

esp-3

CANADA AND THE WAR

CONTROLLING THE COST
OF LIVING

The Stabilization of Prices and Wages

BROADCAST BY

Right Hon. W. L. MACKENZIE KING, M.P.
Prime Minister of Canada

OCTOBER 18, 1941

*Issued by the Director of Public Information, Ottawa, under the authority of
Hon. J. T. Thorson, Minister of National War Services*



OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941

CSF-3

01-CRC

1941

-39

CANADA AND THE WAR

CONTROLLING THE COST OF LIVING

The Stabilization of Prices and Wages

BROADCAST BY

Right Hon. W. L. MACKENZIE KING, M.P.
Prime Minister of Canada

OCTOBER 18, 1941

The thoughts of us all to-night are turned, I am sure, towards the Russian front and the gathering threats in the Far East. What has happened and what is threatened, make clear that now, more than ever, Canada must rally all the power within herself to fortify her strength. If we are to be strong enough to do our duty abroad, we must be strong and united at home.

I am, therefore, going to speak to you to-night about an action which the government proposes to take in connection with conditions within Canada. I believe that what is proposed will vitally affect our war effort, because it will affect every man, woman and child within Canada.

The action which I am about to explain represents an experiment hitherto untried on this continent, and perhaps having regard to its breadth and variety, hitherto untried by the will and consent of any free people anywhere.

It has to do with the price of goods and services, and the price of the products of land and sea. It has to do with wages. It is of the greatest importance to every citizen in Canada, and of particular importance to every housewife, every worker, and every farmer. It will affect the daily lives of each one of us. It will require the co-operation and support of all. It will help to intensify the effort of this country in war. It will help to prevent a repetition of distress and depression after the war.

The Menace of Inflation

We have heard much in recent weeks about rising prices. They have affected the budget of every family in Canada. We have heard and seen something of the dangers of inflation. But comparatively few of us, I imagine, understand those dangers fully, and what their effect may be upon our lives and our labours. By inflation we mean a rise in prices and costs brought about by abnormal conditions whereby our money is able to buy less of the things we need.

Rising prices unless controlled will make it more costly and therefore more difficult to finance the war. Rising prices, unchecked, will spread confusion and uncertainty in industry and trade. They will hinder production and the proper distribution of supplies. They will make the cost of living rise more rapidly than wages and salaries. The value of savings will be materially lessened. The result would be hardship to nearly every one, and hardship in very unequal measure.

It is scarcely necessary for me to say that a rising cost of living is a source of acute personal anxiety to all and, particularly, to those with small incomes. And it is this very anxiety which is the danger to our war effort. For in the making of war no weapon is more powerful than peace of mind. We all know that we cannot do our best work and put forth our utmost effort if we are beset by personal fears and anxieties. And we know that a maximum war effort for Canada depends upon each and all working together in conditions that are just to all. That is why the government, which is responsible for the direction of Canada's war effort, is deeply concerned about the effect of rapidly rising prices upon the prosecution of the war. That is why the government has decided that hereafter prices must be controlled more rigorously than they have been during the first two years of war. The needs of to-day demand it.

It has been the experience of countries at war, in modern times at least, that at a certain stage in the conflict, prices begin to rise rapidly. Many of us recall the experience in the last war. During the first two years there was only a modest increase in prices, but in 1916 prices began to rise suddenly and the rise continued with increasing rapidity until 1920. Much hardship resulted because the incomes of the mass of the people did not keep pace with prices.

Unfortunately, in a period of rapidly rising prices, they never do. A few made large fortunes; they were the people to whom the Secretary of the Treasury of the United States referred recently, in reminding his fellow-citizens that only the profiteer, the speculator and the hoarder gain from inflation.

Many of us recall, too, the sudden drop in prices in 1920 which brought in its train depression and unemployment. No one wants to see those experiences repeated—much less the far worse experience of many European countries with their disastrous sequence of uncontrolled inflation, sudden deflation, prolonged depression and misery, Fascist or Nazi dictatorship, and finally war.

