

Who Wants Controls and Why?

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SINCE each of us possesses at least some human attributes it is pretty safe to assume that nearly all citizens of Canada would like to live in a society that provides at the same time boom wages and depression prices.

However, most of us are sensible enough to realize that, while current prices of some things may be at depression levels, as compared with say, a century ago, most of the items covered by our Cost-of-Living Index have gone up as a natural response to inflationary pressures.

What, then, are inflationary pressures; and how are they generated? Put very simply, but really very fully, an inflationary situation exists when too many dollars are chasing after too few goods and services.

The upward movement of prices when demand exceeds supply is in accordance with the most basic of economic laws: this is what we call The Law of Supply and Demand.

Because the Law of Supply and Demand is just as unchanging as the laws of the Medes and Persians were said to be, inflation always leads to high prices. It is very important to realize, however, that high prices are a manifestation of inflation and not its root cause.

How Inflation Begins

INFLATION is generated principally by too high money wages in relation to the production of goods and services. Senator Paul Douglas of Illinois recently demon-

strated rather simply the working of inflation. He set up three glasses of water and laid alongside each a one-dollar bill. This, he said, represented the equilibrium between water and money—each glass of water under this state of equilibrium having a market value of one dollar.

Then Senator Douglas laid another dollar on the line as being available to purchase water, and the existing equilibrium was destroyed and a new situation created. Under the new condition of four dollars to three glasses, instead of water having a market value of \$1.00 a glass, it had acquired, through an increase of purchasing power in the face of a static supply situation, a market value of \$1.33-1/3. In other words, inflation made itself felt through a price rise.

In the same way, if one of the original dollars had been removed, or an additional glass of water had been added to the original three without any change in the original number of dollars, then the market value of a glass of water would have dropped from \$1.00 to 66-2/3 cents in the first case and to 75 cents in the second. This would have been deflation in action.

Canada's Situation

WE Canadians, particularly since the end of World War II, have been providing more and more dollars without at the same time providing enough additional glasses of water to maintain a proper

state of economic equilibrium. For instance the official volume Index of *Industrial Production* only, which stood at 176 in 1945 at the end of World War II, or 76% average for the years 1935-39, stood at 198 in 1950. Thus there was a rise of 21% in the volume of industrial production in the last five years. However, in the same five-year period, our non-agricultural labour force increased by no less than 26%. Hence the percentage increase in the volume of industrial production failed to match the percentage increase in the size of the non-agricultural labour force.

But while per capita industrial production was at best static, our money supply in the same five-year period went up by nearly 39%, without counting the additional potential buying power represented by private holdings of Government bonds, or the very considerable increase in consumer credit outstanding.

Thus when you hear that productivity has increased in Canada, it is important to remember that while the current dollar value of national production of all goods and services has skyhotted in the past three or four years, its overall increase when measured in physical volume has remained surprisingly stable. In fact the Bank of Montreal in its February, 1951, Business Review had this to say on the subject: "The physical volume of the total flow of Canadian goods and services (after eliminating prices changes) increased in the years 1947, 1948 and 1949 by only about 2% per annum—i.e., by no more than the growth of the population—and this despite substantial additions to productive capital equipment." Well might the Bank of Montreal add that this is "a rather surprising and sobering conclusion."

Increase in Labour Income

IT is especially sobering when one remembers that between 1947 and 1949 Canadian labour income (exclusive of Newfoundland) for all industry, including agriculture, fishing, logging, mining, finance, utilities, transportation, services, as well as manufacturing, increased by 23%, or by an average of 11% per year. It is, of course, the disproportion between the increase of 2% per annum in the physical volume of all

production and the average 11% increase in labour income that has been a major factor in the rise in prices in the same period. Nor does the situation show signs of improving; indeed, it shows many signs of deteriorating.

There have been other and very important factors bearing on the situation, such as floor prices, subsidies, welfare transfer payments, and a cheap money policy. These are all part of the deliberate policy of inflation that was initiated by Ottawa when it issued its 1945 white paper "Employment and Income."

