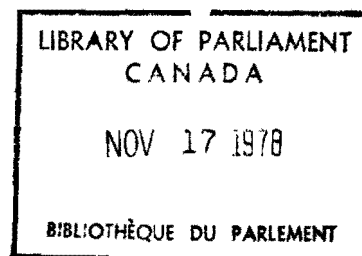


# ANTI-INFLATION BOARD

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1978-79



## THIRD YEAR REPORT

October, 1978



Anti-Inflation  
Board

Commission de lutte  
contre l'inflation

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# TABLE OF CONTENTS

	<i>Page</i>
<b>INTRODUCTION</b> .....	iii
<b>I THE DECONTROL PERIOD</b> .....	1
Inflation in 1978: The Consumer Price Index .....	1
Other Evidence .....	1
Monetary and Fiscal Policies 1978 vs. 1974 .....	5
Economic Growth 1978 vs. 1974 .....	6
Conclusion .....	7
<b>II COMPENSATION</b> .....	8
Program Summary .....	8
Board Decisions .....	10
Program Impact .....	11
Decontrol .....	12
<b>III PRICES AND PROFITS</b> .....	13
Price Pre-Notification .....	13
Profit Margins .....	14
Excess Revenue .....	14
Dividends .....	16
Professional Fees and Incomes .....	16
Decontrol .....	19
Food Industry Profit Margin Study .....	19
<b>IV OPERATIONS</b> .....	20
Communications .....	20
Research .....	21
Administration .....	22
<b>APPENDIX</b> .....	23
The Act .....	23
Changes to the Anti-Inflation Act and Guidelines During the Third Program Year ..	23
Compensation Guidelines and Changes .....	24
Third Program Year Changes .....	25
Prices and Profits Guidelines and Changes .....	25
News Release .....	27

## **INTRODUCTION**

Public debate over the timing and method of decontrol of the mandatory controls element of the government's Anti-Inflation Program ended just one year ago. On October 20, 1977, the Minister of Finance announced that the controls program would be phased out between April 14, 1978 and December 31, 1978.

Over the past six months, a growing number of employee groups and corporations have been released from mandatory controls. However, because of the considerable bunching of compensation agreement dates and fiscal year-ends at the end of the calendar year, more than half of these groups and firms will remain under controls until December. The controls over dividends ceased on October 13, 1978. Because of this phase-out method of decontrol, the Anti-Inflation Board's guidelines have continued to influence a significant portion of economic activity.

The first two years of the Board's activities involved developing the regulations, administering the Act, and conveying to the Canadian public information on the harm that inflation can do. In year three came the development and implementation of the decontrol procedure.

This report covers the Board's activities in year three in the context of the general economic situation.

## **THE DECONTROL PERIOD**

### **INFLATION IN 1978: THE CONSUMER PRICE INDEX**

In our report of a year ago, we indicated that it was unlikely that demand pressures would develop in 1978 "in a manner which would lead to any acceleration in the rate of inflation". We warned however that "Food price forecasting is always a hazardous endeavour" and that "as yet the depreciation of the Canadian dollar on exchange markets has not been fully reflected in Canadian prices".

Over the past 12 months there has been a further decline in the value of the Canadian dollar. The impact of this change on the price of imported products was significant, particularly on food items whose prices had already risen as a result of bad weather and the effects of the beef cycle. As a result, the rise in the all items Consumer Price Index over the 12 months ending in September was 8.6 per cent, slightly higher than the rise of 8.4 per cent in September last year, only moderately better than the rise of 10.6 per cent at the same time in 1975 when the Anti-Inflation Program began.

The consistently high rate of increase of the CPI over the past two years has led many people to conclude that no progress has been made since 1975 toward coming to grips with the inflation problem.

But the widespread use of the CPI as the only indicator of inflation has, in this Board's view, masked the significant improvement that has occurred.

### **OTHER EVIDENCE**

Almost all indicators of price and cost changes for the Canadian economy show that the increases of the past year are well below those of 1975. As Table 1 shows, the various indicators of price change other than the CPI suggest that prices have risen in the general range of 6.5 to 7.5 per cent to date this year, well down from the 10 to 12 per cent range of 1975.

Despite the continued sharp deterioration in the value of the Canadian dollar and the resultant rise of 12.6 per cent in import costs, price changes in 1978 have been about the same as in 1977. Without the depreciation of the dollar, domestic prices would have increased by far less than 6.5 to 7.5 per cent.

Indicators of cost increases also show significant improvement since 1975. To date, in 1978, unit labour costs are up 5.7 per cent, in comparison to 8.1 per cent in 1977 and 15.3 per cent in 1975. The improvement in unit labour costs has been steady during the past three years, reflecting the persistent deceleration in the rate of change of various indicators of compensation per employee. These compensation variables suggest an increase to date in 1978 of 5.5 per cent to 6.5 per cent, compared to increases of 8 to 10 per cent in 1977, 12 to 13 per cent in 1976, and 15 to 20 per cent in 1975.

**TABLE 1**  
**Prices and Costs**  
**(Percentage Changes Unless Otherwise Indicated)**

Prices	1974	1975	1976	1977	1978 to date <sup>1</sup>
Gross National Expenditure Prices					
Total	15.3	10.7	9.7	6.9	6.7 2Q
Consumer Prices					
Total	10.9	10.8	7.5	8.0	9.0 Sept.
Ex. Food	8.8	10.1	9.4	7.9	6.4 Sept.
Ex. Food and Energy	8.2	9.7	8.7	7.3	6.0 Sept.
Industry Selling Prices					
Total	19.0	11.2	5.1	7.7	7.6 Aug.
Costs					
Labour Income Per Employed Person	14.9	14.6	13.2	8.9	6.1 2Q
Productivity	- 0.7	- 0.6	3.2	0.7	0.3 2Q
Unit Labour Costs	15.8	15.3	9.6	8.1	5.7 2Q
Unit Profits	25.6	- 3.0	- 2.5	7.3	9.7 2Q
Average Weekly Earnings	11.0	14.2	12.1	9.6	6.3 July
Wage Settlements: First Year	17.0	21.0	12.3	8.0	6.8 2Q
World Commodity Price Index <sup>2</sup>	22.9	-13.2	17.5	22.9	- 3.6 June
Other					
Exchange Rate <sup>3</sup>	- 2.2	4.0	- 3.1	7.8	7.4 Sept.
Import Price	20.6	14.5	1.5	11.8	12.6 2Q
Labour Income as a Share of GNP	54.3	56.6	56.5	57.2	56.4 2Q
Profits as a Share of GNP	13.6	11.9	10.6	10.6	11.0 2Q

<sup>1</sup> Data to date indicated in 1978 compared to same period in 1977.

<sup>2</sup> From the Economist.

<sup>3</sup> U.S. \$ in Canada.

Industrial material prices on world markets have declined in 1978 compared to 1977, but the depreciation of the dollar has meant a significant rise in the domestic costs of such materials.

Profit margins in 1978 are only slightly above 1977 levels, well below those of 1974 and 1975; an indication that the reduction in unit labour costs has been passed on to consumers and that businesses have absorbed some of the rising costs of other materials. Unit profits have increased in both 1977 and 1978, but compared to the level of 1974 are up only 9.4 per cent.

