

3

PRICE CONTROL AND RATIONING

PART I: SELECTIVE CONTROLS; 1939-1941

IN many respects the most important and controversial phase of our inquiry related to the direct control of prices. We therefore found it necessary to make a detailed examination of the history of the Wartime Prices and Trade Board and to inquire as well into certain related aspects of government activity affecting prices and supplies.

For this purpose we found the annual reports of the Prices Board¹ to be the most comprehensive source of information on the subject and many of the facts which appear in this chapter are taken therefrom. We also had the advantage of testimony from the present Chairman of the Board, Mr. K. W. Taylor, and from others who are, or were, at one time or other connected with it in an administrative capacity. In addition, certain supplementary information was obtained directly from the Board covering particularly the past few months, for which published material is scanty.

Apart from the factual account, which takes up the main part of this chapter, we attempt at the end to appraise the history of price control, to point to its accomplishments as well as to its limitations.

ESTABLISHMENT OF THE PRICES BOARD

The Wartime Prices and Trade Board was established on September 3, 1939, by Order-in-Council under the War Measures Act. As we have seen, it began its operations against an economic background of underemployment and some internal disequilibrium.

The duties of the Board were "to provide safeguards under war conditions against undue enhancement in the prices of food, fuel, and other necessities of life, and to ensure an adequate supply and equitable distribution of such commodities". The Order-in-Council made it an offense for any person (1) to sell any necessary of life at a price higher than is "reasonable and just", and provided that any maximum price fixed by the Board "shall be conclusively deemed to be reasonable and just"; (2) to withhold from sale any necessary of life beyond an amount reasonably required for the use or consumption of his household or for the ordinary purpose of his business; (3) unduly to prevent, limit, or license the manufacture, production, transportation, sale, supply or distribution of any necessary of life. Penalties were fixed at a fine not exceeding \$5,000 or imprisonment for not more than two years, or both.

The powers of the Board were extended under another Order-in-Council issued on December 5, 1939, after which they included the authority

¹The first Report covered the period from September 3, 1939, to March 31, 1943; the second from April 1, 1943, to December 31, 1943, and the remaining three the calendar years 1944, 1945 and 1946.

to investigate costs, prices and profits; to license persons who dealt in any way in necessaries of life; to fix maximum prices and mark-ups; to regulate the sale and distribution of necessaries of life; to take possession of stocks being withheld; to buy and sell goods; and to recommend embargoes on exports. The powers to enforce licensing, to fix maximum prices or mark-ups, to prohibit exports, to buy and sell, and to take possession of necessaries of life, were exercisable only with the consent and approval of the Governor General in Council. In September, 1940, the powers of the Board were further extended to control rentals and housing accommodation. Other extensions of power in the late summer of 1941 were preparatory to the introduction of the over-all price ceiling and will be discussed in the next section of this chapter.

ORGANIZATION OF SUPPLY

The immediate problem facing the Board upon its inception was to organize the supply of certain commodities where interruptions were caused or threatened by wartime conditions. For example, most of Canada's pre-war wool supply came from Australia and New Zealand, and at the outbreak of the war the British government purchased the entire output of those countries for the duration of the war and one clip thereafter. Similarly, more than three-quarters of Canada's pre-war sugar supply came from Empire sources, chiefly Australia, the British West Indies, Fiji, Mauritius and South Africa, and again the British government purchased the entire exportable surplus. It was consequently decided that the Board should arrange for continued supplies of wool through the British Wool Control and for the Board to purchase Canadian requirements of sugar through the British Sugar Control.

The Board encouraged the Canadian production of some goods formerly imported. For example, the occupation of Norway and the dislocation of the British fishing industry made it difficult for Canada to get her normal supply of cod liver oil, and following a survey conducted by the Board, a rapid expansion of processing facilities in the Maritime provinces and eastern Quebec resulted in the 1939 output of 56,000 gallons of cod liver oil of medicinal and feeding grades being increased to more than 200,000 gallons in 1941. As another illustration, the Board was able to facilitate the establishment of a privately financed wool combing plant at Acton, Ontario, from which it was possible to produce a substantial quantity of tops to supplement normal imports from the United Kingdom.¹

To assist in the organization of supply, it was decided at various times to institute export control on wool, hides and leather, fish livers and oils, animal fats and mill feeds. Domestic licensing was introduced in the case of coal and hides and leather. All coal dealers and all dealers in and manufacturers of hides and leather were required to obtain a license from the Board; this licensing system gave the Board a ready method of getting essential information from and to each member of the industry and it

¹Cf. Chapter 6, Vol. III, Primary Textiles.

also provided a means of disciplining those who were recalcitrant in obeying orders of the Board. Anti-waste campaigns, as in the case of butter, and steps to detect and prevent hoarding were other methods of increasing supply.

PRICE AND RENT FIXING

During this pre-ceiling period price fixing was carried out in the case of just four commodities, wool, butter, bread and flour, and on rents; and for each of the commodities it was only a temporary measure.

Apart from these specific price fixing orders the Board claims to have

“exercised a strong influence against price increases through its power to investigate and prosecute any cases of alleged profiteering and the known fact that it stood prepared to follow up all complaints regarding unreasonable price enhancement”.

Also, the Board stated that in a number of cases, for example, mill feeds, price increases were prevented or limited by discussion with the industry without the necessity of formal control.