The Cause of Rising Prices

After two years of the present war, we have reached the same stage we had reached after two years of the last war. Prices are again rising rapidly. To speak generally, prices are rising again because the public has more money to spend and there is less of the things people wish to buy. For two years the government has been competing with the individual consumer for almost every commodity Canada produces or imports. The government must have the goods to build and maintain our war machine; to clothe, feed and equip our fighting men; and to aid Britain and other allies with arms and with food. We sometimes forget that the same sheet of aluminum cannot be used to make a plane and to make pots and pans. The same gallon of gasoline cannot be used in any army tank and a pleasure motor car. The same pound of cheese cannot be eaten in Britain and in Canada. And most important of all, the same men cannot make machine guns and washing machines at the same time.

With every week that has passed since the outbreak of war, the services of more and more men have been required to meet the needs of war. To-day, more than a million Canadians are engaged in war service in the forces, in the factories, and in the fields. The stage of taking up the slack of partial employment has now passed and the need for more men for the armed forces and for war industry is still growing.

We must face the fact that there are not enough men; there are not enough machines; there are not enough materials to meet the demands of consumers and the needs of war. Since the government, with the full support of the Canadian people, is determined to maintain and to intensify the war effort, we have no choice but to reduce our consumption of goods. To us, too, has come the choice between guns and butter.

The problem we face to-day is more acute than the corresponding problem was in 1916. It is estimated that at no stage in the last war was more than 10 per cent of our national income devoted to war purposes. In the present struggle we expect, this year, to be devoting some 40 per cent of the national income to the prosecution of the

war. Translated into everyday language this means that, in the last war, only one-tenth of our economic energies were consumed in waging war, while, to-day, we are approaching the point where nearly one-half of our energies are being used for war.

The Effect of Rising Prices

It stands to reason that all the goods and services we are accustomed to enjoy in peace time cannot be provided when only a little more than half our energies can be spared to provide them. Most goods and services are becoming increasingly scarce and will become scarcer still. We must face the problem of sharing what is scarce. If we let prices rise unduly, we know what will happen. Ask any housewife. For no one feels the effect of rising prices more than the housewife.

Rising prices—a rising cost of living—do not have the same effect on all households. The smaller the family income and the larger the family, the more serious the hardship imposed. For those with small incomes, rising prices of clothing, food and other necessities may mean serious hardship, while for those with larger incomes only luxuries and small comforts may have to be given up.

Rising prices thus serve to aggravate the inequalities in society, and to throw the heaviest burdens on those least able to bear them. Wartime experience has shown that prices rise faster than wages or salaries, and bear more heavily still on those who live on small pensions or life savings.

Nor is the position of the farmer any happier than that of the wage-earner. The present war is a war of machines. Because of the heavy demands of war on industry, the scarcity of manufactured goods is likely to be greater than the scarcity of farm products. The rise in prices will consequently be unequal, if prices are left to themselves. The things farmers have to buy tend to go up in price, more than the things they have to sell.

Moreover, some farm prices left to themselves would not rise at all under present circumstances. This is notably true of the price of wheat, although there are other products in the same class. It is recognized, however, that wheat and other non-perishable products, held in reserve, constitute an invaluable war asset. Agriculture itself is a national asset which must be preserved. The uncontrolled rise of prices would throw an intolerable burden upon wheat farmers and others similarly situated. Their situation differs from what it was in the last war. At that time, we had fewer acres, by many millions, in production. We produced much less wheat. There were more allies to feed.

The truth is that all but an insignificant minority of the population would be worse off as a result of rising prices, if prices were permitted to rise unchecked, and, in general, the relatively poor would suffer more than the relatively well-to-do.