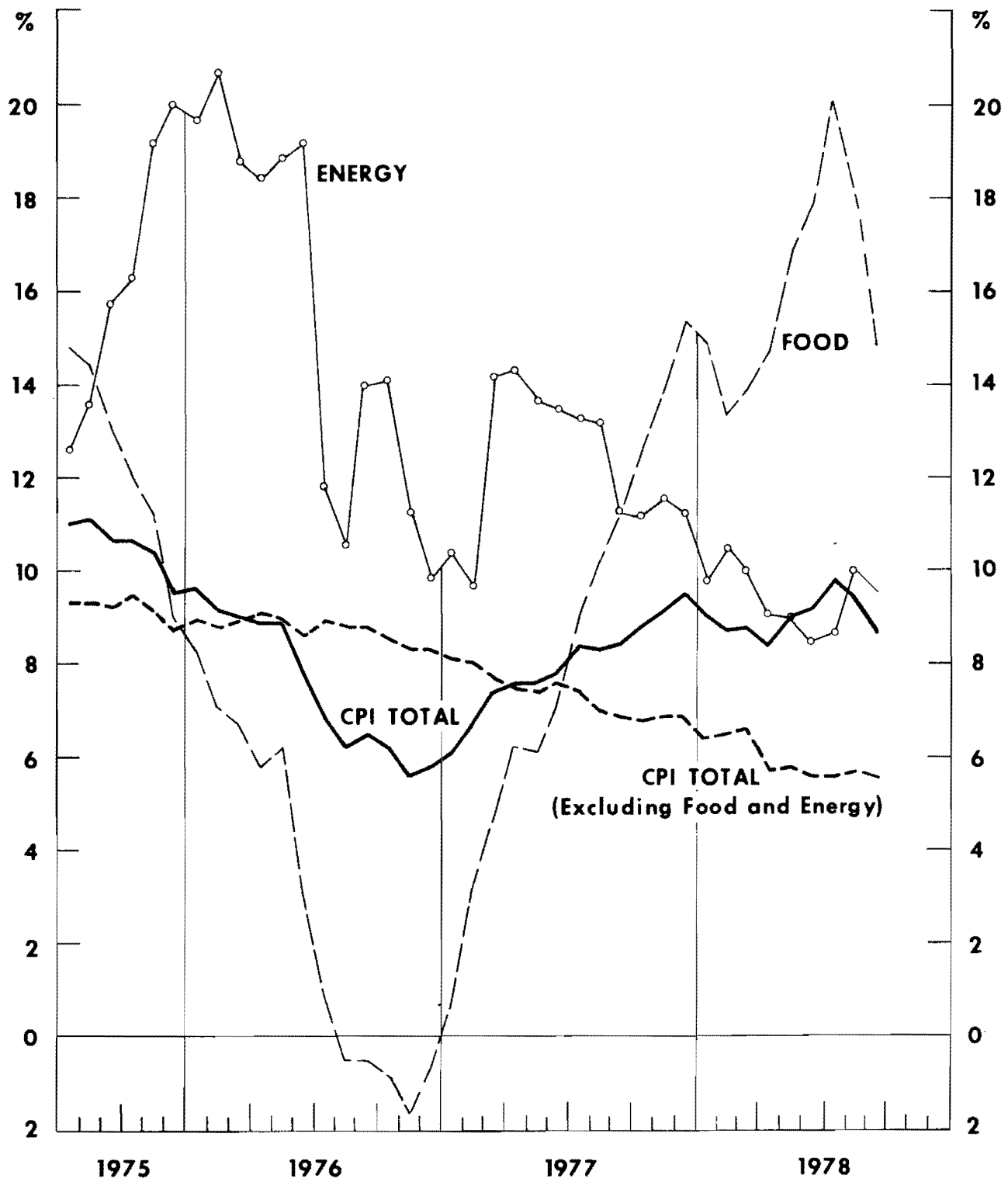
On balance, all these indicators suggest a significant improvement in the rate of change of costs and prices in the past three years. In contrast, the CPI, heavily influenced by the dollar's decline abroad and by food prices, shows deterioration in the past two years.

It was the misleading indication of inflationary trends from the exclusive reference to the all-items CPI that prompted the AIB in its last two reports to demonstrate the very real improvement in underlying costs by using the CPI excluding food and the CPI excluding food and energy. The Board suggested the exclusion of food prices because of their short-term volatility, and of energy prices because of their administered nature, since both tended to disguise the trend in underlying cost developments. The all-items CPI is the best indicator of consumer price movements, but it does not by itself provide the best indication of basic inflationary pressures. (See Chart 1.)

**CONSUMER PRICE INDEX**

Monthly

(YEAR OVER YEAR PERCENTAGE CHANGE)



It is interesting to note that Statistics Canada has begun to publish the rate of change in the CPI excluding food and energy as a part of its monthly package of consumer price information. Moreover, the newly created *Centre for the Study of Inflation and Productivity* will monitor what it calls the CPI-2, or the CPI excluding the highly volatile food items of meat, fresh fruit and fresh vegetables, in order to present a "smoother monthly price measure — one less subject to relatively short-run, volatile price movements but still broadly representative of the consumer rate of inflation". Each of these moves is indicative of the growing awareness of the limitations of the all-items CPI as a measure of current inflationary pressures.

The all-items index is virtually the only indicator suggesting that inflation has not abated in the past three years. Excessive reference to the total CPI is disturbing because this can only foster unjustified pessimism about future inflation rates in Canada at a time when most other indicators suggest that such views are unwarranted. The Board's concern is that, if Canadians attempt at this time to turn these pessimistic expectations into increased demands on the economy, a round of cost increases might be touched off which could only result in the realization of those expectations.

## MONETARY AND FISCAL POLICIES 1978 VS. 1974

Although the controls program is phasing out, the key elements of the coordinated attack on inflation — the monetary and fiscal policies — continue to play a significant role in holding down inflation in the post-controls period.

Monetary policy has been gradually restrained throughout the past three years. As Chart 2 indicates, the level of the money supply narrowly defined (M1)<sup>1</sup> has consistently remained inside the periodically reduced growth rate bounds set by the Bank of Canada. As Table 2 indicates, the year-to-year percentage change in M1 in 1976 and 1977 was well below that of the previous several years, and the rate to date in 1978 is only slightly above that of the past two years. Table 2 also indicates that the growth rate of the money supply more broadly defined (M2)<sup>2</sup> is currently well below its rate of the past few years.

Government spending policy has also been restrictive on an overall basis during the past three years, with the growth rates now down by half from those in 1974 and 1975. (See Table 3.) However, growth rates to date in 1978 suggest that some acceleration may have occurred. The slow growth of the economy generally and the resultant increase in unemployment has meant that many more Canadians are receiving income supplements of varying kinds from various levels of government. In addition, the persistence of a high rate of increase in the CPI has continued to increase the amount of benefits paid through various indexed programs. These two developments have undoubtedly made it difficult to reduce spending growth increases further without fundamental changes in those benefit schemes.

<sup>1</sup> M1 includes currency in circulation plus demand deposits at the chartered banks.

<sup>2</sup> M2 includes M1 plus all chequable, notice and personal term deposits.

