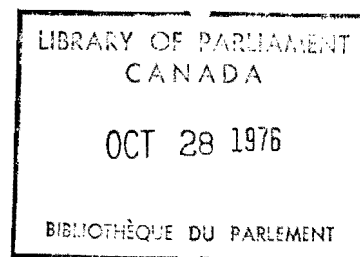


ANTI-INFLATION BOARD

FIRST YEAR REPORT



Anti-Inflation
Board

Commission de lutte
contre l'inflation

THE IMPACT OF THE ANTI-INFLATION PROGRAM

INTRODUCTION

In the fall of 1975, the Canadian economy was seriously out of balance. Despite a 7% unemployment rate the country was in the grip of serious inflation. The Consumer Price Index was 10.6% above its level a year earlier, but wage and salary increases were even higher than was consistent with that high rate of price increases. For instance, average base wage rate increases were over 20% for the first year of new collective agreements.

Inflationary pressures had been building for many years. In the early 1970s, almost all industrial countries, including Canada, had followed policies that had led to an unsustainable economic boom. The resulting demand pressures, coupled with poor harvests in many countries and with the sharp increase in oil prices, stimulated the most virulent commodity price explosion since the early 1950s.

By 1974 the world economic cycle was turning, and major industrial economies were sliding into a deep recession. In Canada, policies were directed toward maintaining output and employment in the face of this recession. Real income and employment were falling sharply in many countries, but output and incomes held up well in Canada, and employment continued to rise. Canada weathered the 1973-75 recession better than most countries. However, rates of price and income increase, which were falling elsewhere by mid-1975, were not doing so here. Canada's ability to compete in international markets was threatened. Costs were increasing far faster here than among our trading partners. Through the first half of 1975, labour costs per unit of output in Canada were up 17.5% compared to 11% in the United States.

The prices of some goods had begun to recede in late 1974, but by the middle of 1975 overall rates of increase in consumer prices were again pushing up. Large increases in municipal taxes, and in the prices of items such as insurance, housing and energy, were anticipated. Canadians were worried about prospects for the future, anticipating further increases in the rate of inflation. Some workers were asking for unprecedented wage increases to make up for past erosion of their purchasing power and, more importantly, to protect themselves against anticipated escalation in the rate of inflation. Businessmen, unsure about the future course of cost increases, were raising prices in anticipation of further increases in wages and material costs.

Canadians had come to believe that further large increases in the overall price level were inevitable. Inflation was clearly a major threat. The welfare of Canadians in a healthy and growing economy was in jeopardy. The government's task was to bring the rate of inflation down without introducing restrictive monetary and fiscal policies that could cause a sharp decline in output and a further increase in the unemployment rate. The challenge was to lay the basis for a sustained recovery with relative price stability. The policies to accomplish this were set out in the White Paper "Attack on Inflation", released October 14, 1975.

1. THE PROGRAM TO REDUCE INFLATION

The essential element of the program is gradual monetary and fiscal restraint. Without some moderation in the growth of the money supply and a somewhat more restrictive fiscal policy, the program could not be a success. However, these policies work slowly and they would be frustrated in the short run if business and labour continued to demand prices and wages that anticipated continued high rates of inflation. To ensure restraint by both business and labour during the transition from an overheated economy to more even growth, guidelines to restrict price and wage increases were enacted. Administrative machinery including the Anti-Inflation Board (AIB) was established to ensure compliance by the largest and most powerful economic groups. But the price and income controls are meant to complement the monetary and fiscal policies, not substitute for them.

The various elements of the Anti-Inflation Program work together in this manner:

- Monetary and fiscal policies are designed to achieve a sustained economic recovery consistent with price increase targets of 8% in the first program year, 6% in the second year, and 4% in the third.

- Controls on wages, salaries and professional fees hold the growth in unit costs to a level consistent with the annual price target.
- Controls on prices and profits ensure that reduced rates of cost increase are fully reflected in reduced rates of price increase.
- Prices should increase by less than the increase in compensation, so that workers can gain, on average, at least a 2% increase in real income.
- This "winding down" process continues, as reduced rates of cost increase continue to be passed along in lower rates of price increase.

2. THE FIRST YEAR

One year of the program is now complete. How have Canadians fared in meeting the objectives of continued economic growth and a reduced rate of inflation?

The economic recovery began about mid-1975 following a relatively mild recession. Real gross national expenditure declined during the last half of 1974 and the first half of 1975, but output has now been rising for over a year. During the second half of 1975 real growth was almost 4% at an annual rate, and during the first half of this year the rate of real growth was 5.6%. Throughout this recovery, employment has continued to rise at an annual rate of more than 2%, a rate just sufficient to absorb the increase in the labour force. The rate of unemployment has remained at about 7%.

A. Cost and Wage Developments

Because of the combined effect of the slowdown in the rate of wage increase and the recovery in the rate of productivity increase, unit labour costs during the first half of 1976 were held to about 10.5% above their level a year earlier. This performance is still not adequate, but it is a great improvement on the 17.5% increase for the first half of 1975, and prospects for continued improvement appear good.

During each of the first three quarters of 1975 — prior to the initiation of the controls program — first year wage settlements contained increases of more than 20%. During the first and second quarters of 1976, first year wage settlements declined to 16.4% and 13.4% respectively. The actual increases allowed recently are somewhat lower because these Labour Canada statistics do not reflect the effect of AIB review of wage settlements above the guidelines.

AIB compensation data, reported in detail in Chapter 2, also show that the trend is toward deceleration in wage increases. About five million workers are under mandatory AIB restraint. The Board has received forms covering about 2.4 million workers who have established new compensation plans since last October. About half of these settlements have been below the appropriate guidelines and the trend in recent months has been toward further deceleration.

B. Price Developments

Prices are not rising as fast as they were and the rate of increase has stayed below that for wages and salaries. It is expected that the year-over-year increase in the Consumer Price Index (CPI) will be about 6.5% by October 1976, compared with 10.6% in October 1975. This sharp decline in the rate of increase came in part from favourable developments in the price of imports and food prices at the farm gate, and in part from the impact of the controls program.

Certain elements of the CPI are not subject to direct control. Although they are monitored by governments, and are affected by overall economic policy, the prices of food at the farm gate, energy at source, imports, government services and taxes are not controlled by the AIB. The food at farm gate and import components of the CPI increased somewhat less than the total index from August 1975 to August 1976. CPI components which are subject to the direct influence of the control program increased by about 8% over that year, down from about 11% during the previous year.