Planners Were Wrong

PARENTHETICALLY, it is interesting to observe that *official* circles in Ottawa have now apparently lost considerable faith in the 1945 white paper. Speaking in the Commons on March 12, 1951, the Rt. Hon. C. D. Howe uttered these pregnant words: "I am not going to argue that if we could have foreseen in 1945 what was going to happen in the following five years we would have done exactly what we did. I am sure we should have done some things quite differently."

The importance of those words lies in the fact that they constitute an admission that the bureaucratic planners, many of them ex-academic economists with no business experience whatever, who were advising Government in 1945, guessed wrong as to what would happen in the postwar years. As a matter of fact, their collective wrong guesses constitute perhaps the greatest and gravest of the wrong guesses of our history. Indeed the whole trend of Canadian economic, social and political thought and action was very drastically modified as a result of the wrong guesses of the bureaucratic economic planners then on the Ottawa payroll.

However, Mr. Howe's statement of March 12, 1951, is at least an indication that the bureaucratic planners are no longer supreme. Any such reassertion of Cabinet responsibility is very welcome.

The Inflationary Effect

THE effect of the various factors I have enumerated has been to supplement and aggravate the upward thrust. But

it is important to realize and remember that initially the trouble arose from the failure of the physical volume of man-hour production to keep pace with the rise in money wages. That is a condition that still exists, and that is why our Cost-of-Living Index stands today at approximately 80% above the 1935-39 level.

Another way of expressing what has happened is to say that the provision of new plant and equipment has not been able to overcome the tendency of the labour force to seek greater leisure; much of it very well-paid leisure at that. Well-paid leisure puts money into circulation but it produces no corresponding volume of goods.

As the Bank of Montreal put it, "with the general trend to a shorter work week, it would seem that a good part of the dividend of national progress has been taken in the form of added leisure." Expressed even more simply, the terrific capital investment in Canada in the past five years has not yet started to pay off as it should. Incidentally the total expenditure in plant and equipment alone in the five years 1946-50 inclusive totalled nearly \$10,000 million.

People Won't Face Facts

OF course, the human animal being the strange creature that he is, he will not face even the most simple economic facts if those facts seem unpleasant. So, when prices kept on going up, he refused to attach the blame where it belonged. Instead he preferred, as he still prefers, to kid himself into believing there is some influence at work deliberately robbing the poor by deliberately pushing up prices. There are in fact several influences at work pushing up prices, and they are unquestionably very malign influences.

But the man in the street, and his wife, have so far largely refused to recognize that our failure to match the postwar increase in money wages with an equivalent increase in man-hour productivity is the principal influence at work upon prices. Instead the hunt for a scapegoat is on, and the cry for price controls is loud in the land.

It should be noted that those who shout loudest for price controls are careful to

make no mention of the need for rationing or of the costly subsidies that would accompany such controls. Nor, as a rule, do they have much, if anything, to say about increased man-hour productivity as a means of making both controls and rationing unnecessary.

Just to add to the cockeyed character of much of the current control agitation is the effort to sell price controls to the public and at the same time to oppose wage controls by arguing that the latter are unnecessary. Whatever its origin, there is no doubt that such agitation is very dangerous to our established and much-cherished way of life.

It comes, therefore, as a shock of surprise to find so-called Conservatives joining with the C.C.F., the L.P.P. and the Social Crediters in agitation for price controls at the retail level, but without control of farm prices or the price of labour.

Effect of Wartime Controls

THE agitation for price controls is perhaps somewhat natural in the light of the fact that throughout most of World War II Ottawa spent millions of the taxpayers' money to "sell" the public the idea that such controls were actually holding down prices, whereas they were only, and at very great expense, suppressing for the time being this manifestation of inflation. Indeed, both our Prime Minister and Mr. Abbott have lately been at pains to admit that price control does not halt inflation, but succeeds only in dampening down its effects *for the time being*.

The subsequent effect of dampening down prices during World War II is most graphically shown by the various price indexes. The average Wholesale Price Index on the new official base 1935-39 went up 17% between the start of World War II in 1939 and the start of controls in 1941. Between 1941 and 1946, when controls ended, the rise was another 19%. But between 1946 and 1950 the rise was 52%.