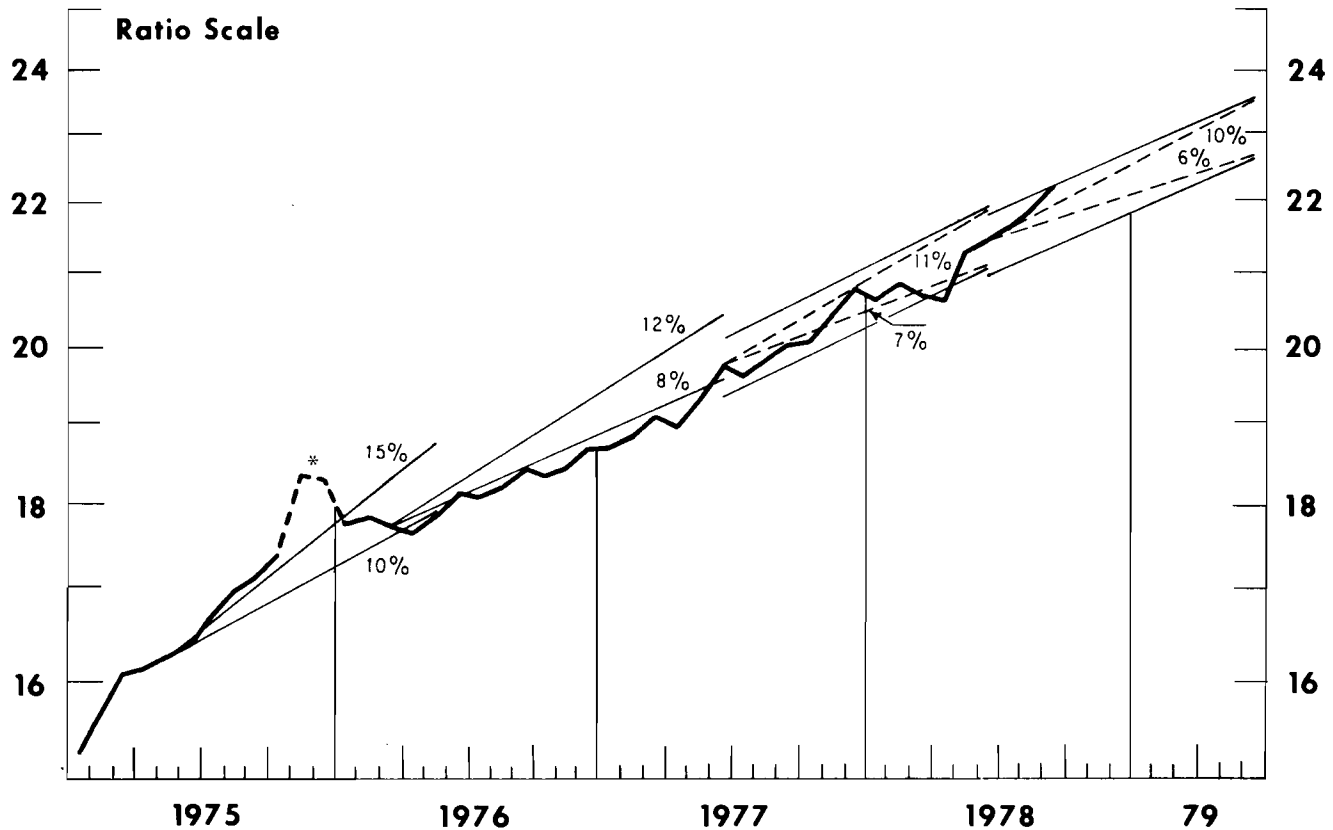
**TABLE 2**  
**Money Supply**  
**Percentage Changes**

	Average 1971-74	1975	1976	1977	1978 Year to Date*
M1	12.7	13.8	8.0	8.4	9.9
M2	14.3	15.0	12.6	14.0	10.1

\* January-September 1978 compared to same period 1977.



**MONEY SUPPLY AND TARGET GROWTH RANGES**  
**CURRENCY AND DEMAND DEPOSITS**  
 Seasonally Adjusted, Monthly - Billions of Dollars



\*Mail strike

<sup>1</sup> Solid lines above and below money supply indicate target growth ranges for M1 as set by the Bank of Canada.

**TABLE 3****Government Expenditures National Accounts Basis  
(Percentage Changes)**

	1974	1975	1976	1977	1978*
Federal Government	28.8	22.9	9.2	13.0	13.0
Provincial Governments	22.8	24.1	13.0	13.9	9.6
Local Governments <sup>1</sup>	17.1	17.8	14.7	11.8	10.8
Total Governments <sup>2</sup>	24.2	22.0	13.0	12.0	12.8
GNP	19.4	12.1	15.8	9.7	10.2
Government Spending as a share of GNP	37.9	41.3	40.3	41.1	41.6

\* *First half 1978 over first half 1977.*

<sup>1</sup> *Including hospitals.*

<sup>2</sup> *Including Canada and Quebec Pension Plan expenditures as well as net federal, provincial and local expenditures.*

Nevertheless, the share of government spending in the total GNP was only slightly higher through the first half of 1978 than in 1975, the peak year. Should economic growth resume in the near future, the share of government spending in GNP would register a decline.

Concern has been expressed in some quarters that the degree of restraint of monetary and fiscal policies since 1975 has been insufficient to substantially reduce inflationary pressures. The analysis outlined here indicates that there has been restraint, but that the restraint has been gradual.

**ECONOMIC GROWTH 1978 VS. 1974**

In assessing this restraint, it is important to note that monetary and fiscal policies impact not only on inflation, but also on the general level of economic activity. As a result of the gradual restraint that has been applied since 1975, real economic growth slowed to an average annual pace of 3.2 per cent over the past three years, and for the first half of 1978 the level of activity was 3.3 per cent higher than in the same period in 1977. In contrast, over the three year period prior to the adoption of restrained monetary and fiscal policies, real output grew by an average of 5.7 per cent per year.

This slowing of output growth by almost one half in the past three years has created considerable underutilization of resources. The unemployment rate today hovers around 8.5 per cent, whereas, in 1974, it was less than 5.5 per cent. Industrial production capacity utilization to date in 1978 has averaged 85.4 per cent; in 1974, it was 90.6 per cent.

Profit margins on an economy-wide basis have decline considerably since 1974; at about 10.9 per cent, the current share of GNP going to profits is one fifth lower than its 1974 peak level of 13.6 per cent. Income shares for both labour and business are now closer to their long-term trend levels. In 1974, the deviation from the trend of both shares helped touch off a scramble to retain the norm on the part of labour and to retain the abnormal on the part of business.

Since 1974 export prices have not risen as quickly as import prices. This deterioration in Canada's terms of trade position with the rest of the world has wiped out at least half of the benefit gained by Canada in the world wide commodity inflation period during which export prices were pushed up more quickly than import prices prior to 1974.

Clearly, the economic conditions of 1978 are in sharp contrast to those of 1974. In the early 1970s the monetary and fiscal policies were expansionary, leading to higher output and utilization levels in 1974. At the time this provided a sense of well-being — but with these policies came high inflation.

In 1978 the output and utilization levels have been lower as a result of restrained demand management policies — but this has helped bring prices and costs within reasonable bounds. Consumers and purchasing agents can now resist unjustified price increases; employers can now resist unjustified wage agreements; and governments can now resist unjustified demands for new programs and excessive monetary growth.

## **CONCLUSION**

This evidence of restrained monetary and fiscal policies, of a slow growth economy, of reasonable income shares and of improved underlying inflationary pressures would suggest that there should be no major wage or price bulge when the controls are completely removed at the end of this year.

The significant decline in the value of the Canadian dollar in the past two years is the outside world's signal to this country that our mistaken propensity in the early 1970s to consume at a rate in excess of the ability of the economy to produce over the long-run must now be redressed. Canadians must avoid attempting to build into the domestic cost structure (including wages and prices) adjustments for the import price effect of the dollar's decline. Canadians must absorb these costs and accept the real income declines implied by the dollar's fall.

It is important for Canadians to understand that, if labour and business attempt to raise average wages and prices beyond the rates that restrained monetary and fiscal policies and the economy generally can sustain, the result will be reduced real buying power, lower production levels and higher unemployment.