Rent control during this early period was of more significance in the broad field of wartime price controls than were the price fixing orders because it set the pattern for the nation-wide rental ceiling adopted 14 months later. The large movements of population into certain areas which became centres for the armed forces or for war industries caused acute housing shortages in these areas and rents started to rise sharply. It was decided, therefore, to place a ceiling on rents in such localities. By the first rentals order, effective on October 1, 1940, rentals in fifteen localities were fixed at their levels as at January 2, 1940. Provision, however, was made for local committees to hear appeals in cases where special circumstances rendered the January, 1940, rent inappropriate as a ceiling. By subsequent orders, rent control was later extended to other congested areas. From the outset rental ceilings were based on actual rents during some “basic period” rather than on the principle of a “fair return”.

PART II: OVER-ALL PRICE CEILING; 1941-1945

TRANSITION PERIOD

Growing Pressures

During the second and third quarters of 1941 the pressures on the Canadian economy increased greatly. The demand for war goods from Canada, both raw materials and manufactured articles, had been relatively low during 1939 and early 1940, but after the invasion and collapse of the Low Countries and France in May and June 1940, there was a sudden change.

The Gross National Product, which had been \$5,598 million in 1939, was \$6,772 million in 1940 and in 1941 was \$8,434 million, or \$496.8, \$595.0 and \$732.9 on a per capita basis. This compared with \$608.5 per capita in 1928, and the cost-of-living index in 1941 still averaged only 92.7 per cent of the 1928 level so the increase in real output was probably even

greater than these figures indicate. As a result of this rapid expansion, the labour market by the summer of 1941 was becoming much tighter. It is true that estimates indicate that unemployment on June 1, 1941 was eight per cent of the civilian labour force, but this was a vast decrease from two years earlier. Considerable "bidding up" of wages by employers was becoming apparent. Furthermore, the supply of raw materials, parts and finished goods from the United States which previously had seemed almost unlimited, was being affected by the rapid development of the armament program within that country.

Another consequence of this greatly increased economic activity was the rapidly rising spending power of the Canadian consumer. Total personal incomes in Canada were estimated at \$4,291 million in 1939, \$4,926 million in 1940 and \$5,873 million in 1941. Personal payments of direct taxes and personal savings also rose but by lesser amounts; the total of the two was \$430 million in 1939 and \$859 million in 1941, with the result that personal expenditures on consumer goods and services rose from \$3,861 million in 1939 to \$5,014 million in 1941.

Until this time it had been possible to satisfy the increased demand for consumer goods as well as the growing war needs, because the country's total production was expanding so rapidly. The time was clearly approaching, however, when this would no longer be possible because the resources formerly unemployed had now almost completely been put into use and the demands of war continued relentlessly to expand.

These various pressures were having their effect on prices. The wholesale price index (1926=100) was 78.4 in September, 1939; it rose to 81.7 by December, 1939, and by March, 1941, fifteen months later, had reached 86.0. In the six months between March, 1941 and October, 1941, however, it rose by as much as it had in the previous 24 months to 93.9. The movement of the cost-of-living index was very similar. On the base 1935-1939=100, it was at 100.8 in August, 1939, 103.8 in December, 1939, 108.2 in March, 1941 and 115.5 in October, 1941.

Choice of Methods of Control

By the fall of 1941 it was evident that a new phase of the inflationary spiral was on the point of developing. That greatly intensified measures were essential to combat it was clear, and much attention was given during the summer and early fall of 1941 to what form these measures should take.

For reasons which are outlined in Chapter 6, it was decided that fiscal and monetary actions, though an essential part of the full program, could not be depended upon to curb the powerful inflationary forces then being put in motion. More direct action was necessary. Which should it be, an intensification of the use of selective controls, firmly fixing prices and regulating uses but confining these actions to key and basic commodities; or placing a price ceiling on all goods and services, with accompanying production and distribution controls? The choice fell on the over-all

ceiling policy, for reasons which were outlined by the Minister of Finance in the house of Commons on November 6, 1941, and have been further discussed by Mr. K. W. Taylor.¹ Briefly, the advantages of the over-all ceiling were stated to be as follows:

- (a) It is non-discriminatory; it puts everyone under the same restrictions. Selective controls, on the other hand, prevent only those who are making "socially necessary" goods from raising their prices, and lets all others, whose activities may be contributing little or nothing to the war effort, charge what the traffic will bear.
- (b) It is administratively and politically much easier than selective controls which in a quickly developing inflationary spiral require the constant and detailed checking of price and supply conditions. This takes much skill and valuable time, and danger spots may well reach alarming proportions almost before they are discovered. Also there will be endless pressure on the control authorities in respect to all important commodities, the direction of the pressure depending upon whether the party concerned is a producer or a user of the article in question.
- (c) It has the advantage of fixing all prices in a relationship to each other which is determined by the forces of supply and demand operating in the open market prior to the introduction of the ceiling and is not empirically chosen as would be the case with selective controls. Eventually, of course, changing circumstances may make certain of the "ceiling" relationships no longer applicable, but to deal with such adjustments is simpler than the infinitely complicated problems involved in determining "fair" prices for controlled articles when other items entering into their production costs are uncontrolled and are continually rising in price.
- (d) It tends to stabilize production, whereas selective controls would encourage materials and manpower to be transferred into the manufacture and distribution of uncontrolled, and therefore, by definition less necessary, goods.
- (e) Because of the fact that the uncontrolled items would be continually exerting upward pressure on the prices of controlled items by entering into their costs, selective controls could only retard the upward movement.

The Announcement of the Ceiling

Meanwhile, steps were taken to increase and clarify the authority of the Prices Board. On August 14, 1941, the control and supervision of the Wartime Prices and Trade Board was transferred from the Minister of Labour to the Minister of Finance, thus unifying both fiscal and direct anti-inflationary policy under the one Minister. At the same time the Board was given authority to control consumer credit.

¹Canadian Journal of Economics and Political Science, February, 1947.