The rise of 52% was perfectly understandable in the face of the conditions we ourselves had created. After all, war has been well described as applied inflation,

and if we chose to suppress inflation during the war we could be perfectly certain it would break out eventually. Since all history proves you cannot have a major war without inflation, the question arises: Is it better to have inflation express itself in high prices during the fighting period when patriotic fervour is high, or in the post-war period when disillusion is apt to be rampant? Our own Canadian experience with the movement of prices leads me to believe that our wartime controls were an error; that it would actually have been better to let prices rise during the war rather than force them to go up after its shooting phase was over. The error was, of course, compounded by our policy of deliberately pushing prices up in anticipation of a postwar slump which never developed.

The Cost-of-Living Index, also on base 1935-39—100, went up 10% between 1939 and 1941, 11% between 1941 and 1946 and 35% between 1946 and 1950. Remember, in this connection, that we are dealing with yearly averages and not with the level of the Index at the end of the year.

Failure of Wage Control

WHEN price and wage controls were imposed in 1941, wage rates in Canada for all industries, save agriculture, finance and public utilities, were 13% above the 1939 level. In 1946, when controls ended, such wages were 55% above the 1939 level. No better indication could be found of the failure even in wartime to hold down wages in the face of what were regarded as very drastic price controls.

Indeed one reason why the General Wholesale Price Index has shown a greater percentage gain than the Cost-of-Living Index during the past decade is that the former Index includes the prices of Raw and Partly Manufactured goods. The prices of Raw and Partly Manufactured goods largely reflect labour costs; in fact the cost of producing raw materials is mainly a labour cost.

The Index of Raw and Partly Manufactured goods went up 20% between 1939 and 1941, 23% between 1941 and 1946, and 54% between 1946 and 1950. On the other

hand, in the same years the Index of Fully and Chiefly Manufactured Goods prices went up 17% between 1939 and 1941, 16% between 1941 and 1946 and 53% between 1946 and 1950.

The closeness of the movements of the Raw and Partly Manufactured Goods Index, reflecting a heavy labour cost factor, and the Index of Fully and Chiefly Manufactured Goods between 1946 and 1950 indicates that rising labour costs were indeed a major factor in the rise of factory door prices.

Industrial Efficiency

THE fact that the percentage rise in the prices of Fully and Chiefly Manufactured Goods as shown in the Index was actually somewhat lower than the percentage rise in the prices of raw materials is one measure of the efficiency of Canadian industry. It is obvious that no such result could have been achieved save through the greatly increased use of machinery. It is equally obvious that without profits adequate to the inflationary situation now existing there would not have been the funds available to meet the new plant and equipment needs of Canadian industry.

Indeed, the last few years have demonstrated anew the economic truism that wages, prices and profits are a trinity. When the two former move up, the latter must move up too if industry is to meet the needs of a dynamic economy. So long as our population continues to increase, and so long as we continue to uncover new resources of mineral and other natural wealth, there must be industrial expansion in order to maintain our high standard of living. Without profits adequate to the situation then existing, such expansion is impossible.

As inflation forces up prices and wages you have to let profits increase, and often increase disproportionately, or you will soon destroy the ability of industry to produce goods in adequate supply, or even to provide adequate employment.

It is somewhat sobering to note, therefore, that in 1948, the last year for which official figures are available, more than

one third of the taxable corporations in Canada, or some 16,000, reported no profits at all. It is also interesting, to say the least, to observe that in 1950 business failures increased 20% over 1949.

Disguised Dictatorship

WHAT were called price controls in World War II were, as it turned out, rather sadly misnamed. What we chose to call price controls were in reality a form of directive by Government, both to labour and to money. As directives, price and other controls were a necessary part of our war effort. But they were also a subtle if unintentional instrument of dictatorship worthy of Nicolo Machiavelli himself.

For, by depriving the consumer of such goods as could not profitably be sold under a price ceiling, our price controls brought about, with the minimum of friction, a large scale transfer of labour from consumer goods industries into defence industries. What Government said in effect was that guns and ships and aircraft were more important than many of those goods and services that we had long regarded as well-nigh essential to our way of life. Hence it wanted tailors and pants-pressers and laundrymen and car-washers, to build ships and guns and planes.

Through use of price and other controls Government therefore proceeded to alter greatly our buying habits by drastically altering our supply situation. In the circumstances then prevailing Government was quite right in doing this. Having decreed that we must have fewer and poorer clothes, less food and of poorer quality, less gasoline and beer and whisky, Government clamped down on such things through price and other controls and thereby brought about profound changes in our pattern of job distribution.