The recent performance of the CPI is most encouraging. It is now clear that the October to October price target of 8% will be met for those components subject to some degree of AIB control, and that the target will be bettered for the index as a whole.

3. THE SECOND YEAR

The target is to reduce the year-over-year rate of increase in the CPI to no more than 6% by October 1977. Barring unforeseen crop failures or world-wide curtailment of supply of other basic commodities, it is the view of the Board that the target is attainable.

Achievement of the goal will not be easy, however. Prices that are outside the control of the AIB may not be as favourable to the program as they were in the first year. For instance, declines in food prices will not likely continue and import prices may increase. Further increases in the price of energy are also in prospect. Thus, on balance, prices that are outside AIB control may tend to push up the average rate of price increase rather than hold it down as they have over the past year. The success of the program over the next year will depend on adherence to the guidelines by business, labour and governments. With this co-operation and with the maintenance of prudent monetary and fiscal policies, further improvement in line with the targets of the program can be achieved.

Chapter 2

COMPENSATION

INTRODUCTION

Prior to October 14, 1975, wage and salary increases were being negotiated or established in the expectation that the existing rate of inflation was likely to continue or even increase. Frequent reports of large increases being demanded or obtained by various employee groups encouraged others to seek similar increases. Long-standing wage relationships were upset to the point where neither employers nor employees were able to tell what was a fair and reasonable settlement. The situation threatened to worsen as groups of employees coming off two or three year collective agreements attempted to "catch-up" with others who had recently won large increases. This is not surprising; by the very nature of the problem, a country faced with high inflation finds itself in a period of wage distortion.

In this environment, the purpose of the compensation part of the program was to gradually slow down the rate of increase in labour costs while the restraints on prices and profits reduced the rate of increase in the cost of living.

Guidelines were introduced which employers and employees were encouraged to follow in arriving at wage or salary settlements. While all Canadians were expected to observe these guidelines voluntarily, large and strategic groups were required by law to comply, so that those who complied voluntarily would not then find themselves falling behind the larger or more powerful groups.

1. COMPENSATION REGULATIONS

The aim of the Regulations is to ensure that compensation for a group does not increase at a percentage rate higher than an allowable arithmetic guideline unless special circumstances justify a larger increase. These arithmetic guidelines are the sum of three elements:

- (a) a basic protection factor which is set at 8% in the first program year, 6% in the second and 4% in the third;
- (b) a national productivity factor of 2%; and
- (c) an experience adjustment factor which may vary between plus and minus 2% per year, depending on a group's experience relative to the rise in the Consumer Price Index (CPI) over the past two or three years.

If, in any program year, the increase in the CPI exceeds the Basic Protection Factor, the percentage allowed for the Basic Protection Factor in the subsequent year would be increased by the amount of the difference.

Lower-paid employees are permitted increases beyond the arithmetic guidelines to an amount of \$600 a year, or to raise their wage to \$3.50 an hour. Groups at higher compensation levels are restricted to a maximum average increase of \$2,400.

The Regulations apply to employee groups rather than individuals. Employee groups are: bargaining units; groups established by the employer for purposes of determining salaries or wages; and the executives of each organization. Separate guidelines are calculated for each employee group and are applied to the total compensation of that group. The value of benefits such as vacations, statutory holidays and incentive plans are included in the compensation package subject to the guidelines.

The Board may exercise discretion in granting increases beyond the arithmetic guidelines. Special consideration may be given to groups covered by compensation plans that were entered into prior to January 2, 1974 and expired prior to October 14, 1975, and groups whose wages have historically been closely related to those of other groups.

The guidelines also provide for certain types of payment to be excluded when calculating compensation increases. The calculations of these exclusions are straightforward, although in many cases they require

Board consideration. They include such things as the elimination of pay differentials based on sex, and payments made in order to overcome difficulties in recruiting and retaining staff.

2. ADMINISTERING THE REGULATIONS

When applying the compensation regulations, the staff of the Board must first determine whether the proposed increase is within the allowable arithmetic guidelines for the specific group. If the increase is within the guidelines, the parties are notified and no further action is required. If the proposed increase exceeds the arithmetic guidelines or involves the exclusion of certain compensation components, the case is examined in depth. The staff of the Board usually contacts or meets with employers and employee groups to ensure the Board has the information required to determine whether special consideration is justified. The proposed increase and the staff recommendations are then considered by the seven Board members. A decision is reached and the parties are notified.

Every case above the guidelines is given individual attention by the Board and staff to ensure that all factors in each case are given thorough consideration. This process normally requires from 10 to 12 weeks from the time the AIB 2 form is received.

The Board may refer the case to the Anti-Inflation Administrator when the parties involved do not comply with the decision. Parties affected by a Board decision may demand that the case be referred to the Administrator by the Board. The Administrator's order may in turn be appealed to the Anti-Inflation Appeal Tribunal.

3. COVERAGE AND COMPLIANCE

Compensation plans covering 16,412 groups (2.4 million employees) were submitted to the Anti-Inflation Board between October 14, 1975 and September 7, 1976. This is about half of the estimated five million employees required by law to comply with the guidelines.

Approximately 59% or 9,643 of the compensation plans received by the Board have been at or below the arithmetic guidelines. The remaining 7,031 compensation plans covering more than 1.3 million employees contained increases beyond the arithmetic guidelines and therefore required a decision by the Board. The Board had ruled on 2,696 of these cases covering 676,507 employees as of September 24, 1976. Each organization subject to the regulations must define a separate executive group, and many of these groups have been limited by the \$2,400 compensation ceiling. Over 80% have complied with the \$2,400 limit.

TABLE 2.1

**Summary of Compensation Increases Submitted to the AIB and
Average Arithmetic Guidelines for First Guideline Year¹**

	No. of Employees (millions)	No. of Plans	Average Increases Proposed (%)	Arithmetic Guidelines (%)	Variance from Arithmetic Guidelines
At or Below Arithmetic Guidelines	1.1	9,643	7.1	10.0	- 2.9
Above Arithmetic Guidelines	1.3	7,031	15.6	9.7	5.9
Total	2.4	16,674	11.8	9.8	2.0

¹ Preliminary statistics based on AIB 2 forms filed by September 29, 1976. These figures also include groups subject to the \$2,400 limit.

A major problem in the first year was applying provisions in the regulations designed to ease the transition into controls. Some groups had negotiated and signed collective agreements just prior to the start of the program while closely related groups were still in the midst of negotiations. Other employee groups which had not received compensation increases for some time were negotiating new compensation plans when the restraint program was announced. The Board had to establish the principles and practices necessary to deal with a great variety of such cases in an equitable and consistent manner.