On August 28, the authority of the Wartime Prices and Trade Board was extended from "necessaries of life" to "goods and services" except for the supply and allocation of materials essential to the war effort which were placed under the jurisdiction of the Wartime Industries Control Board in the Department of Munitions and Supply. It was also provided that no order or regulation of any Dominion or Provincial authority establishing specific or maximum or minimum prices or mark-ups should be valid unless concurred in by the Wartime Prices and Trade Board. Thus the Board became the final administrative authority in the whole field of price control.

On October 14, the Board brought under control consumer credit in respect to a long list of articles, the down payment on which was fixed at $33\frac{1}{3}$ per cent (or in some cases more), the balance being payable in not more than twelve months. Subsequent orders placed additional articles under the regulations, made some alterations in the terms, and placed limitations on the length of time that charge accounts could remain unpaid.

On October 18, the Prime Minister announced the introduction of the over-all price ceiling. His statement referred to the growing inflationary pressures, the disastrous effects that inflation would have on the war effort and on the solution of post-war problems, and the limitation of selective controls under these conditions. The prices of finished goods could not successfully be controlled, he said, unless their costs of production were also controlled. Consequently, the principle of wage control, introduced at the end of 1940 for wartime industries on a somewhat tentative basis, was to be extended to cover all industry. From then on no employer in industry or commerce, agriculture and fishing being notable exemptions, would be allowed to increase the basic wage rate without the permission of the National War Labour Board or a Regional War Labour Board. A cost-of-living bonus was to be paid, adjustable each quarter if the cost-of-living index at the quarterly date had risen or fallen by one point since the last quarterly date. The principles on which the War Labour Boards were to allow wage increases changed from time to time, and in November, 1943 the cost-of-living bonus was abandoned, the existing bonus being incorporated into the basic wage rate. At that time the government promised to review the whole policy of price and wage control and to take appropriate action if the cost-of-living index should rise by more than three per cent and remain at that level for two consecutive months.

Salary control was announced shortly afterwards, November 6, by the Minister of Finance in the House of Commons. It was considerably more rigid than wage control, without any cost-of-living bonus except at the lower levels and making "up-grading" or "promotion" much more difficult than was the case with wage-earners.

Finally, the Prime Minister referred to the special position of agriculture, pointing out that, with certain notable exceptions, particularly wheat, the prices of farm products had risen most satisfactorily in the

past two years. He then announced that payments, amounting to roughly \$20 million, would be made to western Canadian farmers in order to supplement their incomes and that, in order to make increased feed supplies available in eastern Canada for the production of bacon and dairy products, transportation costs would be paid on feed grain and other feeds from the head of the Lakes to points in eastern Canada.

THE CEILING

Its Provisions

The over-all price ceiling came into effect on December 1, 1941. Its provisions and the necessary enlargement of powers of the Wartime Prices and Trade Board were set forth in two Orders-in-Council adopted on November 1, 1941, and entitled "The Maximum Price Regulations" and "The Wartime Prices and Trade Regulations". Two further Orders-in-Council defining the rentals ceiling and giving the Board the necessary powers to enforce it were passed on November 21, 1941, and were entitled "The Maximum Rentals Regulations" and "The Wartime Leasehold Regulations".¹

The price ceiling applied to all goods unless specifically excepted by the Board and to those services specified in the Maximum Price Regulations. It laid down that, unless the Board ordered otherwise, the highest price at which any person might sell any goods or those services listed in the Regulations was the highest lawful price at which he had sold those goods or services during the four weeks from September 15 to October 11, 1941, which was determined as the "basic period". The Regulations exempted the following types of transactions:

- (a) any sale of goods for export where such export is made by the seller or his agent;
- (b) any sale to the Department of Munitions and Supply or any agency thereof;
- (c) the sale by any person of his personal household effects;
- (d) isolated sales of goods or services by any person not in the business of selling such goods or services;
- (e) bills of exchange, securities, title deeds, and other similar instruments;
- (f) sales of goods by auction in cases where such procedure is the normal practice and is followed in good faith and without any intention of evading or attempting to evade the provisions of the regulations or of any order.

The services to which the ceiling applied were: the supplying of electricity, gas, steam heat and water; telegraph, wireless and telephone services; the transportation of goods and persons, and the provision of

¹For a full list of all Wartime Orders-in-Councils relating to price control see "Statutes, Orders and Official Statements Relating to Canadian Wartime Economic Controls", by Sheila I. Stewart, *The Canadian Journal of Economics and Political Science*, February, 1947.

dock, harbour, and pier facilities; warehousing and storage; undertaking and embalming; laundering, cleaning, tailoring and dressmaking; hairdressing and beauty parlour services, plumbing, heating, painting, decorating, cleaning and renovating; repairs of all kinds; the supply of meals, refreshments and beverages; the exhibiting of moving pictures.

Authority and Responsibilities of the Board

The Board had the power to exempt any good or service from the price ceiling or to include under the ceiling any service not specified in the Maximum Price Regulations. It could fix maximum, minimum or specific prices for all goods and services. It had authority over the production, distribution and selling of those goods and services which did not come under the authority of the Department of Munitions and Supply. It could, however, regulate the production, distribution and selling of goods and services coming under that Department if the action was requested or concurred in by the Chairman of the Wartime Industries Control Board.

There was some overlapping between the Prices Board and the Departments of Agriculture, Fisheries, and Munitions and Supply. The position between the Board and the Departments of Agriculture and Fisheries was clarified by a statement in the House of Commons by the Minister of Finance in February, 1943, which laid down that the two departments would have responsibility for ensuring adequate production of all agricultural or fisheries commodities, for the diversion of those commodities to the armed forces and other priority users, and for presenting to Council recommendations for subsidies to be paid to primary producers. The Prices Board was given the duty of estimating and defining, in consultation with other interested departments or agencies, the over-all domestic needs for food, and was made responsible for food imports, for distribution of all foods to retailers and to civilian consumers, and for all consumer rationing. It also retained the final responsibility in all matters of price.