At the same time as it was thus effecting an enormous transfer of labour it also, by lessening the quantity of goods available to consumers in the face of mounting wages, was piling up the large sums of money it needed to borrow, by one means or another, to finance our magnificent contribution to allied victory.

As an evidence of the success of this latter effort, personal savings, which totalled 8% of income after taxes in 1939, totalled 10% in 1941, 21% in 1942, 21% in 1943, 21% in 1944 and 15% in 1945, the last full year of controls. In prosperous 1949 such savings totalled only 7% of personal income after taxes, or about the yearly average prior to World War II, and in 1950 they were less than 5%.

While it is possible thus to measure the effectiveness of building up the savings available to finance the war effort, the effectiveness of labour direction can only be guessed at by the movement of employment Indexes between the end of World War II in 1945 and the average for 1949, since unfortunately we have not comparable figures back to 1939. Generally speaking, the employment in durable industries was considerably higher than in non-durable industries in 1945, while in 1949 the reverse was true. However, even if we are not able to measure the shift of labour statistically, we all know from observation and experience that the movement was very considerable. This was reflected in our inability to procure in wartime many of the services that existed so abundantly in peacetime in North America, and which still exist so abundantly in Canada to-day.

By-Products of Controls

NOW it was not to be expected that the significance of these end-effects of price and other controls would be missed by many watchful people. Even if the man in the street was simple enough to regard price controls only as a device concerned solely with keeping down his cost of living, the watchful and implacable enemies of our society saw in such controls other and very destructive potentialities. The black marketeer was one such enemy, but there were and are many others.

Naturally all Socialists, from Fabians to Trotskyites, favour all forms of controls, since they are part of that "purposive economic planning" at the hands of the State by which the Socialists hope—and intend if possible—to supplant personal freedom.

The State, in the opinion of all good Socialists, whether in Moscow, London, Regina or elsewhere, being more important than any individual, or any liberty, every means that increases the dictatorial power of the State must be very welcome. Hence price and other controls are as meat and drink to the enemies of personal freedom, especially since they so brilliantly demonstrated in World War II their ability to change quietly but effectively the pattern of our lives.

And controls are, it must be admitted, a perfect complement to bulk trading, subsidies, rationing and all other complicated paraphernalia which constitute the planned economy. Ironically, experience particularly in Britain, Australia, New Zealand and elsewhere has amply demonstrated that all these things, when put together, ensure the unworkability of that type of economic and social regimentation that is now called generally socialism.

But despite the demonstration that socialism cannot really work in a free society independent of financial support from capitalist countries, or perhaps because of it, there are still a great many people who would increase the total power of the State in Canada. Some would go on until our Government could qualify without question for the title "Totalitarian." Others might hope to stop short of the more extreme goal.

In this connection let me quote from a recently published book by F. H. Carr, an eminent authority on the subject of Russia and its impact upon the western world. Said Professor Carr in the *New York Times* of March 25, 1951: "The ultimate aim of the totalitarian state is to deprive the individual of every loyalty, of every link with his fellow-men, of every spiritual value and to reduce him to nothingness—a cipher in an agglomeration that has lost all meaning for him."

Destruction of Society

IN other words Tim Buck, J. B. Salsberg, A. A. MacLeod, Stewart Smith, Stanley Ryerson, Helen Coulson Anderson, and all the other Communists known and unknown in Canada and elsewhere, aim to

destroy the individual by destroying the society that individual initiative has built. Incentive for such destruction is the realization by our enemies that only in such a society can the individual hope to resist the inexorable urge toward totalitarianism that is inherent in economic and social planning at the hands of the State.

Hence the Communists, and their conscious or unconscious fellow-travellers, wish to see controls or any other curtailment of personal freedom imposed upon us. Moreover, every effort by any person whatsoever that helps to increase State power over the individual is in effect helping the Communists, since their efforts tend to reduce the individual to nothingness and make him "a cipher in an agglomeration that has lost all meaning for him."