It is equally important for Canadians to understand that, if labour and business attempt to raise average wages and prices beyond the rates that are warranted, and if the government in turn ratifies those changes through easing monetary and fiscal policies, the result will be another bout of inflation.

Neither prospect is attractive.

The lack of cooperation of any one of these key agents would negate the progress to date and seriously undermine any future progress. Restraint on the part of all — governments, business, and labour — is essential to preserve the gains made over the past three years.

## COMPENSATION

### PROGRAM SUMMARY

Between October 14, 1975, and September 1, 1978, a total of 86,652 compensation reports covering 3.9 million employees was submitted to the Anti-Inflation Board. About 80,000 reports have been subjected to computer analysis. Approximately 70 per cent have been at or below the arithmetic guidelines and 30 per cent have contained proposed increases in excess of the guidelines.

An additional 1,747 reports covering on-site construction employees and 2,984 reports from public sector employers with less than 20 employees have also been received. These additional reports are not reflected in any of the tables in this chapter.

In program year three, average compensation increases submitted to the Board continued the trend of program years one and two and moved closer to the arithmetic guidelines. The difference between the guidelines and the average proposed increase has dropped from a figure of 4.5 per cent over guidelines in the pre-program period to 0.1 per cent under guidelines in program year three.

**TABLE 4**

**Compensation Increases Submitted to the AIB<sup>1</sup>  
(AIB-2 Reports Submitted by September 1, 1978)**

	AT OR BELOW PERCENTAGE GUIDELINES		ABOVE PERCENTAGE GUIDELINES	
	No. of Employees	No. of Compensation Reports	No. of Employees	No. of Compensation Reports
Pre-Program <sup>2</sup> before Oct. 14, 1975	46,302 (19.6%)	656 (45.2%)	189,539 (80.4%)	796 (54.8%)
Program Year I Oct. 14, 1975 to Oct. 13, 1976	1,924,009 (59.1%)	21,888 (67.9%)	1,332,595 (40.9%)	10,329 (32.1%)
Program Year II Oct. 14, 1976 to Oct. 13, 1977	2,771,767 (69.6%)	23,611 (71.6%)	1,212,232 (30.4%)	9,387 (28.4%)
Program Year III Oct. 14, 1977 to Apr. 13, 1978	1,104,930 (65.7%)	9,477 (71.2%)	577,860 (34.3%)	3,933 (28.8%)

<sup>1</sup> These figures describe the status of proposed increases at the time of their submission to the Board. After review by Board staff, some increases which first appeared to be above guidelines were found to be at or below guidelines. Other increases, at or below guidelines in one program year, required a Board decision because part of the compensation plan, effective in a different program year, exceeded the guidelines.

<sup>2</sup> Compensation plans commencing before 14 October, 1975, but not agreed to until after that date.

**TABLE 5**

**Compensation Increases Submitted to the AIB and  
Average Arithmetic Guidelines by Program Year  
(AIB-2 Reports Submitted by September 1, 1978)**

	No. of Employees	No. of Compensation Plans	Average Percentage Increase Submitted <sup>1</sup>	Average Percentage Arithmetic Guideline
Pre-Program before Oct. 14, 1975	235,341	1,452	15.5	11.0
Program Year I Oct. 14, 1975 to Oct. 13, 1976	3,256,604	32,217	10.0	9.7
Program Year II Oct. 14, 1976 to Oct. 13, 1977	3,983,999	32,998	7.4	7.4
Program Year III Oct. 14, 1977 to Apr. 13, 1978	1,682,790	13,310	5.6	5.7

<sup>1</sup> These data reflect increases as reported to the AIB for purposes of the compensation restraint program and do not include expenditures excludable under the regulations.

**TABLE 6**

**Board Decisions — By Program Year<sup>1</sup>**

	No. of Employees	Average Percentage Increase Submitted	Average Percentage Guideline	Average Percentage Increase Allowed
Pre-Program before Oct. 14, 1975	188,888	17.1	10.4	14.6
Program Year I Oct. 14, 1975 to Oct. 13, 1976	1,463,929	12.1	9.1	10.1
Program Year II Oct. 14, 1976 to Oct. 13, 1977	1,343,398	8.6	7.1	7.5
Program Year III Oct. 14, 1977 to Apr. 13, 1978	538,080	6.3	5.5	5.7

<sup>1</sup> Some decisions involved multi-year compensation plans which were at or below guidelines for one year and above guidelines for another. Because all years of the plan were reviewed together, the number of employees affected by Board decisions in each program year will include some whose proposed increases for a particular year were within guidelines.

## **BOARD DECISIONS**

In the second and third years of the program, Board decisions moved closer to the arithmetic guidelines.

To September 1, 1978, the Board had made decisions on 20,688 cases which contained increases in excess of the arithmetic guidelines in at least one year of the submission or which required a formal decision because of some other aspect of the proposed compensation plan.

In addition to the arithmetic guidelines, there is a dollar limit of \$2,400 on the increase in average annual compensation of a group of employees. The Board has decided on 765 compensation plans covering 27,105 employees in which the average proposed increase was greater than \$2,400. The average increase approved by the Board in these cases was \$2,418.

The Anti-Inflation Act provides that either of the parties to a compensation plan may, if dissatisfied with a recommendation of the Board, request that the matter be referred to the Administrator. As of September 20, 1978, 277 compensation plans had been referred to the Administrator. Of these, 273 were referred at the request of one or both parties, and four at the request of the Board. It is anticipated that the number of referrals to the Administrator initiated by the Board will increase in order to ensure conformity with recommendations of the Board by all parties as the phasing-out of controls nears completion.

During the second and third years of the program, the Board undertook a series of compensation audits which covered compensation plans for a broad cross-section of employee groups in all industrial sectors and geographical regions.

The audits have established that the vast majority of employers have complied with the spirit and intent, as well as the letter, of the program. While approximately five per cent of the audits have resulted in a Board request for modification to the compensation practice of an employer, less than one per cent of the audits have uncovered non-compliance.

To date, all employers who have been requested to modify compensation practices have agreed to the Board's request.

## PROGRAM IMPACT

Table 7 summarizes rates of increase in compensation during controls. The "effective rate" shown in the table takes into account both those increases which were within guidelines and Board decisions on those above guidelines.

**TABLE 7**  
**Effective Rate of Compensation Increases to Date**  
**and Average Arithmetic Guideline by Program Year**  
**(Data Covering the Period Ending on September 1, 1978)**

	No. of Employees	Average Percentage Arithmetic Guideline	Effective Percentage Rate of Compensation Increases
Pre-Program before Oct. 14, 1975	235,190	11.0	14.2
Program Year I Oct. 14, 1975 to Oct. 13, 1976	3,387,938	9.7	9.3
Program Year II Oct. 14, 1976 to Oct. 13, 1977	4,115,165	7.5	7.1
Program Year III Oct. 14, 1977 to Apr. 13, 1978	1,643,010	5.7	5.4

*The effective rate of increase has shown a steady decline over the life of the program.*

## DECONTROL

Emergence from compensation controls commenced April 14, 1978, and is proceeding on a phased basis.

Compensation increases will remain subject to the guidelines until December 31, 1978. Increases for groups with a final guideline year commencing on or before January 1, 1978, will remain subject to the guidelines for the duration of the final guideline year. Increases for groups with a final guideline year beginning after January 1, 1978, and before April 14, 1978, will remain subject to the guidelines for a final guideline period, which ends on December 31, 1978. Increases for groups with a guideline year commencing on or after April 14, 1978, are not subject to the guidelines.