Overlapping between the Prices Board and the Department of Munitions and Supply arose from the fairly wide range of goods which were used both for war and civilian purposes. The division of authority was made on the general principle that the Prices Board had jurisdiction over those raw materials and end-products which were chiefly required for civilian use and the Department of Munitions and Supply over those chiefly required for war purposes.

The Wartime Prices and Trade Board exercised its powers by Orders issued by the Board or by its Administrators acting under authority granted to them by the Board. Since it functioned in much the same way as the Wartime Industries Control Board and its Controllers, considerable uncertainty arose when, in the latter part of 1942, the defendant to an action questioned the right of a Controller of the Department of Munitions and Supply to issue Orders and received from the court a judgment in his favour. To settle the issue the government immediately referred to the Supreme Court of Canada a question which was, in effect, whether the

Governor-in-Council had power under the War Measures Act to constitute such boards as the Wartime Prices and Trade Board and the Wartime Industries Control Board and to authorize them to exercise the powers vested in them by their own Orders and by Orders of their Administrators and Controllers. The court unanimously decided, in January, 1943, that the Governor-in-Council had such power and that the Orders of the Board and their Administrators and Controllers, if made pursuant to the powers given to them, were valid and enforceable.

The following quotation from the judgment of the Supreme Court outlines the principle on which it was based:

"The powers conferred upon the Governor-in-Council by the War Measures Act constitute a law-making authority, an authority to pass legislative enactments such as should be deemed necessary and advisable by reason of war; and, when acting within those limits, the Governor-in-Council is vested with plenary powers of legislation as large and of the same nature as those of Parliament itself. Within the ambit of the Act by which his authority is measured, the Governor-in-Council is given the same authority as is vested in Parliament itself. He has been given a law-making power.

The conditions for the exercise of that power are: The existence of a state of war, or apprehended war, and that the orders or regulations are deemed advisable or necessary by the Governor-in-Council by reason of such state of war, or apprehended war.

Parliament retains its power intact and can, whenever it pleases, take the matter directly into its own hands. How far it shall seek the aid of subordinate agencies and how long it shall continue them in existence, are matters for Parliament and not for courts of law to decide. Parliament has not abdicated its general legislative powers. It has not effaced itself, as has been suggested. It has indicated no intention of abandoning control and has made abandonment of control, in fact. The subordinate instrumentality, which it has created for exercising the powers, remains responsible directly to Parliament and depends upon the will of Parliament for the continuance of its official existence."

PRICE PROBLEMS AND POLICIES

The introduction of the over-all price ceiling created all manner of problems. These are dealt with at some length in the various reports of the Wartime Prices and Trade Board. The following sections give the barest outline of some of the major problems and the lines along which solutions were worked out. Nevertheless there may be a risk that this summary treatment will leave the wrong impression. We therefore draw attention to the evidence given by Mr. Taylor when discussing the problem of mark-up control which must have been only one among thousands of similar cases with which the Board had to deal.

"It really becomes quite a complicated problem because prices of those commodities can vary quite widely even from day to day. Generally speaking, it is difficult to justify and compel the sale of the same quality goods at different prices on the same market on the same day, and yet even the same importer may have two or three cars of oranges arrive on the same day that left their destinations on different days and which were bought at different laid-down costs.

To meet that situation we have to go into what are rather elaborate prescriptions of paper work in form of reporting car numbers, actual laid-down costs and average costs over very short periods of time. At one stage we even found that we had to require that the car number be marked on each invoice. However, we have been able to simplify that to some extent."

Rising Costs and Other Difficulties

One immediate problem was caused by what is known as the "time lag" in price movements. Goods are normally sold at a retail price based on the cost of the goods when they were purchased from the wholesaler some time previously. The wholesaler has similarly based his price on the cost of goods at the time when he bought them from the manufacturer, the manufacturer's price being in large part determined by the cost of the raw materials and labour at the time that he purchased or employed them. In short, the retail price of an article is based on costs which were incurred perhaps a considerable number of months previously. Consequently, in times of sharply rising prices, the replacement cost will be substantially above the appropriate price at which the goods are being sold. As a result of this, when the ceiling was introduced, many Canadian retailers and other business men found themselves unable to make replacements at a price which would give them anything like the normal rate of return.

Higher import prices and higher shipping costs were also factors. Because of the very large volume of raw materials, parts, or manufactured goods imported into Canada from the United States, the continuing rise in American prices for some months after the introduction of the Canadian ceiling contributed substantially to higher costs. Mr. K. W. Taylor, testifying before the Special Committee on Prices, stated that if American prices had not subsequently been brought under control "the strain on Canadian controls might well have become intolerable."¹ Increased ocean freight rates and marine insurance costs resulted from the spread of the war for the United States entered the war just one week after the introduction of the ceiling.

Two further factors, of importance at the imposition of the ceiling, exercised even greater pressure somewhat later. The first of these was higher labour costs. Labour in agriculture and fishing was not under wage

¹Evidence, Special Committee on Prices, p. 55, and Cf. Chapter 4, External Influences on the Canadian Price Level.

control. All industries included under the Wage Order had to pay an additional cost-of-living bonus of 60 cents a week in July, 1942. In the case of a substantial number of firms the War Labour Boards had regarded their wages as depressed and had approved increases. Many employers engaged in considerable "up-grading" as a concealed form of wage increase to keep workers. Furthermore, the great demand for manpower, and womanpower from the armed services and war industries increased the rate of labour turnover in most civilian industries with the result that more time had to be spent on the training of employees before they could reach normal efficiency. Further a generally less experienced group of people were finding their way into industry and took much longer to train than the pre-war employee, in many cases perhaps never reaching the same efficiency. All of this raised labour costs.