That fact should be kept constantly in mind, especially in weighing the current vehement argument for and against price and other controls. Such controls may at some point become again necessary in our fight against Communism. But we should never forget the danger to our freedom that they carry with them.

If we remember the dangerous aspects of controls, and also the real aim of totalitarianism, we shall not be stampeded into actions that would best serve the ends of those who are out to destroy us spiritually, economically, socially and politically.

The Communist, according to Douglas Hyde, a former leader of the British Communist Party and News Editor of the *London Daily Worker*, has a vested interest in disaster. "Economic crisis and social upheaval, these are the pre-conditions of Communism," Hyde said in his recent book, "I Believed."

Creation of economic crisis is, of course, a well-known Communist technique, and it is being used everywhere to-day. One of Communism's most potent methods of bringing on an economic crisis is to create shortages of consumer goods, and this, as we have seen, is one of the most direct accomplishments of price controls; especially when the control is placed upon the retail selling price and not at the same time upon that of the primary producer. It is interesting and very significant to note that the present effort of Communists in Can-

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ada is to have retail prices controlled and those of the farmer, for instance, left free. By such means it is obviously hoped not only to create shortages of goods in legitimate channels of distribution, but to encourage the establishment of black markets. Taken together, shortages and black markets are about as potent a means of creating discontent as man has yet devised.

Rationing

ANOTHER inevitable concomitant of price controls, if they are to be effective in creating shortages, (and remember they are not really making an effective contribution to a war effort unless they do create shortages of consumer goods) is rationing. Now rationing undeniably provides the most equitable means of distributing consumer goods that are in short supply. But rationing also means queues, and delays, both of which add to dissatisfaction with things as they are, and thus it opens the way for the agitator.

Furthermore rationing, both in its administration and in its policing, makes enormous demands upon manpower, even now in very limited supply in certain areas; and it is enormously costly. Thus a large bureaucracy and high taxes are just as inescapable from price controls as are the consumer goods shortages they are designed to create.

This may be enough to convince most people that the imposition of controls is by no means free from problems. Doubtless that is why Ottawa has been so chary of them. After all, the senior civil servants in Ottawa experienced in World War II the grief that controls inevitably bring, and they know full well that unless we are up to our necks in a shooting war the problems of reimposing and policing controls would be well-nigh insuperable.

As The London *Economist* recently pointed out, those who now shrink most violently from further controls and rationing are those civil servants charged with Socialism's favourite goal, "purposive economic planning" at the hands of the State.

After the Socialists—either of the Marxian or Fabian persuasion—those who

seem most greatly to desire controls belong to what Theodore Roosevelt called "the lunatic fringe." This segment of society is largely made up of frustrated or disappointed people. Envy, hatred and malice are all too often the inspiration for their actions.

It is usually in this part of society that one finds the bulk of our economic illiterates, although many so-called brilliant men and women appear almost equally ignorant. Indeed, it is often amongst the so-called "brilliant" people that one finds those who profess most loudly to believe you can safely hold down prices while letting wages rise.

Society in Turmoil

IT is no secret to anyone capable of observation that society to-day is in a state of turmoil. This is so quite independently of the Korean Crisis or the cold war. These latter serve only to aggravate the situation.

We have achieved Full Employment, that goal of economic theorists; and we have been endowed with social security at the hands of the State, the goal of the social theorist. But despite these "boons", as we were wont to regard them, we are confronted with much social unrest; we are also confronted with a growing sense of insecurity, both of which are surprising in a country of our background, and in one so widely endowed with potential riches. It would be interesting to explore the reasons for the existence of this strange climate of opinion, but obviously we cannot do so in a single article.

Let us, however, look for a moment at the problem that confronts the whole Western world and not Canada alone. Basically that problem is how to preserve the society that the Western world has slowly, laboriously, and painfully built up through the nineteen hundred and fifty years of the Christian era. It is well to remember that the Christian era has been a continuous period of trial and error; of toil and triumph; of magnificent achievement and of cruel disappointment. Nevertheless, there has evolved out of the action

and interaction of all these forces that which we are today proud to call Western civilization.

Achievement of Civilization

THE great achievement of Western civilization is, of course, the dignity it has given to man. Nowhere within that civilization is man still a slave to aught but his own appetites. This is a colossal forward step in human progress toward that goal of perfection that our religions teach us is the ultimate destiny of man.