The Board, while recognizing the existence of historical relationships, was charged with administering a restraint program and did not always restore those relationships unless exceptional circumstances existed. In many cases, restoration or near-restoration of the historical relationship was phased over the term of the program.

As can be seen from Table 2.2, the increases proposed for compensation plans beginning in 1975 were often large and the incidence of historical relationships very high. Increases permitted in excess of arithmetic guidelines were commensurately substantial in the early months of the program in recognition of these relationships (Table 2.2). The decrease over time in the number and size of increases allowed beyond arithmetic guidelines reflects the fact that many of the transitional problems have been overcome. However the Board will continue to give special consideration to plans for all groups submitting compensation plans for the first time.

TABLE 2.2

Decisions on First Year Increases Submitted Above the Arithmetic Guidelines ¹

Starting Date of Compensation Plan	No. of Employees	Percentage Increases Proposed	Arithmetic Guidelines	Percentage Increase Allowed
Prior to Oct. 14, 1975	120,040	15.7	10.5	12.4
Oct. 14, 1975 to Dec. 31, 1975	368,233	13.9	9.7	11.3
Jan. to Mar. 1976	36,753	11.8	8.9	9.4
Apr. to Aug. 1976	9,325	11.3	9.3	9.7

¹ This table is based on Board decision data and data from AIB 2 forms, and covers only those cases where a complete AIB 2 form had been received by the Board prior to its decision.

A Board decision not to allow all or part of a proposed increase has at times affected a compensation plan where an employer had already commenced paying the full amount of the increase, despite the absence of a Board ruling. Because the Regulations are applied on the basis of a guideline year which starts at the effective date of a new compensation plan, the Board in these situations requests the employer to recover the excess amount from the starting date of the compensation plan. If an employer does not initiate recovery action as a result of this request, the matter is referred to the Administrator. Of the plans on which the Board has ruled to the end of September 1976, 51 have been referred to the Administrator.

Over the past few years, the approach followed by many bargaining units in both the public and private sectors has been to emphasize the attainment and maintenance of uniformity of wage rates within the industry sectors or geographic areas. Plans submitted during the first program year have continued to reflect this approach. As a result, the proposed increases for many organized employees have involved requests for increases above the arithmetic guidelines based on historical relationships. Because the practice of maintaining established relationships with other groups has been more widespread for employees covered by agreements than for other employees, increases above arithmetic guidelines based on historical relationships have been more frequent for organized employees than for others. However, the trend is toward a lessening of the difference in amounts allowed between organized and non-organized employees as the program evolves.

4. IMPACT OF THE REGULATIONS

The program is attaining its objective of slowing down the rate of compensation increase while permitting the purchasing power of consumers to increase.

Proposed increases submitted to the Board have declined from an average of 15.0% during the pre-program period to 10.1% in April – September 1976, the latest period for which complete statistics are available (Table 2.3).

It now appears that the average rate of compensation increase for employees under mandatory controls will be very close to the target rate of 10% in the first program year. This 10% increase, combined with the reduced rate of price increase achieved during the first program year, means, on average, that the 2.4 million employees covered by controls to the end of September will have received a first year real gain in income of over 3% compared to real gains of approximately 2.3% during the previous two years.

TABLE 2.3

Average Percentage Increases Submitted to the AIB and Applicable Arithmetic Guidelines by Expiry Date of Compensation Plans/Agreements ¹

	Employees (millions)	Average Percentage Increases Submitted (%)	Arithmetic Guidelines (%)	Variance From Arithmetic Guidelines
Pre-Program Oct. 13, 1975	0.3	15.0	10.3	4.7
Oct. 14 to end of Dec., 1975	1.5	11.1	9.5	1.6
Jan. to Mar. 1976	0.3	11.9	9.9	2.0
Apr. to Sept. 1976	0.3	10.1	9.2	0.9
Total	2.4	11.6	9.7	1.9

¹ Based on AIB 2 forms received to September 29, 1976.

Chapter 3

PRICES AND PROFITS

INTRODUCTION

Prices, as measured by the Consumer Price Index (CPI), had increased by 10.6% in the year before the introduction of the program. During the months immediately prior to October 1975 the rate of increase had been even higher. Other price indicators, such as the wholesale and industrial selling price index, showed an abatement of the rate of price increases, but there was a danger that this performance would deteriorate in the months ahead.

The guidelines to restrict prices, profits and professional fees are meant to slow down the rate of price and fee increases directly. They also ensure that lower production costs resulting from productivity improvements and from the slower rate of compensation growth are passed on to consumers. Dividend payments are limited to ensure that restraint is borne by shareholders as well as by workers. Rental income from residential property is restrained under provincial rent control programs.

1. THE GUIDELINES

A. Prices and Profits

Prices are restrained by the limits set on profit margins. Firms are required to plan their affairs and make pricing decisions so as not to exceed profit margins permitted under the regulations of the Anti-Inflation Act. Prices that are too high relative to costs will give rise to excess revenue, which must be eliminated in the subsequent period by reducing prices relative to costs, providing refunds to customers, or by paying the amount of excess revenue to the government.

The December 1975 regulations limit the gross and net margins of distributors to 100% of base period margins. Non-distributors were required to choose either unit cost or percentage net margin regulations, with the latter applied at the product line or at the overall firm level. The unit cost guidelines limit the amount of profit per unit for individual items to the unit profit in the base year. The product line and net margin guidelines apply to groups of items and limit net profit margins to 95% of base period margins. Specific regulations outline how the different rules apply to different businesses or parts of a business.

In order to prevent firms from avoiding excess revenue simply by increasing certain discretionary expenses, costs such as advertising and landscaping may be included in allowable costs only up to the same proportion of sales that they represented in the base period.

Export business is exempt from restraints, unless it is business directed abroad simply to circumvent controls.

Firms cannot raise prices to a level greater than the total of costs plus allowable profit margins. Therefore, as the rate of cost increase moderates, firms must slow their rate of price increase so that their profit margins do not rise above allowable levels. For those firms which operate in buoyant markets and for those which exercise a high degree of market power, this control holds prices lower than market conditions would otherwise allow.

At each fiscal year-end from the start of the program, a firm must calculate gross revenues, allowable costs, net revenue, and any excess revenue beyond the level allowed by the regulations. A firm that generates excess revenue must file a compliance plan indicating how it will hold down prices so as to eliminate the excess over a six month period.