Government Control of Prices Generally

I think I have said enough to make it clear why the government is unwilling, as a means of reducing consumption, to allow prices to rise unchecked. That would be the easy way out of the immediate difficulty. But it would be unfair and unjust now, and perilous for the future. Therefore, the government has decided to halt the rise of prices; to undertake the control of all prices; and, where necessary, to take other steps to control civilian consumption in fair and equitable ways.

Let me pause to interject a word of warning. There is no panacea or cure-all for the evil of rising prices. The government does not pretend to have a magic formula which can be applied. We are all aware that the task of controlling prices is very difficult. It has not been easy to control prices even in totalitarian countries which can enforce their controls by brutal methods which no free country would contemplate. In a democratic country, price control cannot succeed without the active support and co-operation of the mass of the people.

From the outset of the war, the government has been aware that the problem of a general rise in prices would ultimately have to be faced. We felt it advisable, however, to postpone the control of all prices, until it was really necessary. Complete control involves many complications and restrictions; moreover, it requires a large staff to administer the machinery of enforcement. It was clearly undesirable to take men's services from other tasks one moment before they were needed.

It is only in recent months that the necessity for the control of prices generally has become clearly apparent. In the summer of 1939, prices were abnormally low. This was particularly true of many agricultural products. The price increases of the early months of the war were, in most cases, little more than a healthy recovery from the low levels obtaining when war broke out. This recovery of prices had the effect of stimulating the employment of labour and capital. During the next twelve months, prices were relatively stable. The price increases which did occur resulted, in most cases, from one or other of the following causes: the premium on United States' funds; the rapid increase in ocean freight rates; war taxation on a wide range of commodities; and the normal recovery of excessively low agricultural prices. During this period a control of the prices of individual commodities worked satisfactorily. All price changes were, of course, carefully watched by the Wartime Prices and Trade Board. When the prices of individual commodities or groups of commodities threatened to rise unduly or suddenly, the Board acted promptly. For example, at the beginning of the war, the panic-buying of sugar was quickly checked. Speculating was stopped; hoarding was stopped; profiteering was stopped. In regions where there was an acute shortage of housing, rent control

was applied. This piecemeal method could be used, when the problems arose piecemeal. To-day we face a different situation. We have entered the period of full employment. The upward trend of prices has become too widespread and powerful to be checked adequately by controlling the prices of a few commodities. To continue to attempt to control the rise in prices, piecemeal, might only serve to augment the very evil it is desired to avoid by occasioning through fear of the future, a precipitate rise in the prices of those commodities which are not already controlled. The problem is a general problem, and it calls for general treatment. It has spread just as the war has spread.

The government has, therefore, decided to halt the rise in the prices of all goods or services sold in Canada by imposing a general ceiling on prices. By a ceiling is meant an upper limit above which prices will not be allowed to rise. Theoretically, this is a simple policy, but the government realizes fully how great the practical administrative difficulties are. It will call for new and complicated administrative machinery. It will interfere with established methods of running business; it will impose irksome restrictions; and its success will depend, not alone upon the government, but equally upon the willingness of all who are affected to accept, and to accept cheerfully, the limitations imposed upon them as a necessary contribution to Canada's maximum war effort.

Method of Stabilizing Prices

This is what we propose to do. It is simple to understand. It will be more difficult to perform. On and after November 17, 1941, no person may sell any goods or supply any services at a price or rate higher than the maximum price or rate charged by him for such goods or services during the four weeks from September 15th to October 11th, of the present year. In other words, prices are to be halted at a level they have already reached. Except in cases where minimum prices are fixed, prices will be free to fall below the ceiling.