Compensation plans for any guideline year commencing before April 14, 1978, are subject to the guidelines regardless of when the plan is established or a compensation report is submitted to the Board.

Table 8 gives an estimate of the cumulative percentage of employees emerging from controls at the start of each month.

**TABLE 8**  
**Percentage of Employees Emerging**  
**From Controls by Month**

Date Cumulative to:	Union <sup>1</sup> %	Employees Non-Union <sup>2</sup> %	Total <sup>3</sup> %
May 1, 1978	15	3	9
June 1	20	6	13
July 1	27	14	21
August 1	30	19	25
September 1	36	23	30
October 1	42	33	38
November 1	45	40	43
December 1	50	43	47
January 1, 1979	100	100	100

<sup>1</sup> Union: 2.1 million employees

<sup>2</sup> Non-Union: 1.9 million employees

<sup>3</sup> Total: 4.0 million employees



## PRICES AND PROFITS

### PRICE PRE-NOTIFICATION

As Chapter I demonstrated, the rate of increase in the Consumer Price Index accelerated steadily during 1977 and into 1978, but the inflation rate, as measured by non-food prices, displayed a steady downward trend. This downward trend has also been reflected in price increases pre-notified to the Anti-Inflation Board (AIB). During 1976 pre-notified price increases averaged 6.8 per cent, but in 1977 they averaged 3.8 per cent and during the first eight months of 1978 they averaged 3.5 per cent.

Section 13 of the Anti-Inflation Act empowers the Anti-Inflation Board to request that companies pre-notify the Anti-Inflation Board of "significant" price increases at least 30 days in advance. Early in 1976, 117 firms were requested to pre-notify. The number of companies subject to pre-notification was increased on three different occasions and now totals 342.

"Significant" increases were originally interpreted as increases that would generate more than two per cent in additional product line revenues. In early 1977, this threshold was reduced to 1.5 per cent, reflecting a lower target rate of inflation for the second program year. At the same time, individual product increases of more than six per cent were also defined as being significant, thus requiring pre-notification.

Generally, the average monthly pre-notified price increases were smaller in 1977 than in 1976 (Table 9). While part of this reduction reflects the changed thresholds that came into effect in 1977, the remainder, no doubt, reflect the moderating trend that took place in non-food price increases. Aware of the rules and the consequences of setting prices too high, the majority of companies submitted pre-notifications that generally conformed with the guidelines. Where there was uncertainty about the rules and acceptable procedures, AIB officers were consulted prior to filing pre-notifications.

During the first eight months of 1978, pre-notified price increases averaged 3.5 per cent. Comparing the averages by corresponding months, pre-notified increases in 1978 were generally lower than those in 1977.

**TABLE 9**  
**Average Pre-Notified Price Increases by Month**

	1976 %	1977 %	1978 %
January		4.0	4.6
February	8.6	4.7	3.1
March	6.7	4.1	3.5
April	6.2	2.4	4.0
May	7.9	2.6	1.8
June	6.7	6.3	4.3
July	6.0	3.5	3.2
August	4.3	4.2	4.5
September	5.2	4.2	
October	6.2	2.0	
November	7.4	3.8	
December	7.5	4.5	
Year	6.8	3.8	

## **PROFIT MARGINS**

Suppliers' reports submitted to the Board indicate that most firms either adjusted their prices in a manner to comply with the guidelines, or were unable to increase profits because of market conditions. From 1976 to 1978, market conditions were such that many firms were not able to pass on all cost increases and, as a result, experienced declining and historically low profit margins.

As reported by Statistics Canada, average profit margins of industrial corporations declined steadily during 1974-76, from 7.19 per cent in 1974 to 5.18 per cent in 1976, but levelled off at about 5.2 per cent in 1977. Preliminary estimates for the first half of 1978 indicate little change in this trend.

The Board's own data indicate a similar trend in 1977. Out of a total compliance population of about 3,400 reporting units (firms or groups of firms) submitting returns for the third compliance period (the fiscal year ending prior to October 14, 1978), some 965 reports from the largest respondents, covering the base and third compliance periods, were processed for the Board's statistical base. These groups, representing just over one quarter of all respondents, accounted for some 85 per cent of the total gross revenue of all firms subject to mandatory compliance.

Under new rules which were announced in October, 1976, suppliers were able to choose either the first five fiscal years ended prior to October 14, 1975 (generally 1970 to 1974), or the fiscal year ended prior to May 1, 1976 (generally 1975), as their base period. In reporting to the AIB, they also had to include information on the third compliance period, the fiscal year ending prior to October 14, 1978 (generally 1977). The figures in Table 10 reflect this new reporting structure.

Between 1975 and 1977, profit margins of firms under mandatory compliance declined by slightly more than profit margins for all industrial corporations: 17 per cent versus 15 per cent, respectively. In aggregate, the compliance population operated at 67 per cent of their target profit margins in the first year and at 51 per cent during the second compliance year. On the basis of data that are available, for the third compliance year firms were operating at less than 50 per cent of target margins.

## **EXCESS REVENUE**

The guidelines stipulate that a firm's pricing policy include only allowable costs plus a predetermined percentage profit margin (i.e. the target margin). If the profit margin attained in a given compliance period exceeds a company's target margin, the company is said to have generated excess revenue. When this occurs, a company must submit a compliance plan to the AIB outlining the method(s) by which this excess will be returned to the marketplace.

The proportion of total company reports represented by excess revenue cases has declined sharply since the inception of the controls program: from 15.6 per cent in the first compliance period to 10.6 per cent in the second, and to 2.4 per cent in the third (based on the third compliance period reports processed up to mid-August, which represent about 8.5 per cent of the total).

As of August 18, 1978, a cumulative total of 882 excess revenue cases had been examined by the Board. These involved 719 companies and a total of \$224.51 million in excess revenue. In the past year (i.e. since August 19, 1977), there were 329 cases — 90 for the third compliance period — involving some \$116 million in excess revenue.

In all cases, compliance plans were filed with the Board detailing the manner in which companies would divest themselves of their excess revenues. The usual methods adopted included price reductions on specific products and product lines, price freezes, discounts, customer refunds, and company absorption of rising costs over some future period.

In many cases, even through market conditions would have warranted higher prices, suppliers exercised restraint in order to comply with the guidelines. In addition, some firms not subject to restraint under the program were unable to raise prices in order to compete with companies restrained by the guidelines.

**TABLE 10****Base Period and Third Compliance Period Profit Margins\*  
(Millions of Dollars)**

	Distribution <sup>1</sup>	Non-Distribution <sup>2</sup>	Financial Intermediaries <sup>3</sup>	Export	Other Exempt <sup>4</sup>	Total
<b>Base Period (1970-74)</b>						
Gross Revenue	83,095	169,169	16,631	65,046	31,302	365,243
Adjusted Operating Profit	3,617	13,791	2,822	5,463	4,654	30,347
Margins (%)	4.35	8.15	16.97	8.40	14.87	8.31
<b>Base Period (1975)</b>						
Gross Revenue	30,650	54,747	9,114	19,581	12,074	126,166
Adjusted Operating Profit	1,210	3,682	1,346	1,476	2,273	9,987
Margins (%)	3.95	6.73	14.77	7.54	18.83	7.92
<b>Third Compliance Year</b>						
Gross Revenue	36,047	67,082	11,948	27,649	15,490	158,216
Adjusted Operating Profit	652	3,124	1,309	2,209	3,133	10,427
Margins (%)	1.81	4.66	10.96	8.00	20.23	6.59

\* Due to changes in the guidelines, and hence the reporting format and structure that came into effect at the start of the third compliance period, there is some discontinuity with respect to figures published previously. The number of companies in the sample is not the same for each year because of company discretion in the selection of base periods. The terms "Gross Revenue", "Adjusted Operating Profit", and "Margins" are as defined in the AIB Guidelines. Data are based on 965 of the largest firms reporting to the Anti-Inflation Board.