The control of profit margins also provides less direct forms of price restraint. Price leaders in an industry have their prices effectively constrained by the profit guidelines. In order to remain competitive, other firms competing in the same industry are forced to follow the price leader, even though they might be small and exempt from the mandatory provisions of the guidelines, or they might be subject to the guidelines but operating below allowable profit levels. In such instances, restraint applied to the industry price leader will effectively restrain the prices of other firms in the same industry.

For example, one brewery in Quebec was prevented from raising prices because to do so would have created excess revenue. Other beer companies held the price line because of market competition. An automobile manufacturer, faced with the prospect of excess revenue, filed a plan to freeze prices for part of the 1977 model-year in order to allow increased costs to absorb the excess. Competing companies then announced similar pricing decisions.

In order to keep a closer watch on the positions of large and strategic firms, the Board in the first year has required 274 companies to give notice of any proposed price changes greater than 2%, generally 30 days in advance of implementation. The Board analyses the impact of these requested increases on profit margins in order to ensure that the firms will remain in compliance with the program. A decision must be transmitted to the company concerned within 30 days; otherwise the company may proceed to implement the proposed price increase.

B. Dividends

During the first year of the program, the regulations have restricted the amount of dividends paid per share to the same level of payments made in the base period. Alternatively, suppliers have been allowed to pay an amount no greater than 25% of earnings in the last fiscal year ending before October 14, 1975.

Companies may pay out dividends up to the maximum levels permitted by the regulations without requesting AIB approval. However, any increase in dividends above these levels requires application to the Board for approval. The Board may decide to approve all or part of such increases, basing its decisions on factors such as a company's plans to raise new capital, or "special case" considerations such as the winding up of a company's affairs.

C. Professional Fees

Control of professional fees and incomes is exercised by applying specific provisions of the Anti-Inflation Regulations to professionals and firms of professionals. Under these controls the Board has approved certain provincial medical fee schedules. Depending on the method through which a particular firm of professionals is controlled, it may be required to submit a detailed report of earnings to the Board, which is analyzed with respect to excess revenue in a manner similar to reports from other companies.

The program for professionals incorporates certain aspects of both the prices and profits and compensation restraints. This approach recognizes that the net income of professionals is both a return for labour, and for the investment and risk that are associated with owning a business.

2. REPORTING AND COMPLIANCE

A. Prices and Profits

One of the most frequent comments on the anti-inflation program is that there has been less specific evidence of price restraint than of restraint over wages and salaries. It is certainly true that there have been fewer cases of rollbacks requested by the Anti-Inflation Board. This does not mean, however, that the price restraint is ineffective. The fact is that the detailed reports submitted to the Board indicate that most firms have either succeeded in adjusting their prices in order to comply with the guidelines or have been unable to achieve permissible profit margins because of market conditions. Indeed, some firms in the latter category have been unable to fully pass on cost increases and were faced with declining profit margins in the first six months of 1976. Average profit margins declined in the first two quarters of 1976 to about 5.5% compared with about 6.3% for the same period in 1975 (Table 3A in the Statistical Appendix to this chapter).

Table 3.1 presents summary data for 1,887 "reporting units" (firms or groups of related firms) that have submitted first year compliance reports which have been fully processed by the Board and assimilated into the Board's statistical base. These reports represent 60% of the number of compliance reports processed by the Board to date.

TABLE 3.1**Base and First Compliance Year Financial Data for Compliance Population¹**

	Distribution	Unit Cost	Net Margin
No. of Companies ²	658	385	1,337
Base Period	\$M	\$M	\$M
– Gross Revenue	26,823	14,879	132,573
– Adjusted Operating Profits	1,301	1,497	11,696
– Margins (%)	4.85	10.08	8.82
First Compliance Year	28,613	15,776	39,891
– Gross Revenue			
– Adjusted Operating Profits	1,170	1,438	2,403
– Margins (%)	4.09	9.11	6.02

¹ All company reports processed and statistically assimilated to date.

² The number of companies under each reporting regime is greater than total number of companies (1887) since many companies report under more than one regime.

Base period revenue and profit data for distribution and unit cost regimes is for one year (1974). Corresponding data for net regime is total for five years (1970-1974).

On average, profit margins for firms reporting under each regime were lower in the first compliance period than in the base period. Some firms in each regime reported excess revenue in the first compliance year but the margins of many other firms were substantially below allowable levels. On balance, these results indicate that profit margins currently being attained are consistent with the objectives of the prices and profits program.

Table 3B in the Statistical Appendix includes more comprehensive financial data that shows profit performance by size of company. Declines in percentage profit margins between the base and first compliance period are recorded for nearly all the subdivisions in Table 3B. The group of largest companies (\$100 million gross revenue or more) shows some of the largest declines in percentage profit margins.

Excess Revenue

Apparent excess revenue arises when, in a compliance year, adjusted operating profits exceed target operating profits. However, the regulations provide for a number of deductions from apparent excess revenue in determining final excess revenue. The major deduction is one which exempts revenue generated prior to October 14, 1975. For the many firms with a December 31, 1975 year-end, this provision exempted all revenue except that received in the 2 1/2 months after the controls program was introduced. This deduction generally will not be available for 1976 and subsequent years.

Three other provisions can also reduce apparent excess revenue. First, firms on the unit cost regime may maintain unit profits at the October 13, 1975 level rather than at the base period level. Second, all firms may attain higher than target margins when they arise from unusual productivity improvements. Third, firms are allowed higher margins in cases where these margins result from unanticipated favourable cost developments. The Board has had some difficulty in administering these three provisions, and these deductions will not be available to firms in the third compliance period. Out of a large number of apparent excess revenue cases received to date, the Board confirmed existence of \$9.0 million of final excess revenue in 98 cases, all covering the first compliance period which for most firms amounts to about 2 1/2 months.

Firms in question have filed plans to eliminate excess revenue, which according to guidelines must be done in an agreed manner within six months following the compliance period. Most compliance plans filed to date have involved reduction in prices or maintenance of prices in the face of increasing costs for a specified period of time.

In addition to the above, final excess revenue has been identified for more companies whose reports for the first compliance period have been received recently. Some of these companies appear to have sub-

stantial amounts of excess revenue but have not been included in the above statistics since the Board has not yet made a final decision.

For the second compliance period, which in general is 1976, no indication of final excess revenue will be available until annual reports are received early in 1977. However, for larger companies which report quarterly, preliminary interim excess revenue figures are available.