Operating costs also rose for other reasons. For example, decreased production in some industries raised unit costs. In certain cases scarcities of material involved the use of more costly substitutes. Also land transportation had to be used in some cases instead of the normal and cheaper water transportation. Irregularities in the flow of supplies interrupted production and kept machinery and labour underemployed and because the employer did not like to lay off labour for temporary reasons for fear that he would not get it back, his unit costs were increased. Also, by creating unbalanced inventories, these interruptions in supply tended to raise inventory carrying charges.

Another influence on costs was the steady upward pressure of farm prices. The reasons for this pressure and its results have been set forth by Mr. Taylor.¹

"The farm pressure was never intransigent or intractable, but it rarely relaxed. The reason for this was not hard to state, notwithstanding the relatively greater rise in farm prices compared with non-farm prices nor the very great expansion in farm cash incomes. Farm prices are in effect the farmer's wages, and the prominence given to industrial wage discussions brought home to the masses of farmers as never before both the absolute level of urban skilled wages and the rate of increase. Admittedly the ceiling was holding their material and equipment costs effectively, but there was no wage ceiling on farm labour and farm labour was desperately short. Farmers felt that they were being urged greatly to increase production but found themselves without hired help or with indifferent help at two or three times the pre-war wages. Farm labour turnover was extremely high, making it difficult to plan the farm program for the year. In relation to demand the supply of farm machinery was short, and shortages of lumber, repair parts, or milk cans tended to breed an irritated frustration. Agriculture as a whole steadily and sincerely supported the price stabilization program, but there were always good reasons, first for this group

¹Canadian Journal of Economics and Political Science, February, 1947.

and then that, first this season and then next, to press for some adjustment 'to bring them into proper relationship'. Food prices continued to rise until the autumn of 1943, but after that date were held steady for nearly two years, though not without some increases in agricultural subsidies."

The problem produced by rising costs pressing against the ceiling was colloquially known as "the squeeze" and the first method of attacking it was "rolling back and sharing the squeeze". Steps were taken to distribute the increased cost among the retailer, wholesaler, manufacturer, and primary producer or importer, this being done by slightly lowering the ceiling at the appropriate stages of the trade behind the retailer so that the whole burden did not rest on him. At the same time, costs were lowered where possible by "simplification" of production and curtailment of special services. Finally, if these two methods taken together were insufficient and the goods were considered essential, the government either paid a subsidy, remitted import duties, or purchased the raw materials in bulk and sold them to the trade at a loss.

In a limited number of cases, where subsidies or other forms of financial assistance were regarded as inadvisable, price increases were granted. In very few cases, however, was the retail ceiling altered. Neither was it usually the policy of the Board to give financial assistance or permit price increases to compensate for wage increases.

Other Price Problems

Several other problems were encountered. New goods which were not on the market at the time of the basic period required a ceiling price to be established by the Board. Seasonal prices of many basic commodities, particularly agricultural products happened to be at about their low point during the basic period and would normally be expected to rise somewhat at other times of the year even if prices generally were stabilized. There was the problem of "anomalous prices", prices of a particular article sold by a particular manufacturer or retailer which for some reason or other were substantially lower than those for comparable articles sold by comparable manufacturers or retailers during the basic period.

For goods where it was difficult to establish the price at the basic period, or where for other reasons an "individual ceiling" for each seller was difficult to administer, a standard maximum price was established which sometimes varied by regions. In a few cases the goods were exempted from the ceiling. There was a further problem in price-quality relationships, for a deterioration of quality is equivalent to an increase in price and the disappearance of low-priced goods from the market results in an increase in the cost of living.

The various solutions of all of these problems will be discussed in greater detail in the following sections.

Rolling Back and Sharing the Squeeze

Many examples of this can be found in the Prices Board Reports, particularly the first Report. One of the best examples was leather footwear, which was a case involving the sharing of the squeeze, the introduction of simplification measures, and the payment of a subsidy. Soon after the ceiling was adopted it was the judgment of the Board that without relief, shoe manufacturers could not carry on under the retail ceiling. An investigation was made by the Board which indicated that approximately 15 per cent of the manufacturers' ceiling prices would have to be absorbed to enable the industry to carry on without serious difficulty, provided that the cost of leather was maintained at basic period prices. It was arranged that four per cent would be passed on to the wholesale retail group, that the manufacturers would absorb four per cent and that a temporary subsidy would be paid to take care of the remaining seven per cent. A simplification program was then introduced, which took care of about three per cent of the squeeze and made it possible to reduce the subsidy to four per cent. Later still the subsidy was eliminated.

In many cases, the squeeze was absorbed within the industry, and sometimes within one section of the industry. Manufacturers of hosiery, for example, met a 20 per cent increase in the cost of bemberg yarn and a large rayon manufacturer absorbed an increase of two cents a yard. For rayon piece goods an arrangement was made by which manufacturers agreed not to charge more than 10 per cent above the prices they had charged for similar products in January, 1941, although the costs had risen a good deal more. The rest of the trade absorbed the remainder of the squeeze. As an example of "rolling back the squeeze", the prices of all primary cotton fabrics were rolled back to the February 1941 level, and the processors had their raw cotton subsidized down to prices which were appropriate to that level.