<sup>1</sup> Domestic resale operations e.g. retailing, wholesaling.

<sup>2</sup> Includes domestic manufacturing, mining, construction, and services other than financial intermediaries.

<sup>3</sup> Includes Trust, Finance and Mortgage companies, Chartered Banks.

<sup>4</sup> Includes farming, fishing, trapping, real estate rentals, and extraction of petroleum products.

## DIVIDENDS

Under the 1975 guidelines, the amount of dividends paid per share was restricted, either to the level paid in the base period, or to an amount which, in the aggregate, did not exceed 25 per cent of a supplier's earnings in the last fiscal period ending before October 14, 1975. With the coming of the 1976 amendments, dividends per share were restricted to 108 per cent of the payments made in the base period. As well, suppliers were allowed the alternative of paying total dividends no greater than 25 per cent of earnings for either of the two fiscal periods preceding October 14, 1976. Further amendments in 1977 permitted dividends per share of up to 106 per cent of the amount allowable in the previous year, or total dividends no greater than 25 per cent of earnings in any of the three fiscal periods preceding October 14, 1977.

A supplier could pay out dividends up to a maximum permitted by the regulations without requesting the AIB's approval. Any amount in excess of the maximum, however, had to be approved by the Board. The Board could allow all or part of such increases, taking into consideration such factors as a supplier's plans to raise new capital, or "special case" circumstances such as the winding up of a supplier's affairs.

As of August 22, 1978, the Board had reviewed 377 dividend cases. Virtually all were requests for increases involving total payments of \$668 million in excess of amounts permitted by the guidelines. (Table 11). Of this amount, \$407 million (representing 117 cases) was disallowed or amended by the AIB.

**TABLE 11**

**Decisions on Dividend Cases\***

Period	Number of Cases Reviewed	Amount of Excess Dividend Payments Requested (\$ Mill.)	Amount of Dividend Payments Disallowed or Amended (\$ Mill.)
Oct. 14/75 to Oct. 13/76	190	398	349
Oct. 14/76 to Oct. 13/77	132	83	22
Oct. 14/77 to Aug. 22/78	55	187	36
Total	377	668	407

\* Where payments in excess of those permitted under the guidelines were allowed, the Board decided not to intervene as a result of special circumstances such as corporate reorganizations and change of control, new equity issues, the winding up of company affairs, and contractual agreements entered into before the controls program began.

## PROFESSIONAL FEES AND INCOMES

The AIB Guidelines impose control on fees and incomes earned by professional practitioners. To effect such control, professional firms must demonstrate compliance with the guidelines by either a fees or a profit test.

To date 34,000 firms have submitted second compliance year reports compared to 33,100 for the first year. For the third compliance year, 22,600 returns were received up to the end of August, 1978, which is comparable to prior years.

Approximately 14,000 of the second year returns were medical doctors adhering to provincially negotiated medicare fee schedules approved by the AIB. Of the remaining firms, 4,000 utilized the profit test to maintain compliance. Staff of the Board has undertaken some 700 audits. In a small number of cases contravention of the guidelines necessitated filing compliance plans with the AIB in order to dissipate excess revenue.

Table 12 presents percentage changes in net incomes for all professional firms reporting to the AIB (other than medical doctors covered by provincial medical fee schedules). Of the 22,600 reports received to date for the third compliance year, about 9,300 were medical doctors covered by provincial fee schedules, whose incomes are excluded from figures reported in Table 12. The remaining 13,300 reporting firms, representing about 50 per cent of the expected total when compared with the second year, showed an average increase of 3.6 per cent in net income in 1977 over 1976.

**TABLE 12**  
**Percentage Changes in Net Incomes of**  
**Professional Practitioners**  
**(Over Preceding Year)**

Profession	Percentage Change in First Compliance Period*	Percentage Change in Second Compliance Period	Percentage Change in Third Compliance Period <sup>1</sup>
Architects	5.4	-19.4	-9.4
Chiropractors	7.1	3.5	8.2
Consultants	10.1	18.0	<sup>a</sup>
Dentists	17.3	6.9	6.8
Engineers	4.1	-18.3	0.1
Lawyers	8.8	- 2.2	4.8
Physicians <sup>2</sup>	5.5	0.4	5.8
Optometrists	9.3	3.4	1.7
Accountants	9.9	- 4.2	0.1
Veterinarians	5.9	4.6	2.1
All Professions	9.0	- 2.0	3.6

\* These percentages are more representative of the pre-controls period than of the controls period, as the guidelines applied to less than one-third of the reporting period. Furthermore, the earlier published percentages for the first and second compliance periods have been revised, on the basis of additional returns received by the AIB.

<sup>a</sup> Denotes negligible change.

<sup>1</sup> For the third compliance period, changes in average income positions have been calculated by comparing this year's data for suppliers who had reported as of September 7 with data for these same suppliers in the second compliance period.

<sup>2</sup> Includes only those physicians from Ontario who do not participate in the Medicare Program. Some 3,400 of the 4,100 firms of M.D.s in Ontario that have reported in the third year do participate in the plan and thus did not have to submit figures on revenue, cost, and net income. In the rest of the country, only a handful of M.D.s had to submit revenue and cost figures; in other words, they practically all adhere to provincial fee schedules approved by the AIB. (See Table 13.)

Table 13 shows, by compliance years, the medical fee schedule approved by the Board. Rates of increase in fees declined significantly in every province between 1976/1977 and 1977/1978, and generally stabilized in the 1978/1979 year.

During 1978, the Board launched a major effort to identify professional firms that had never filed and that were thus in contravention of the guidelines. About 5,900 firms were identified and, of these, 4,400 have since complied. The remainder were reported to the Administrator. Approximately 30,000 firms will be required to file fourth-year compliance reports.

**TABLE 13****Provincial Medical Payment Schedule  
Increases Approved by the AIB  
(Over Preceding Year)**

Province	1977 Per Cent Increase	1978 Per Cent Increase	1979 Per Cent Increase
Newfoundland	7.50	nil	6.40
P.E.I.	7.82	6.40	6.43
Nova Scotia	8.11	4.00	6.27
New Brunswick	7.78	6.30	*
Ontario	8.10	6.50	6.25
Quebec (G.P.s	11.70 <sup>1</sup>	6.20	nil
Specialists)	17.50 <sup>1</sup>	nil	nil
Manitoba	9.15	7.00	6.88
Saskatchewan	7.44	6.90	6.49
Alberta	9.00	7.00	6.47
B.C.	8.16	5.50	7.20

\* *Submission not yet received.*

<sup>1</sup> *Quebec's fee schedule for "specialists" remained frozen between 1970 and 1977. Also, the schedule for G.P.s was unchanged between 1972 and 1977.*

## DECONTROL

Exit from price and profit controls, as with compensation is proceeding in a phased manner, with the majority of suppliers exiting after April 13, 1978.

Suppliers with fiscal year-ends from April 14, 1978 to December 31, 1978 inclusive exit from controls at the end of that fiscal year. These suppliers account for over 90 per cent of those subject to mandatory controls. (A detailed breakdown by month and level of supplier is given in Table 14).

Slightly different arrangements apply to suppliers whose fiscal years end between January 1, 1978, and April 13, 1978, inclusive. The smaller companies, subject to the Level III reporting requirements of the Anti-Inflation Board, remained under control until the end of that fiscal year. The larger companies, which report quarterly to the AIB, remain under controls until the end of their last fiscal quarter falling in 1978.