Quarterly reports received to date, generally covering the first six months of 1976, indicate that a number of firms generated interim excess revenue of the order of \$70 million. In many cases this has resulted from the seasonal nature of the business which will disappear for the second compliance period as a whole, through either an increase in costs, or a decline in volume or in prices. In other cases, however, interim excess revenue would continue to accumulate throughout the whole year as a result of an unexpectedly favourable improvement in market conditions. In such cases, the Board will monitor the situation closely to ensure that steps are taken to eliminate the excess revenue through price reductions, holding prices as costs increase, or customer refunds. If excess revenue still exists at the end of the fiscal year, of course, a formal compliance plan must be filed.

Pre-notification

The Board examines many major price increases in advance, through its price pre-notification system. Firms that must pre-notify account for more than half of all business operations that come under the program. Table 3.2 indicates the average price increases approved under this system. The figures represent average increases during each month.

TABLE 3.2

Pre-Notified Price Increases, 1976

Month	Average Approved Price Increase
January/February	8.6%
March	6.7%
April	6.2%
May	7.9%
June	6.7%
July	6.0%
August	4.3%
September	5.2%

About 1,000 applications have been reviewed under price pre-notification, and almost no individual products or product groups have asked for more than one price increase. In 17 cases formal requests for price increases were reduced or disallowed by the Board. In many other cases, firms considering price increases which might have resulted in excess revenue, consulted Board officials before making a formal pre-notification request. This consultation process helped ensure that companies interpreted the regulations correctly. Generally, companies do not formally request a price rise above allowable levels.

B. Dividends

The Board has reviewed 190 dividend cases, of which 92 were applications for increases in dividend payments. In total, they would have been \$398 million in excess of amounts permitted by the guidelines, and a 67.6% rise in aggregate dividend payments by these companies. Increases actually approved by the Board amounted to \$49.2 million, 8.4% above the level automatically allowed under the regulations.

The remaining dividend cases reviewed by the Board dealt with special circumstances such as corporate reorganization and change of control, repayment of advance loans, winding up of the affairs of a company, confirmation of dividend policy to establish an allowable dividend base and contractual agreements entered into before the beginning of the program.

C. Professional Fees and Incomes

Professional Fees

The guidelines control fees and incomes earned by professional architects, consultants, chiropractors, dentists, engineers, lawyers and notaries, medical doctors and surgeons, optometrists, public accountants, and veterinarians.

Professional firms are regulated in one of two ways. One form of control applies directly to the fees or prices charged by professionals for their services. Professionals whose fees are controlled may improve their incomes by increasing or altering the nature of their workload. Firms not able to utilize the fees test must report revenues and costs. Any excess revenue must be eliminated by absorbing costs in the subsequent period, reimbursing clients, reducing fees, or by paying the amount of excess revenue to the government.

An estimated 40,000 firms of professionals are required to file reports with the Board within 90 days after the firm's most recent fiscal year-end. To September 17, 1976, the Board had received 23,134 reports covering 40,596 practitioners (owners or part-owners of a firm) and 14,533 professional employees. Virtually all reports received so far indicate that fees charged by professionals have been set in accordance with AIB regulations.

Professional Incomes

Preliminary information indicates that on average, the net incomes of professionals rose 13.7% in the first compliance period, from the base period. Table 3.3 provides an initial tabulation of approximately 7,500 reports processed by the end of August. Several problems make it extremely difficult to interpret the data. The measurement of professional "net incomes" does not reflect simply the change in the rate of remuneration professionals receive. The changes in net incomes are also influenced by such factors as changed workload, changes in the type of work performed, and the costs of providing new investment in working capital and overhead. These factors are very difficult, if not impossible, to quantify. But they do influence the levels, or changes in levels, of professional incomes.

Many of the firms involved had fiscal years ending December 31, 1975, which means that all except the final 2 1/2 months of their first compliance year took place prior to October 14, 1975. On average, the guidelines applied to less than 1/3 of the reporting period shown in Table 3.3. Thus, the results are probably more representative of the pre-controls period than of the controls period. The Board will soon be receiving information from professionals regarding their income performance in their second compliance period — a period entirely subject to the controls program. Furthermore, the Board is conducting a number of audits of reports already received. This information will more accurately portray the performance of professionals' incomes in the context of the objectives of the anti-inflation program.

Most doctors reported adherence to provincial medical fee schedules and hence were not required to report net incomes. However, the AIB has examined the schedules in most provinces and has been satisfied that restraint consistent with the anti-inflation program has been implemented, that is to say the fee increases were limited, in principle, to expected cost increases plus \$2,400. Table 3.4 provides a summary of the scheduled increases.

TABLE 3.3**Average Net Incomes of Professional Practitioners by Category ¹**

	Net Income (Dollars)			
	Base Period ⁴	Reporting Period ⁵	Change	% Changes
Architects	43,400	46,100	2,700	6.2
Chiropractors	27,500	29,100	1,600	5.8
Consultants	16,700	17,800	1,100	6.6
Dentists	34,100	40,800	6,700	19.6
Engineers ²	38,200	45,900	7,700	20.2
Lawyers	34,900	40,000	5,100	14.6
Optometrists	29,000	31,600	2,600	9.0
Public Accountants	38,500	42,700	4,200	10.9
Veterinarians	25,100	26,500	1,400	5.6
Doctors ³	45,700	49,000	3,300	7.2
Average	35,700	40,600	4,900	13.7

¹ Data is limited to only 7,520 reports processed and filed to date and filed under the fees (as distinct from the profits) compliance test. Of the 7,520 first compliance periods, 4,640 terminated between October 14 and December 31, 1976; 2,290 between January 1 and March 31, 1976; and 590 between April 1 and June 30, 1976.

² In the case of a number of publicly owned or other large incorporated firms, the total profit improvement has been attributed to a very small number of "practitioners" who may not exclusively own their respective firms. Part of the net income in fact accrues to the shareholders, thus reducing the "per practitioner" averages shown above.

³ The vast majority of doctors reported adherence to provincial medical payment schedules and were not required to report net incomes. The above table covers only 900 doctors who chose to report outside provincial plans. Overall increases in provincial medical payment schedules approved by the Board are summarized in Table 3.4.

⁴ No adjustment has been made to account for changes between different durations of base and compliance periods.

⁵ In various circumstances significant distortions arise due to changes in the number of practitioners of a firm.