Simplification and Conservation Measures

The simplification and conservation program involved the limitation of the number of lines or types of goods that could be manufactured, or services that could be given. For example, the many and varied restrictions on the style of men's, women's and children's clothing, in general were designed to cut down the unnecessary use of cloth without destroying the essential usefulness of the garment. Styles involving "cloth on cloth" were prohibited and the length of ladies' dresses was restricted. There were limitations on the types of paper that could be made, the number of colours and types of paints, the number of designs of cotton print cloth, and countless other things. There was a long list of goods in which no metal could be used other than gold or silver. The form of packaging of a wide variety of articles was controlled and there were limitations on the types and styles of containers. As examples of limited services, there were a number of restrictions on the delivery of goods, perhaps the best known of which was that no order could be delivered when the total purchase was less than \$1.00.

These restrictions were introduced for various purposes, some of them, as has already been indicated, to cut down expenses, and others to conserve scarce goods, labour, or transportation space. However, irrespective of the immediate purpose of their origin, most of them served a number of ends. The limitation on the variety of lines of goods that might be manufactured cut down manufacturing costs because it reduced the time wasted in changing over from one line to the other, and in the same way it saved labour. Fewer lines allowed lower inventories, which both cut expenses by reducing the amount spent on carrying charges and saved materials by reducing the number of items lying idle on the shelves. The restriction on deliveries conserved gasoline, rubber and labour and also reduced operating expenses. Consumer credit restrictions, which were introduced to limit the demand for goods, also had the effect of diminishing the number of bad debts and consequently reducing the expense of carrying and attempting to collect these debts. On the other hand, some of the conservation measures resulted in higher rather than lower operating costs by forcing the manufacturer to use a more expensive substitute; some of the limitations on the use of metal had this effect.

All of these restrictions resulted, of course, in limiting competition in regard to the variety of good or service offered—a very important form of competition. If they had been initiated under normal conditions by the industries themselves for the purpose of preventing the resulting economies from being passed on to the public instead of having been imposed by a government authority acting in the public interest they would most certainly have aroused the concern of the Commissioner of the Combines Investigation Act. The post-war implications of the imposition of these restrictions, many of which seemed to be welcome to the industry in question, are discussed later in Chapter 11.

Subsidies, Remission of Duties and Trading Losses

Subsidies, remission of customs duties and bulk purchasing leading to trading losses can all be covered under the one heading for they were different means of achieving the same end, and the principles governing them were essentially the same. Subsidies and other financial assistance were given either when the "squeeze" of costs against the ceiling was so great that a curtailment of production was threatened or when it was felt that a higher return to the producer would encourage additional production of an essential article. Most of the subsidies of this latter type known as "incentive subsidies" were paid by the Department of Agriculture or the Department of Munitions and Supply, but there were a few which fell within the jurisdiction of the Wartime Prices and Trade Board. One example was canned fruits and vegetables, (later extended to jams and jellies) fruit and vegetable containers and wood fuel. To encourage the maximum production of these commodities, it was considered desirable to protect the producers against possible loss resulting from stocks being left on their hands at the end of the season. Consequently the Board undertook to purchase any surplus stocks at an agreed price.

At this point it may be useful to summarize some of the arguments used to explain the purpose of subsidies.

A good deal of emphasis was placed upon the point that subsidies were paid in the interests of consumers. As a matter of administrative efficiency, the actual subsidy payments were made at the point in the industry where there was the smallest number of concerns and as near the start of the process as possible, that is, the manufacturing or importing level rather than the wholesale or retail level. But the subsidy was not intended to benefit those to whom it was paid. The purpose of all subsidies was to permit goods to be sold at a lower price than would otherwise have been possible.

Another question was raised from time to time, namely, what real benefits were obtained from subsidies, even admitting that they resulted in lower prices, since the money to pay for them came out of the pocket of the consumer in the form of taxes? The answer given by the Board was in two parts, first, that the payment of subsidies at an early stage of the process prevented pyramiding of costs and therefore cost a good deal less than the rise in price that would otherwise have occurred and, second, that whereas the burden of rising prices for essentials of life falls on the rich and poor alike, taxes are to a considerable extent levied in accordance with ability to pay.

Various statements outlining the principles on which subsidies on imported goods would be paid were issued from time to time; the principle that the subsidies would be paid only on goods which were both essential and came under the price ceiling was continually adhered to. For example, no subsidies were payable on goods destined for sale to the Department of Munitions and Supply or for export but the lists of goods which were declared ineligible for subsidy and those requiring approval prior to the importation of the goods both became progressively larger.

Early in 1942 a "limitation of subsidy formula", popularly known as "profit control", was introduced in the case of certain industries, in consultation with the industry, and was subsequently extended with appropriate variations to meet individual cases, to a wide variety of industries. It was explained to us by Mr. Taylor in his evidence that it was not the policy of the government to subsidize any company into earning "excess profits" and thus a subsidy was regarded as an accountable advance and was repayable to the extent that the company's earnings exceeded $116\frac{2}{3}$ per cent of "standard profits". This was the point at which the 100 per cent excess profits tax became effective. Consequently any company receiving subsidies and being in the excess profits tax bracket was deprived of the 20 per cent portion of the tax which was refundable after the war. The explanation given by the Minister of Finance was "that the subsidy in conjunction with the special conditions attached to it should leave the industry in a worse, not a better, profit position than before the price ceiling was imposed."¹

¹House of Commons Debates, April 23, 1942.

The profit control clause in subsidies served two purposes. Firstly, it permitted the Board to pay subsidies to an industry, in the knowledge that all subsidies contributing to excess profits on the part of the more efficient companies would be returned to the Treasury. This, of course, was in effect subsidizing only the less efficient companies in the industry. Profit control also permitted the Board to give immediate assurances of protection to an industry which was facing great uncertainties and did not know whether or not it could continue to produce without loss. The Board knew that if conditions subsequently turned out to be better than had been represented, and the subsidy proved to be unnecessary, it would be returned to the Treasury.