Full details of the policy will be made public later, but I can say now that the limit or ceiling on prices will apply to all goods, except sales for export. It will also apply to all rentals. The limit will also apply to the rates charged for electricity, gas, steam heat, and water; telegraph, wireless and telephone services; the transportation of goods and persons and the provision of dock, harbour and pier facilities; warehousing and storage; undertaking and embalming; laundering; cleaning; tailoring and dressmaking; hair-dressing and related services; plumbing and heating; painting and decorating; repairing of all kinds; the supplying of meals, refreshments and beverages. Power is given to the Wartime Prices and Trade Board to add to this list. In the case of most agricultural

products and fish, the maximum prices will be based upon market prices during the four weeks prior to October 11th, rather than upon the actual selling prices of individual farmers or fishermen.

The imposition of a price-ceiling will ensure that the hardships and scarcities resulting from the steadily increasing requirements of war will be more equitably spread among the whole people.

Control of Production Costs: Stabilization of Wages

I come now to the next feature of the policy of controlling the cost of living. It is obvious that the prices of finished goods cannot be controlled successfully unless the cost of production is also controlled. Wages are a large element in the cost of producing the manufactured goods required by consumers. That is why the cost of living cannot be controlled unless wages are also stabilized. The policy of limiting the rise of wages is, in other words, a vital part of the policy of safeguarding the wage-earners, as consumers, from the evil effects of a rising cost of living. With the policy of stabilizing wages the government is extending its policy of safe-guarding the earnings of the wage-earners.

A beginning was made in working out a wage policy at the end of last year when what is called Order in Council P.C. 7440 was enacted. This Order, which was for the guidance of boards of conciliation, fixed basic wage rates in general at the relatively high level then existing. It provided that sub-normal wages could be adjusted upward and that any further upward adjustment in wages should be by way of a cost-of-living bonus. While this experiment has been widely accepted by employers and employees in war industry, certain defects in the procedure must now be remedied. Industries not engaged in war production have not been subject to this control. Wage rates of many of these industries have continued to rise. In others there has been no rise to offset the increased cost of living. Even in the war industries, because of the increasing scarcity of labour and the absence of penalties for violation, the policy was not completely successful. This has been unfair to those employers and employees in industry, who loyally accepted the policy.

After consultation with representatives of the provinces, of employers and employees, the government has found general agreement with its view that its wartime wages policy could succeed only if it were broadened and strengthened and if machinery were established for its enforcement.

Extension of Government Wartime Wage Policy

The government has therefore decided to extend its wartime wage policy to cover all industry. The only exception will be certain smaller employers who are excluded solely for administrative reasons. Henceforward no employer in Canadian industry or commerce may, without permission, increase his present basic wage rates.

After November 15th every employer will be obliged to pay a bonus in accordance with the terms specified by government order, and to adjust the bonus regularly every three months in accordance with a definite formula. The bonuses now being paid will require to be adjusted to the cost of living index as of the effective date. In future all employers will pay a bonus on the same basis. Penalties will be imposed for failure to comply with the order.

The administrative machinery will consist of a National War Labour Board and several regional War Labour Boards. Each will be equally representative of employers and employees. They will supervise a co-operative inspection and enforcement service by the joint staffs of the Dominion and Provincial Departments of Labour. One of the primary functions of the Boards will be to observe how the policy works in practice and to recommend its revision or modification in the light of experience. The Boards will also be expected to advise the Minister of Labour about the further development of policy in all matters relating to labour and industrial relations.

Despite the careful thought given to the plan, it will no doubt have to be improved in detail from time to time. It is a step forward into new territory; success will depend upon the co-operation accorded by employers and workers, and not least by the support of the consuming public.

The Position of Agriculture

In undertaking to control the cost of living, particular attention has been given by the government to the effect of its policy on the position of agriculture. The policy touches the farmer in two ways. The principle of the price-ceiling will be applied to agricultural prices, while, at the same time, total agricultural income will be supported, where necessary, by government action. In other words, while wages and the prices of farm products will be stabilized, the income of both labour and agriculture will be safeguarded.

Agricultural prices, with a few conspicuous exceptions, especially wheat, are higher to-day than they have been at any time during the past ten years. In cases where agricultural prices have not kept pace with increases in costs of production, measures are being taken to bring about a more satisfactory relationship without significantly affecting the general level of retail prices to the consumer.