TABLE 3.4

**Increases in Provincial Medical Payment Schedules
Medical Fee Increases Approved by the AIB by Province and Date**

Province	Effective Date	% Increase	Estimated Number of Practitioners
Nfld.	Apr. 1/76	7.50	280
P.E.I.	Apr. 1/76	7.82	100
N.S.	Apr. 1/76	8.11	800
N.B.	Aug. 1/76	7.78	525
Ont.	May 1/76	8.10	9,100
Man.	Jan. 1/76	9.15	990
Sask.	Jan. 1/76	7.44	790
Alta.	Jan. 1/76	9.00	1,670

3. IMPACT OF THE PROGRAM

The objective of the prices and profits program is to ensure that progressively smaller cost increases result in progressively smaller price increases by controlling unit profits or profit margins.

During the first year of the program, profit margins were *on average* below target levels. Average profit margins began to decline in mid 1974, and at the middle of 1976 were still below 1974 and 1975 levels. Thus, market pressures, as well as the prices and profits program, have had a major impact in ensuring that lower cost increases (including the reduced labour costs resulting in part from the application of the compensation program) have resulted in lower price increases.

Despite the fact that average profits have been below levels allowed under the prices and profits program, a number of individual firms have been able to improve their profitability and are having their profits and therefore their prices restrained by the program. A number of other firms, whose profits are close to allowable targets, have exercised price restraint and, because of the program, have avoided an excess revenue situation that market conditions alone would have allowed them to attain.

In summary, the prices and profits component of the anti-inflation program has performed reasonably well in its first year. Profits, dividends, professional incomes and prices have all been restrained. The Consumer Price Index for October, 1976 is expected to show a rate of increase of about 6 1/2%. Part of the improvement in the rate of CPI change reflects factors beyond the direct control of the Anti-Inflation Board. Nevertheless, the rate of increase in that portion of the CPI subject to a degree of AIB influence is close to 8% per year, or about on target.

With the co-operation of all those involved in the fight against inflation, and with the recent improvements to the regulations outlined in the appendix to this chapter, there is every reason to look for continued success in the operation of the prices and profits program in 1977.

APPENDIX TO CHAPTER 3

Changes in Prices and Profits Guidelines

As the Minister of Finance indicated in his September 7 statement on the anti-inflation program, some adjustments have been required in the prices and profits guidelines. Several related reasons can be cited. First, the original guidelines were somewhat inequitable in that they imposed too much restraint on some firms and not enough on the others. This inequity resulted mainly from the particular base periods built into the original guidelines and was intensified by the unequal ability of firms, under the guidelines, to choose different rules for different parts of a business.

Second, the original guidelines proved slightly less stringent than was intended in terms of achieving the goals of the program. Again, this was in part due to the choice of rules and in part due to the difficulty of administering the deductions from excess revenue.

Third, the inequitable impact of the original guidelines entailed an undue disincentive to investment and productivity for those firms under severest restraint. Finally, and related, the unequal impact of the original guidelines among firms within the same industries was beginning to create some difficulties and disruptions in individual markets.

While all of these effects were made less serious by the slow recovery of profitability in the economy, changes were clearly needed in light of the improved performance expected in 1977.

The main revisions to the prices and profits guidelines were:

- to eliminate much of the choice among rules (unit cost and product line provisions), and all of the original deductions from excess revenue, in order to improve the simplicity and equity of the program;
- to provide a choice of base periods to reduce the differential impact of the net margin rules;
- to make provision for low base relief for firms having a poor base period performance;
- to reduce the net margin deflator to 85% to offset the loss of restraint inherent in the new base period choices;

- to provide a credit against excess revenue for new investment;
- and to expand the number of price-notification firms.

In sum, these alterations involve the change in the program's overall restraint. The new guidelines will somewhat improve the position of the manufacturing industry and will impose a slightly tighter restraint on resource industries and utilities. They also provide for a more equitable distribution of this restraint and provide an incentive for new investment and other productivity increasing measures.

STATISTICAL APPENDIX TO CHAPTER 3

TABLE 3A

	1974				1975				1976	
	I	II	III	IV	I	II	III	IV	I	II
	(millions of dollars)									
Sales	42,065	47,069	47,397	50,543	46,724	51,471	51,692	56,041	53,197	57,634
Income	3,033	3,776	3,322	3,300	2,851	3,314	3,049	3,425	2,809	3,293
Return on Sales										
- Quarterly (%)	7.21	8.02	7.01	6.53	6.10	6.44	5.90	6.11	5.28	5.71
- Annual (%)			7.18				6.14			

Average Return on Sales 1962-69: 5.77 %

Average Return on Sales 1970-74: 5.96 %

Source: Statistics Canada, Industrial Corporation: Financial Statistics

Figures are not seasonally adjusted.

Return on sales is ratio of operating income to sales.

Operating income is income before taxes, extraordinary items, dividends, and interest income.

TABLE 3B

Base and First Annual Compliance Period Financial Data: From Reports¹ Received and Processed to Date

(a) Reporting Companies with Gross Revenue of \$25 Million or Less² in First Annual Compliance Period

	No. of Companies	Distribution	Reporting Regime		Net Margin	Total Compliance ³ Business	Exempt Business		Total Business ⁵
			Unit Cost	Product Line			Export	Other ⁴	
		386	205	399	496	1251	194	143	1317
		(millions of dollars)							
	Base Period ⁶	- one year data (1974) -		- five year data (1970-74) -			- five year data (1970-74) -		
19	- Gross Revenue	1696.0	1396.6	7476.0	8621.4	—	2593.2	494.8	—
	- Adjusted Profits	123.6	181.6	717.5	826.2	—	329.2	143.3	—
	- Margin %	7.29	13.00	9.60	9.58	—	12.69	28.96	—
	First Annual Compliance ⁷ Period	one year data (1975)							
	- Gross Revenue	1760.0	1352.4	2098.4	2526.3	7737.1	742.9	225.7	8705.7
	- Adjusted Profits	109.3	155.5	175.0	202.9	642.7	59.4	105.1	807.2
	- Margin %	6.21	11.50	8.34	8.03	8.31	8.00	46.57	9.27

See notes at end of Table

TABLE 3B (cont'd)

Base and First Annual Compliance Period Financial Data: From Reports¹ Received and Processed to Date

(b) Reporting Companies with Gross Revenue of \$25 Million and \$100 million² in the First Annual Compliance Period