It was pointed out in evidence before us by Mr. Taylor that the effect of the profit control clause in limiting the total amount of subsidy payments was very great. However, it seems to us impossible to measure statistically the effect, because we are informed that as soon as the formula became known and its operation understood, a very considerable number of companies did not apply for subsidy, knowing that they were in the excess profits tax bracket and would merely have to refund what they received.

In his evidence before us Mr. Taylor stated that the total amount paid out in subsidies under the jurisdiction of the Wartime Prices and Trade Board was \$398 million from December 1, 1941, to March 31, 1948, and of this amount approximately \$230 million were paid on imported goods, the remaining \$168 million being on domestic goods. In addition, net trading losses on bulk purchases amounted to \$69,900,000. This figure, however, related only to trading losses of the Commodity Prices Stabilization Corporation¹ and other affiliated companies of the Prices Board and did not include the accounts of the Sugar Administration which, as of August 31, 1948, had a reserve fund built up largely out of profits on imports of raw sugar, amounting to \$17,178,000. These subsidy figures do not include certain important subsidies on food products paid by the Department of Agriculture or by the Department of Finance and also certain subsidies paid by the Department of Munitions and Supply which amounted during the same period to approximately \$500 million.

Before leaving the question of subsidies and other forms of financial assistance, reference should be made to certain subsidies introduced late in 1942 for the express purpose of holding the cost of living stable. As the first Report of the Prices Board described the situation, between October 1, 1941 and July 2, 1942, the cost-of-living index rose by 2.4 points (August 1939=100), which meant an increase in the cost-of-living bonus of 60 cents a week. On November 1, 1942, the index had risen by another 0.7 points, and there seemed little doubt that before long a further increase in the cost-of-living bonus would become necessary. A steadily increasing cost-of-living bonus raised costs and would have made it progressively harder for the Prices Board to disregard wage increases as a reason for financial

¹A Crown Company operating under the direction of the Wartime Prices and Trade Board.

assistance. Further, the rise in the cost of living affected everybody in the country whereas important sectors of the economy were excluded from the cost-of-living bonus.

To offset the increase in the cost-of-living index between October 1, 1941, and July 2, 1942, which had been caused almost entirely by an increase in the price of food the government decided to introduce a program of subsidies and remission of duties expressly designed to lower the cost of milk, oranges, tea and coffee. The action was effective. In the month between December 1, 1942, and January 1, 1943, the cost-of-living index declined by 1.7 points to a level only 0.8 of a point above that of November 1, 1941. From that date until the end of 1945 the cost-of-living index rose by only 3.8 points.

Price Increases

The price increase for coal was of rather special interest for it was the only occasion on which a price increase was granted explicitly because of a wage increase. Late in 1943, there was a strike in the western Canadian coal fields and wage increases of \$1.00 per day and holidays with pay were granted as the result of a recommendation by a Royal Commission. Shortly thereafter substantial increases were also granted to coal miners in Saskatchewan and Nova Scotia by the National War Labour Board. It was considered that the mine operators could not themselves meet these higher production costs, so the government authorized an increase in the price of domestic coal and directed the Wartime Prices and Trade Board to determine the appropriate amount.

New Goods not on the Market at the Time of the Ceiling

New goods became an increasingly important matter as key materials became scarce and more substitutes had to be used. It was important, in many cases, that commodities manufactured from these substitutes should be made available, but the Board had to take particular care to see that the device of "new" goods was not used, as it easily could have been, to obtain a hidden price increase for goods that were essentially the same as the "old" goods. New goods were divided into three classes:

- (a) "Identical goods": goods which, while not being sold by a particular retailer during the basic period, were sold by other retailers; they were given the same ceiling price as that applicable to the same goods being sold by a competitive seller.
- (b) "Similar goods": goods that were similar in usefulness, durability, etc., to certain "standard goods" (that is goods on which a ceiling price had been established). These were given a maximum price corresponding to the ceiling for the goods to which they were similar.
- (c) "Dissimilar goods": goods which differed in usefulness, durability, etc., from "standard goods". These included articles which had been off the market during the basic period because materials to make

them were not available, but which in 1943, and 1944, began once again to come on the market. The main consideration in pricing these goods was to put them at the level at which they would have sold if they had been available during the basic period.

Seasonal Goods

These fell into two classes: those manufactured goods not normally sold during the basic period, such as some sports goods; and basic commodities, particularly agricultural products, which are subject to seasonal variation and were at a low point during the basic period. The principle the Board applied in regard to manufactured seasonal goods was to price them at their 1941 level with an appropriate allowance for the price rise that would have taken place between the time when they were sold during that year and the September-October basic period.

In regard to basic products, the Board's general policy was to permit what would have been a normal seasonal price increase from the basic period level, and in the case of certain products fluctuating seasonal maximum prices were worked out. Meat was an example of this, but the Board eventually found it desirable to drop the seasonal variation at the wholesale price level and to make provisions to see that any seasonal drop in wholesale prices would be passed on at the retail level.

Anomalous Prices

Problems of this nature were fairly numerous during the first few months of the price ceiling and were of quite considerable importance, but they were of a non-recurring nature. They concerned a particular manufacturer or distributor who for specific reasons had sold goods during the basic period at a lower price than his competitors, but who could no longer afford to do so. It was the general policy of the Board to allow such prices to be raised to the competitive level for the same goods in the same locality.

Standard Maximum Prices

The price ceiling, as has already been pointed out, was based on "individual ceiling prices", that is, a ceiling price based on the maximum price charged for the article in question during the basic period. In certain cases it appeared impossible to ascertain the individual seller's maximum basic period price; in fact, from the outset ceiling prices for farm commodities were the maximum prices recorded for their commodity on the market during the basic period rather than the highest individual selling price.