The major problem of maintaining incomes in Western Canada, where grain growing is the largest source of income, is closely related to the problem in Eastern Canada where feed supplies are not sufficient to enable farmers to produce the bacon and dairy products required for Britain and ourselves. Both these situations need adjustment. It is therefore the intention of the government to make supplementary payments to farmers in the spring wheat area, on the basis of their cultivated acreage as defined under the Prairie Farm

Assistance Act. For farmers in Eastern Canada, the government will provide the transportation costs on feed grain and other feed from Fort William or Port Arthur to points in Eastern Canada.

In determining the price of farm products, it is obvious that the maximum price cannot be based upon the individual selling prices of individual farmers, which is the method applied to factories and stores. Instead, the Wartime Prices and Trade Board will determine maximum prices for certain farm products on the basis of maximum market prices during the four-week period ending on October 11th, last.

Other special adaptations may be found necessary. Thus, in the case of farm products whose prices rise and fall seasonally, the setting of maximum prices may also require the setting of minimum prices, or action to remove temporary surpluses from the market. In most cases, however, the demand for food products, especially the export demand, is so great as to assure that prices will not fall much, if at all, below the maximum. For example, in the cases of bacon and cheese, reasonably stable prices have been or will be assured under large-scale agreements with the United Kingdom.

The Wartime Prices and Trade Board will, before November 17th, take the necessary action, or advise the government as to the steps which should be taken, to achieve these objectives without violating the basic principle of the general price-ceiling.

Control of Prices and Wages an Essential of War Policy

The comprehensive measures which I have just outlined constitute a logical development of the economic and financial policy initiated by the government at the outset of the war. But we must bear in mind that the control of prices, by itself, will not ensure the cutting down of consumption, and it will only indirectly affect the direction of private spending. Other measures are required to safeguard adequate supplies of commodities needed by the government for war purposes. To give direction to private spending, definite restrictions have already been imposed on both production and consumption.

Restrictions have already been placed on the purchase of machine tools, aluminum and other metals, iron and steel, foreign exchange; on the production of automobiles, stoves, washing machines, refrigerators, radios; on the sale of gasoline, bacon and cheese. Restrictions have also been placed on new construction for purposes other than war and on the production of capital goods. These restrictions have been directed against the use of scarce commodities by civilian consumers. More recently there has been a significant broadening of this policy of restriction through the order of the Wartime Prices and Trade Board relating to instalment buying.

Further restrictions will have to be imposed from time to time. These direct controls of production and consumption are essential to the development of war production. They have, however, contributed to the scarcity of civilian goods and have, therefore, been one of the factors contributing to the rise in prices which the government is now undertaking to control. Steps may have to be taken to see that the necessities of life are fairly distributed.

In embarking upon the policy of price control by means of a general ceiling on prices, the government realizes that it will not be possible to maintain the exact price structure, in every particular, as it exists at the date on which the prices are to be fixed. The ceiling will not be absolutely rigid and entirely unchangeable. The control and stabilization of the general price level is the considered policy, but the detail will be a matter of administration in the hands of the Wartime Prices and Trade Board.

Co-operation on the Part of all Essential to Success

Let me repeat: The policy of control as it affects industry, commerce, agriculture and labour, demands a degree of restriction to which Canadians, hitherto, have been quite unaccustomed. It will demand qualities of self-discipline and self-control. It will need, as it deserves, the whole-hearted support of everyone who has the well-being of his fellow-citizens at heart. In these perilous times, we must not shrink from any course of action which will help to preserve and strengthen the morale of our country.

By its policy the government hopes to avoid the fears, the sense of insecurity, the suffering and the profiteering which the inflation of prices inevitably brings in its train. The measures now being announced should help in the winning of the war, and, after the war, facilitate recovery and reconstruction.