Suppliers in an excess revenue position for this final period will be required to satisfy the AIB that they have made arrangements for disposal of the excess.

Thus, all professional firms exit from controls either on the first fiscal year-end after April 13, 1978, or on December 31, 1978, whichever date comes first. Dividend controls ended on October 13, 1978.

**TABLE 14**  
**Percentage of Companies and Percentage of Revenue**  
**By Month of Exit and Level of Supplier**

	LEVELS I, II		LEVEL III		ALL LEVELS	
	% (Number)	% (Revenue)	% (Number)	% (Revenue)	% (Number)	% (Revenue)
January			2.2	2.5	1.5	0.2
February			1.9	1.9	1.3	0.1
March			5.0	6.8	3.4	0.5
April	2.0	1.2	2.8	2.5	2.5	1.3
May	1.1	0.8	1.8	1.5	1.6	0.9
June	4.1	2.3	4.0	3.6	4.1	2.4
July	3.0	2.4	2.8	2.8	2.8	2.5
August	1.7	0.7	4.3	3.8	3.5	1.0
September	4.1	2.4	3.5	3.6	3.7	2.5
October	9.8	12.1	4.9	4.1	6.5	11.5
November	5.1	3.4	2.5	2.8	3.4	3.4
December	69.1	74.7	64.3	64.2	65.7	73.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

## FOOD INDUSTRY PROFIT MARGIN STUDY

Because of general concern over the rise in food prices and at the request of the Minister of Finance, the AIB conducted a study of the profit margins of food processors and retailers, in consultation with the Departments of Agriculture and Consumer and Corporate Affairs. The study included information on prices and price spreads of beef and other meat products.

The report was completed in three months as requested by the Minister.

Using information contained in Board reports, the profits and profit margins of 103 of the largest Canadian food processors, wholesalers and retailers were analyzed for the period 1971 through to June of 1978. Prices and price spreads for beef, pork and poultry were examined for the period January 1975 to August 1978.

The report was tabled in Parliament on October 17th, 1978, and made public on the same day.

## **CHAPTER IV**

### **OPERATIONS**

#### **COMMUNICATIONS**

The Anti-Inflation Board has continued to conduct an active communications program through its third year. The broad objectives of this program are:

- to provide those who must comply with the AIB program with the necessary information concerning the Act, regulations and procedures of the Board;
- to maintain public awareness of the activities of the Board and decisions that affect employees, employers, businesses and governments;
- to promote better understanding of the inflationary process as required in the Anti-Inflation Act.

The first year of the program was largely devoted to providing information necessary to those who had to comply with the Act. The second continued this policy but saw the launch of a vigorous public information campaign to tell the inflation story. In the third year, the emphasis again shifted, this time to the completion and production of a number of Board-sponsored studies on inflation and inflation related matters. As decontrol progressed, the Board deliberately took a lower public profile but continued to communicate effectively by accepting speaking engagements, appearing on radio and TV public affairs programs and by issuing consumer information, statements, comments and records of decisions from time to time.

A major effort in the third year was the continuation of a program aimed at Canada's secondary school population. The objective is to provide teachers (on request) with material on the economy suitable for classroom discussion.

As the mandate of the Board expires the AIB will wind up its communications program and complete its publications program.



## 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 the Board has approved the publication of five papers as AIB Research Reports. These papers are now at various stages of production and will be made available as they are published.

These papers include:

- *The Determinants of Negotiated Wage Settlements in Canada (1966-75): A Microeconomic Analysis* by D.A. Wilton, D.A.L. Auld, L.N. Christofides and R. Swidinsky;
- *An Analysis of U.S. Wage Controls and Implications for Canada* by F. Reid;
- *Non Union Wage Changes in Canada: Theory and Survey Evidence* by G.G. Johnson;
- *The Effect of Direct Taxes on Wages* by Y. Kotowitz;
- *The Structure of Earnings by Occupation in Canada 1931-75* by N.M. Meltz and D. Stager.

Other papers are likely to be approved by the Board in the coming months. Titles of additional papers will be made available upon request as they are approved for publishing.

## ADMINISTRATION

Year three of the Anti-Inflation Board saw a steady reduction in the number of staff in spite of the increased number of returns processed. This was the result of greater productivity by a more experienced staff, less need for development work and better compliance rates.

By continuing to hire and retain people on contract, by utilizing the PSC Executive Interchange Program, and by combining these employees with indeterminate and term employees, the AIB had the flexibility to adjust staff levels and to keep long term commitments to a minimum.

Costs have decreased this year because of reduction in: the size of staff, computer development, travel, printing and publishing, and in the need for materials and supplies.

**TABLE 15**

**Variation in Staff Numbers**

	End of Sept. 76	End of Mar. 77	End of Sept. 77	End of Mar. 78	End of Sept. 78
Indeterminate	415	448	410	360	274
Secondments	100	52	21	20	19
Executive Interchange	37	33	26	18	11
Other	304	384	334	316	294
Total	856	917	791	714	598

Note — Indeterminate: Appointment under Public Service Employment Act.

Secondments: Employees loaned from other departments.

Other: Term appointment, contract and agency.

**TABLE 16**

**Projected Program Expenditure  
(For the 12 Months Ending October 31, 1978)**

	\$000's
Salaries	11,599
Transportation and Communications	942
Information	467
Professional and Special Services	4,640
Rentals	238
Repair and Upkeep	41
Utilities, Materials and Supplies	358
Machinery and Equipment	22
Total	18,307

## **APPENDIX**

### **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-C75) received final parliamentary approval and Royal Assent. The Act provided for an 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. Referrals 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.

### **CHANGES IN THE ANTI-INFLATION ACT AND GUIDELINES DURING THE THIRD PROGRAM YEAR**

Amendments made to the Anti-Inflation Act during the third program year:

- extended the coverage of the Act to certain suppliers and their employees from December 16, 1975, onward;
- changed the definition of "compensation plan" and made it effective from October 14, 1975;
- rendered null and void certain clauses in collective agreements which provide for increases in compensation the timing of which is related to the expiration of control;
- deemed compensation plans to be amended in accordance with the Anti-Inflation Board recommendations or the Administrator's Orders; and
- extended the power of the Anti-Inflation Board, the Administrator, and the Anti-Inflation Appeal Tribunal to the period after the expiration of the Act for matters which occurred while the Act was in effect.

Various amendments have been made to the Anti-Inflation Guidelines throughout the program as required. Among the changes made in the third program year were:

- a provision to amend the allowable increase a professional may make in the third program year;
- an amendment to the allowable guideline amount that may be paid to employee groups during the third program year;
- rules to apply during the period of decontrol which started on April 14, 1978.

## **COMPENSATION GUIDELINES AND CHANGES**

One aim of the guidelines was to ensure that compensation for a group did not increase at a percentage rate higher than an allowable arithmetic guideline unless special circumstances justified a large increase. These arithmetic guidelines were the sum of three elements:

- a) a basic protection factor which was set at eight per cent in the first program year, six per cent in the second and four per cent in the third;
- b) national productivity factor of two per cent; and;
- c) an experience adjustment factor which varied between plus and minus two per cent 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 exceeded the basic protection factor, the percentage allowed for the basic protection factor in the subsequent year was increased by the amount of the difference.

Lower-paid employees were 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 were restricted to a maximum average increase of \$2,400.

The Regulations applied 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 were calculated for each employee group and applied to the total compensation of that group. The value of benefits such as vacations, statutory holidays and incentive plans were included in the compensation package subject to the guidelines.