	Distribution	Reporting Regime		Net Margin	Total Compliance ³ Business	Exempt Business		Total Business ⁵
		Unit Cost	Product Line			Export	Other ⁴	
No. of Companies	165	99	183	106	366	144	66	375
(millions of dollars)								
Base Period ⁶	- one year data (1974) -		- five year data (1970-74) -			- five year data (1970-74) -		
17 -Gross Revenue	3781.3	2344.4	20687.7	9408.2		8563.5	1827.6	—
- Profits	253.2	286.6	1714.2	919.9	—	988.2	291.1	—
- Margin %	6.70	11.97	8.29	9.78	—	11.53	15.93	—
First Annual Compliance ⁷ Period	one year data (1975)							
-Gross Revenue	4310.4	2401.4	6318.1	2840.1	15870.0	3102.0	678.0	9650.0
- Profits	237.3	295.7	417.5	204.1	1154.6	357.9	135.6	1648.1
- Margin %	5.51	12.31	6.61	7.19	7.28	11.54	20.00	8.39

See notes at end of Table

TABLE 3B (cont'd)

Base and First Annual Compliance Period Financial Data: From Reports¹ Received and Processed to Date

(c) Reporting Companies with Gross Revenue Greater than \$100 million² in First Annual Compliance Period

	No. of Companies	Distribution	Reporting Regime		Net Margin	Total Compliance ³ Business	Exempt Business		Total Business ⁵
			Unit Cost	Product Line			Export	Other ⁴	
		107	81	106	47	185	102	89	195
		(millions of dollars)							
	Base Period ⁶	- one year data (1974) -		- five year data (1970-74) -			- five year data (1970-74) -		
∞	-Gross Revenue	21,345.5	11,118.4	72,590.5	13,789.1	—	40,143.5	17,074.3	—
	-Profits	924.1	1,029.1	6,102.4	1,415.8	—	2,882.0	3,830.3	—
	-Margin %	4.33	9.26	8.41	10.27	—	7.18	22.43	—
	First Annual Compliance ⁷ Period	one year data (1975)							
	-Gross Revenue	22,542.4	12,022.2	22,053.9	4,054.8	60,673.3	12,094.3	10,974.1	83,741.7
	-Profits	823.2	987.2	1,117.6	285.9	3,213.9	827.1	3,182.7	7,223.7
	-Margin %	3.65	8.21	5.07	7.05	5.30	6.84	29.00	8.63

See notes at end of Table

TABLE 3B (cont'd)

Base and First Annual Compliance Period Financial Data: From Reports¹ Received and Processed to Date

(d) All Reporting Companies

	No. of Companies	Distribution	Reporting Regime		Net Margin	Total Compliance ³ Business	Exempt Business		Total Business ⁵
			Unit Cost	Product Line			Export	Other ⁴	
		658	385	688	649	1,802	440	298	1,887
		(millions of dollars)							
	Base Period ⁶	- one year data (1974) -		- five year data (1970-74) -			- five year data (1970-74) -		
19	- Gross Revenue	26,822.8	14,859.4	100,754.2	31,818.7	—	51,300.2	19,396.7	—
	- Profits	1,300.9	1,497.3	8,534.1	3,161.9	—	4,199.4	4,264.7	—
	- Margin %	4.85	10.08	8.47	9.94	—	8.19	21.99	—
	First Annual Compliance ⁷ Period	one year data (1975)							
	- Gross Revenue	28,612.8	15,776.0	30,470.4	9,421.2	84,280.4	15,939.2	11,877.8	12,097.4
	- Profits	1,169.8	1,438.4	1,710.1	692.9	5,011.2	1,244.4	3,423.4	9,679.0
	- Margin %	4.09	9.11	5.61	7.35	5.95	7.81	28.82	8.63

See notes at end of Table

Notes to Table 3B

- ¹ Data are taken from reports of companies which filed both a base period and a first annual compliance period report. Base period data refer (depending on reporting regime chosen – see note 6) either to the last fiscal period ending prior to October 14, 1975 or to the last five fiscal periods ending prior to this date. For a majority of companies, the data refer either to 1974 or to 1970-1974. Of the approximately 3200 reporting units which have filed a base period report, some 550 have fiscal years ending between the months of June and October. Since a company has 90 days from the end of the annual fiscal period to report, the first annual compliance reports for this group of companies have not been received and/or processed. In addition, a total of 750 reporting units were excluded from the database because of errors in reporting, requests to refile, etc.
- ² Size categories are based on gross revenue for total business in the first annual compliance period.
- ³ Sum of distribution, unit cost, product line and net margin business. The sum of the number of companies reporting under these regimes exceed the total number of companies reporting compliance business because many companies reported under more than one regime.
- ⁴ Revenue generated from the production and sale of crude oil and natural gas, the sale of unprocessed agricultural and fish products, the rental of real property or by branch operations outside Canada.
- ⁵ Sum of total compliance business and exempt business. The number of companies reporting under total business column exceeds the number shown under compliance business because of a small number of companies engaged exclusively in business exempt from the guidelines.
- ⁶ Base period gross revenue and profit data for the distribution and unit cost regimes are for the one annual fiscal period prior to October 14, 1975. For a majority of companies, therefore, the data refer to 1974. Base period gross revenue and profit data for the product line and net margin regimes and for exempt business are for the five annual fiscal periods prior to October 14, 1975 which for a majority of companies is 1970-1974 period. Because of the combination of one and five year data in the base period, figures for total compliance business and total business could not be provided.
- ⁷ Gross revenue and profit data for the first annual compliance period refer to the first annual fiscal period ending after October 14, 1975 which for the majority of companies is 1975.
- ⁸ Adjusted profits in both the base and compliance periods are exclusive of losses, i.e. positive profits only. Thus, both absolute profits and profit margins shown in the table are somewhat overstated in comparison with guide indicators published by Statistics Canada.

APPENDIX ON OPERATIONS

THE ACT

The program went into effect on October 14, 1975, and the Interim Anti-Inflation Board was formed immediately, initially under authority of the Inquiries Act. Two months later, the Anti-Inflation Act (S.C. 197 – C 75) received final parliamentary approval and Royal Assent. The Act provided for the Anti-Inflation Board to administer the guidelines, an Administrator to investigate and enforce compliance where necessary, and a Tribunal to hear appeals from the Administrator's rulings. References to the Administrator are made by the AIB at the request of a party or parties affected by an AIB recommendation, or by the AIB itself in the case of an actual or likely contravention of the Anti-Inflation Guidelines.

