if the economic conditions alter fundamentally. Then the fixed price ceiling may cease to be the appropriate one. Then some new principle or rule has to be added to perform the job of allocation formerly done by the price mechanism. The price plan then will have to be supported by another plan designed to allocate resources. And by allocation we mean here not merely the distribution of consumers goods to households, but also the distribution to firms of raw materials, freight service, labour, banking and other productive services. These too have always been distributed via prices, going to the highest bidders. If bargaining is legally forbidden, and if there is not enough to go round—and there won't be enough if the war effort is to be increased—then the available supplies have to be allocated in some way to the buying firms. It is here perhaps that the black markets will be most evident: few firms like to envisage their own bankruptcy, and that may be the future that faces many when supplies of certain raw materials and labour are withdrawn for war. In these conditions it will be natural for many to try to fight this by offering higher prices for the necessary materials for their firm. Such scarcities are the natural result of price fixing and efforts for war. New rules of distribution have to do the job formerly done by the changing price system, and these rules of rationing will probably have to apply to certain materials of production as well as to certain finished goods that use up scarce resources.

But government action will have to extend further if the war economy is to be significantly expanded, because the achievement of a full war economy requires a solution of many *physical* problems. A successful war administration is more than a matter of raising taxes and loans and fixing prices. It is essentially a matter of shifting resources (men, materials and machines) from industries making household goods to those making war goods. There have to be real shifts in industrial production, standardization and simplification of consumers goods, attention to fullest utilization of plants, and mobilization and training of industrial armies that were shopkeepers, barbers, messengers, etc. This transformation involves bankruptcy for many of the old peace-time occupations, and for many peace-time firms. This truth has to be frankly faced by governments and business. It will probably not be merely enough to ration the materials going to certain "unnecessary" firms, and so to press them gently towards bankruptcy. If the war effort requires the closure of certain firms making unnecessary goods, this had better be done directly and openly as a war measure, as one involving compensation to the displaced firms, also one which is understood and appreciated by businesses and households alike.

In conclusion, the price ceiling is likely to be only a beginning: it will probably have to be supplemented in more and more instances by rationing of certain producing firms as well as households whenever it is apparent that the lack of the price adjustor is creating troubles greater than can be reasonably borne. But rationing alone will not ensure a proper war economy. That end requires still further rules to transfer men, resources and factories into industrial armies, rules designed to ease the transfer, rules aimed at being equitable to the peace-time industries and occupations that have to give up their previous business connections and be turned over to war, or close down for the duration. Equity demands frank recognition of this problem; a full war economy is impossible without its solution.