With the abolition of slavery, and the endowment of man with the dignity that only freedom can ensure there has slowly and coevally developed a new and dynamic class within society—the hated and derided Bourgeoisie of the Communist, or, as we call it, the Middle Class. It is from this middle class that the bulk of our thought and leadership has come, especially in the past century; and while its aims have often seemed almost wholly materialistic it has also done much to produce that sense of social obligation that characterizes Christian society to-day.

Modern capitalist, free enterprise society, itself largely a creation of the Bourgeoisie or middle class, was the instrument or vehicle that produced the means through which the whole nature of the Western world was changed as part of the Industrial Revolution. Only under capitalism has it so far been possible for mankind to diffuse the goods and services to the point that the labouring man of to-day—especially in North America—enjoys a degree of comfort far beyond that of the knights or barons or grand seigneurs of earlier times.

All that we have so far accomplished is at stake to-day. Relentlessly, hour by hour, a gigantic effort is being made to tear apart the fabric of our society. The aim is to create economic chaos out of which will come social disintegration and political anarchy.

We are now preparing to fight in physical combat those utterly callous but dedicated men and women who hate and despise both capitalism and Christianity. But while we are still thinking about the possible need for switching from guns to butter,

or planning how we may have *both* guns and butter, our implacable and unwearied enemy is trying to pull us down through social unrest and the related evils to which such unrest gives birth.

Among the most potent means of creating social unrest is inflation. By a strange twist, controls, which are among the weapons with which inflation may have ultimately to be fought, are also, especially in such circumstances as those now prevailing, among the most potent means of creating inflation, by inducing consumer goods shortages. This danger will become infinitely greater if price rises are no longer officially permitted, while at the same time wages remain free to move in response to the market.

A Dangerous Situation

SO we may yet see the strange spectacle in Canada of our Government wanting controls as a means of deliberately creating consumer goods shortages, with a view to directing labour and as a means of piling up surplus money in order to have the wherewithal to defend personal freedom, while at the same time our Communists and other Socialists are agitating for controls as a means of making the State the undisputed master of all it surveys. Was there ever a more paradoxical situation, or a situation fraught with greater danger to all that we hold dear?

How, then, does one meet such a situation? Obviously by stopping inflation at its source. In our case this means that, first of all, we must abandon the deliberate policy of inflation we embarked upon in 1945 when the bureaucratic planners decreed we must meet an expected postwar slump with fiscal and other devices designed “to maintain a high and stable level of employment and income.” The anticipated slump never came, but we patient Canadians have been stuck ever since with the devices the bureaucrats devised to meet it.

High taxes alone will not halt inflation. On the contrary certain taxes, especially on corporations, are definitely inflationary since they must sooner or later find their

way into selling prices. Government spending is the real villain, and when such spending is in pursuit of an inflationary policy we need not be surprised if prices are high. Until we abandon our policy of deliberate inflation and drastically cut the level of ordinary Government expenditures we shall never, in the situation now prevailing, be able to escape high prices.

Such items as subsidies, price supports, welfare transfer payments, unrequited exports and ultra-cheap money have no place in the inflationary situation that must inescapably result from a large-scale war effort. Nor will increased production alone suffice to halt inflation; it

too must be linked with very drastic cuts in non-defence Government expenditures.

But how to get increased production in the face of existing labour policies, or cuts in non-defence Government expenditure in the face of present-day public attitudes, are the great unsolved problems of this hour. How they will be solved will depend in very large measure upon how we all, in every type of work, meet our responsibilities as citizens of a potentially great country. If we seek only palliatives such as controls without dealing with fundamentals we shall inevitably lay up very grave problems not only for ourselves but for our children.

Out Of The Fog

“I have just come out of the thickest fog I was ever in since the last time I heard the Prime Minister make one of his absolutely clear pronouncements on the fiscal question. The country has a right to a clear lead from him on this matter. But what does he give us? Every now and then four or five columns of insipid equivocation which newspaper proprietors whom he has taken the precaution to make barons immediately declare to be another epoch-making deliverance.”

Winston Churchill, on crossing the floor of the House of Commons from Conservative to Liberal during the great debate on free trade.
About 1905.