The Anti-Inflation Act requires the Board to:

- monitor changes in prices, profits, compensation and dividends in relation to the guidelines;
- identify actual and proposed increases in prices, profits, compensation and dividends that the Board feels contravene the letter or spirit of the guidelines;
- identify the causes of such increases that are likely to have a significant impact on the Canadian economy, and seek through consultation and negotiation with the parties involved to modify such changes to bring them within the guidelines or reduce their inflationary impact;
- refer the matter to the Administrator in cases where the Board's persuasive efforts have failed to bring increases within the guideline limits and where the Board does not find that the circumstances justify the increase; or where the Board is advised in writing of a dissatisfaction by the party or parties involved in a change in prices, profits, compensation or dividend;
- promote public understanding of the inflationary process, the policies available to government to deal with inflation, and the role to be played by businesses and employee groups; and
- monitor the effectiveness and workability of the guidelines, and recommend improvements to the government.

COVERAGE

The anti-inflation guidelines apply to everyone, and all Canadians are expected to comply with them. Certain major groups are required by law to do so:

- firms with 500 or more employees in Canada including associated firms;
- firms in the construction industry with 20 or more employees in Canada, and professionals;
- firms considered to be of strategic importance to the anti-inflation program, and those involved in association bargaining may also be made subject to mandatory guidelines; and
- employees of controlled firms as well as those of federal government departments, agencies and corporations, and of provincial and municipal governments and their agencies.

Initially it was expected that some 1,500 companies would be subject to enforcement, and that a staff of about 200 would be sufficient. As legislation was implemented, and as provinces joined the federal program, the magnitude of the task ahead became clearer. The number of organizations which were subject to the regulations became known with greater precision; the method of monitoring compliance was developed; and a better understanding emerged of the number of returns to be processed.

The number of organizations now being monitored by the Board is as follows:

Public Sector	7,600
Private Sector	7,230
(more than 500 employees)	
Construction	2,700
(20 to 499 employees)	
Professional Firms	45,000

ADMINISTRATION

Personnel

It was clear that a larger organization had to be developed quickly using resources drawn from government departments. Letters from the Prime Minister asking for the cooperation of all departments in providing staff and services to the AIB had been sent to ministers on October 10, 1975. The Anti-Inflation Board gratefully acknowledges the generous and swift response it received from departments to requests for help.

The following table illustrates the build-up of staff, by type. The total number of persons employed by the Board peaked at 914 in August and has been falling since.

	End of Dec. 75	End of March 76	End of June 76	End of Sept. 76
Indeterminate	48	99	329	415
Secondments	177	175	151	100
Other	117	173	409	341
TOTAL	342	447	889	856

NOTE: Indeterminate: Appointment under Public Service Employment Act.

Secondments: Employees loaned from other departments.

Other: Term appointment, contract, agency and executive interchange.

Accommodation

During the early weeks, the Board operated out of crowded quarters on the 13th floor of the Canadian Building until, with excellent co-operation from Public Works and other departments, additional space was made available. The Board, including the five regional offices, now occupies approximately 170,000 square feet of space.

Systems

Processing systems were developed and staff was trained with extensive help from other departments. Moderate use has been made of computerization in order to reduce costs, but all data processing is done either by commercial service bureaus or other government departments.

Improvements in systems and in employee skills are producing results. The overall processing cost per return has dropped by some 45% over the past three months. This improved efficiency enabled the Board to cope with a 72% increase in volume of returns with a declining number of employees over the same period.

At the end of September, the Board had received 46,379 returns and had completed the processing of 73% of them.

Legal

The Legal Branch of the Anti-Inflation Board provides legal opinions and assistance with regard to the interpretation and administration of the Anti-Inflation Act and the Anti-Inflation Guidelines. The Legal Branch also advises on the legality of the operations of the Anti-Inflation Board. It also gives assistance to the Board in the elaboration and development of its policies and in the recommendations that the Board may decide to put forward to the government concerning possible amendments to the Anti-Inflation Act and the Anti-Inflation Guidelines. The legal officers are also involved in the drafting of legal documents, forms and technical bulletins.

Communications

Communications has been a priority activity for the Anti-Inflation Board.

The first task was to get technical and explanatory information into the hands of those people and organizations directly affected by the provisions of the Act:

- in December 1975, information kits were developed and distributed;
- in January 1975, board members and officers conducted 29 seminars across the country; AIB representatives also assisted at many seminars conducted by various private groups;
- in February, forms were designed and distributed.

At the same time, a broader communications campaign to reach the media and the general public was begun:

- A newspaper advertising campaign introduced the program and explained its basic objectives. The Board has continued to use advertising when it seemed the most reliable and efficient way to deliver an urgent and complex message.
- Board members and senior officers, as well as a team of eight special advisors to the Board, have delivered more than 400 speeches to various groups, large and small, in every region of the country.
- A public enquiries and complaints system was organized early in the Board's life. This unit handled nearly 40,000 calls and letters up to September 15.
- Much time and effort has been devoted to assisting the media in their effort to report and interpret the program.
- A Consumer Information Bulletin is being published and sent to weekly newspapers and consumer editors across the country.
- A guide to explain to the public who has what responsibilities in holding prices down has been published.
- In recent months, with the revisions to the Prices and Profits regulations, the communications effort has been directed again to preparing and disseminating technical literature, forms and explanations.

Research

The functions of the Economic Research Branch are:

- to advise the Board on all economic questions, including the economic impact of the Board's operations, the economic implications of the Board's policies, and the economics of the anti-inflation program in general;
- to carry out research (or cause it to be carried out) both to assist the Board to operate its program and to promote public understanding of the inflationary process, the relationship between productivity costs and prices and the various policies of government to deal with inflation.

To date ten studies have been launched to provide a continuing assessment of the effects of the controls program on the economy. In addition, twenty research projects have been undertaken to improve understanding of the inflationary process. Occasional papers containing the results of this research will be published by the Board as the projects are completed.

EXPENDITURES

About 64% of the expenditures to date have been for personnel. In addition the Board has had the use of an average of over 100 people from other departments for the past year, most of whom have been provided without cost to the Board. This "contribution" to the Board is expected to decline significantly in the next year. Thus, while efficiency has been significantly improved, expenditures will not decline because the Board will have to pay for a greater percentage of its staff. It is estimated that the value of staff loaned to the Board during the first year was \$2,500,000.

The Table below shows the expenditures of the Anti-Inflation Board for the first 12 months and by function.

**PROJECTED EXPENDITURES BY OBJECT OF EXPENDITURES
FOR THE 12 MONTHS ENDED OCTOBER 31, 1976**

	\$ 000
Salaries	6,776
Transportation and Communications	1,276
Information	1,435
Professional and Special Services	5,080
Rentals	231
Repair and Upkeep	536
Utilities, Materials and Supplies	589
Machinery and Equipment	612
Other	2
	\$16,537