The Board could exercise discretion in granting increases beyond the arithmetic guidelines. Special consideration could 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 had historically been closely related to those of other groups.

The guidelines also provided for certain types of payment to be excluded when calculating compensation increases. The calculations of these exclusions were straightforward, although in many cases they required Board consideration. They included such factors as the elimination of pay differentials based on sex and payments made in order to overcome difficulties in recruiting and retaining staff.

The first full year of application of the AIB compensation guidelines ended October 13, 1976. A number of changes were made to the compensation regulations effective in October, 1976

The more significant changes in the second year involved:

- an amendment which allowed wages or salaries of lower paid employees to be increased to \$3.75 per hour even if this resulted in an increase greater than provided for in the arithmetic guidelines;
- an amendment which permitted the exclusion of employer expenditures incurred in the introduction of a pension plan where none previously existed;
- simplification of the regulations regarding the up-grading of existing pension plans;
- an amendment to provide additional options in the selection of a base period for employee groups under bonus, profit sharing or other indirect incentive plans;
- clarification of the point that compensation plans in effect before October 14, 1975, and reopened after that date are subject to the regulations.

In addition to these changes, all companies which bargained in association in the forest, food and metal fabricating industries in British Columbia were brought under controls by an Order-In-Council on March 30, 1977.

Overall, these changes did not alter significantly the method of calculating compensation increases and applying the guidelines.

### **THIRD PROGRAM YEAR CHANGES**

On October 20, 1977, the government announced that the compensation controls would be phased out, commencing April 14, 1978. The guidelines were amended to indicate that increases for groups with a final guideline year starting on or after April 14, 1978 were no longer subject to controls.

At the start of the third program year, a basic guideline of six per cent was established for compensation increases. The basic guideline could continue to be increased or reduced by an experience adjustment factor of up to two per cent, to arrive at the permissible guideline for a group of employees. The guidelines were amended by deleting reference to the basic protection factor and the national productivity factor for the third program year.

Minor changes were made in the wording of the guidelines to permit implementation of the phasing-out plan and the revised basic guideline in the third program year.

### **PRICES AND PROFITS GUIDELINES AND CHANGES**

In addition to controlling wages the Anti-Inflation Guidelines were designed to restrain prices and profits, dividends, professional fees and incomes. These restraints were aimed at achieving a rapid slow-down in the rate of inflation. Profit margins which companies would be allowed were outlined in the Regulations to the Act. Companies were expected to make pricing decisions so as not to exceed the stipulated margins. Price increases were to be related directly to cost increases. Prices that were too high relative to costs would generate excess revenue which would have to be returned to consumers through refunds, price reductions and price freezes until the excess was dissipated or through payment to the government of amounts equalling the excesses. At the end of each fiscal year firms had to submit to the Board detailed plans through which excess revenues would be eliminated.

During the first year of the program, distributors were restrained on the basis of their gross and net profit margins. Non-distributors who could allocate costs to individual products were subject to a unit cost regime; the others were subject to net margin controls on their product lines, or, if they could not allocate costs to product lines, on their overall non-distribution business. Under the unit cost alternative, profit per unit of product was limited to the unit profit achieved in the base year. The net margin regimes required that net profit margins did not exceed 95 per cent of the base period margins.

By regulation, not all company costs were allowed as deductions and some undermakings were exempt from controls. For example, landscaping and advertising costs could not exceed the proportion of sales that they represented in the base period. Farm-gate prices were exempt from controls. Export earnings were also exempt if the business transacted abroad was not a deliberate attempt to divert sales from the domestic market in order to evade compliance with the regulations.

Compliance with the Regulations is effected in two ways:

- major firms must submit information on costs and profits to the Board well in advance of initiating price increases;
- revenue, costs and profits information must be filed with the Board by all firms subject to the guidelines on a quarterly, annual (or both) basis, with the profit restraint rules applied to their entire domestic business operations.

The original guidelines remained in place during the first year of the program. From the experience gained by the Board during this period and, as a result of representations made by public and private agencies, changes were effected in the guidelines. The new regulations, published in October, 1976, applied generally to the third compliance period and remain in force.

Significant changes affecting the third program year were:

- provisions so profit margin control could be applied in a generalized way rather than having different applications related to the suppliers' accounting capabilities;
- provisions so companies could choose either of two time periods on which to calculate their allowable profit margins, instead of being restricted to one, as in the original guidelines;
- provisions to provide special credits to companies in order to boost investment;
- provisions to permit a higher minimum rate of return on equity (eight per cent regardless of past experience);
- requirements for greater consistency between price increases during a given compliance period and cost increases during the same period.

## NEWS RELEASE

78-20  
April 13, 1978

### AIB WORKLOAD WILL EXTEND INTO 1979

OTTAWA — The Anti-Inflation Board today announced it will still be in place and functioning well beyond the end of mandatory controls on December 31, 1978, despite the start of the gradual decontrol process this week.

According to the AIB this time is required to process the reports that will be filed for compliance periods up to December 31, 1978. For price and profit controls, the operative date for decontrolling most companies is the date of their fiscal year-end after April 14, 1978. Since most companies operate their fiscal year to coincide with the calendar year, 76 per cent of suppliers will exit from price and profit controls in the last quarter of 1978.

Suppliers are allowed 90 days from the end of their appropriate fiscal period to report to the AIB, therefore since the start of the AIB the time lag between the fiscal year end and the submission of reports has been about three months. This means AIB staff will be processing these reports into mid 1979, even though the Anti-Inflation Act expires at the end of 1978. Reports from the professionals coming under the program until the end of 1978 will also generate work well into 1979. Price prenotification submissions are expected to continue at the rate of approximately 100 per month, as in 1977, with a decrease expected toward the end of the program. Overall, the peak processing periods for prices and profits reports from companies will be April 1 to November 30, 1978, and April 1 to June 30, 1979.

In respect to compensation, employers are required to report within 15 days of changes in compensation plans for groups of employees. The time required to reach agreements and submit reports means that many reports on final guideline years which start before April 1 1978, will not be reaching the Compensation Branch until late in 1978 and in some cases into 1979. In addition to processing these returns, staff of the Branch will be engaged in identifying employers who have not reported, preparing cases to be referred to the Administrator, reviewing the compliance plans and carrying out its audit program.

It is expected that about 40,000 compensation reports will be received in 1978. Although the process of decontrol starts on April 14, 1978, about 62 per cent of employees will remain subject to controls until the fourth quarter of 1978.

The AIB's monitoring activity, part of its ongoing responsibilities under the Anti-Inflation Act to promote restraint within the spirit and intent of the Anti-Inflation Guidelines, will continue into the decontrol period. In carrying out this responsibility the Board is cognizant of the reference which has been made to the Economic Council of Canada for inflation and productivity analysis. As the Council develops its capability to perform the referred function, likely by the fall of this year, the Board will act so as to ensure an orderly transition from the Board's monitoring activity to the function to be performed by the Council.

Because of this continued workload in all Branches, no substantial reduction in AIB staff is expected before early spring, 1979. Normal attrition without replacement has already reduced the staff from the all-time high of 906 in March, 1977, to the present complement of 736: 365 permanent public servants; 247 temporary public servants who are appointed for a specified term and are eligible for most public service benefits; 21 on loan from other departments; 85 contract, and 18 on Executive Interchange from the private sector.

Information: 995-8115

ERRATUM

Table 9	Tableau 9
Disregard %	Omettre le pourcentage
figure for	donné pour
December 1978	décembre 1978