The Board found that in a number of other cases, particularly in food products, it was extremely hard to check the basic period price of the individual seller, and consequently enforcement of the ceiling was difficult. The Board therefore adopted the practice of establishing "standard maximum prices" which replaced the individual ceiling prices for the commodity in question. These standard maximum prices were in some cases fixed at the retail level, and in others at the wholesale level with a prescribed maximum mark-up.

An interesting example of standard maximum prices was meat. A standard pricing system for beef sold at retail was first introduced on an experimental basis in the Toronto and Winnipeg areas early in 1943. Shortly thereafter, with some modification as a result of the experience gained it was extended to 13 additional areas, all in eastern Canada, and a little later still was extended to the whole Dominion.

Two quite complex problems had to be worked out before these standard meat prices could be set. First, a system of standard cuts had to be agreed on, and this involved a good deal of study and discussion because the method of cutting up a carcass varied greatly, not only from locality to locality, but from store to store. When the standard cuts were decided upon, a chart clearly showing these cuts was issued for display in retail stores. The next problem was to ensure that the maximum retail prices would reflect any decline in the wholesale price of beef. A seasonally fluctuating maximum wholesale price was found to be unsatisfactory and had been dropped in favour of a fixed wholesale price ceiling, but it was anticipated that at certain times of the year the wholesale price of beef would drop below this ceiling. To ensure that such declines were passed on to the consumer the retailer was required to vary the price of his cuts according to the actual average cost of beef of the same quality bought by him in the previous week. So that there would be no confusion in the mind of the consumer as to the current maximum price, retailers were supplied with price charts and with attachable price strips which showed the retail price of each cut appropriate to varying average wholesale prices. Subsequently, similar systems of standard maximum prices were introduced for other meats.

Exemptions from the Ceiling

In a few cases where the importance of the article to the cost of living did not seem to justify the expensive and complicated administrative machinery to maintain price control, goods were exempted from the ceiling. Examples of these were books and other printed matter, philatelic specimens, paintings and other works of art, furs and garments made wholly of fur.

In some instances, extreme administrative difficulties caused goods that were considerably more important in living costs to be exempted, fresh fruits and vegetables and fish being cases in point. Fresh fruits and vegetables were particularly difficult to control because of the manner in which changes in quantity normally caused the price to fluctuate widely, even from week to week, and also because variations in size and quality made classification difficult. However, in 1942 and 1943 shortages of these articles caused such sharp price rises that, while still recognizing that these difficulties might prove serious barriers to effective price control, the Board decided that to attempt to impose a ceiling was the lesser of two evils. Potatoes and onions were brought under the ceiling in February and March, 1942, oranges in September, 1942, peaches, pears, plums, grapes and apples in the early summer of 1943, and imported grapefruit and

lemons, carrots, cabbages, beets, parsnips and turnips in October, 1943. Similarly the increased demand for fish which followed the imposition of meat rationing in 1943 made it desirable to impose a ceiling on several kinds of fish which had previously been exempted.

Newspapers, magazines and periodicals, both Canadian and imported, were exempted from the ceiling in August, 1942 for a rather special reason. The producers of many of these publications were experiencing increased costs and declining revenues, but it was considered too difficult to find a workable basis for a price increase because of the widely varying circumstances of each publication. A subsidy or other form of government financial assistance was regarded as being incompatible with the freedom of the press, and therefore the only solution seemed to be to exempt them from the ceiling.

A number of items were exempted from the ceiling in the case of sales between producers and processors or dealers on account of administrative difficulties. The Board felt that the ceilings at the processing and distributing level would keep the price of the primary product in line. Items of this type were sales by the primary producer to the manufacturer or dealer of livestock, poultry, fish, eggs, dairy products, honey, onions and potatoes, although such goods came under the ceiling if sold by the producer directly to the consumer.

Certain types of transactions, as opposed to specific commodities, were exempted from the ceiling in the original Maximum Price Regulations and two of these perhaps merit some consideration. Goods for export, where such export was made by the seller or his agent, were exempted because the purpose of the price ceiling was to protect the Canadian consumer and not the foreign consumer.¹ In the case of certain commodities, wheat, feed grains, maple sugar and syrup, schemes were eventually worked out whereby the export premium was collected by a surcharge or through government control of exports and passed back directly or indirectly to all the producers of that commodity.

Goods sold to the Department of Munitions and Supply or to any agency thereof were also an important exemption from the ceiling. This was done because the bulk of such goods were of non-civilian type, tanks, shells, gas masks, parachutes, etc. An understanding was reached that the Department would not purchase any civilian type goods at prices above the ceiling without explicit price clearance from the Board.

Price Quality Relationship

The Board regarded deterioration of quality or discontinuation of a service as tantamount to a price increase. In some cases, however, where the deterioration or discontinuance was forced on the manufacturer or distributor by government restrictions, and particularly if the changes had little effect on the usefulness of the goods, such as style changes or restrictions on deliveries, the Board was inclined to regard the savings

¹For a few months in 1945 and 1946 wheat was subject to an export ceiling of \$1.55 by Order-in-Council P.C. 6122, dated September 19, 1945.

to the trade which resulted from these restrictions as a reasonable means of offsetting higher operating costs and did not require a corresponding reduction in price. On the other hand, the Board attempted to prevent any unauthorized or avoidable degradation of quality or discontinuation of services.

A Standards Division was set up for the purpose of investigating any complaints of degradation, and a system of price tagging and identification labelling was applied to the majority of clothing and footwear articles so that any degradation that took place could be more easily established. To prevent manufacturers from trying to increase their profits by reducing their production of low price lines, on which the profit margin was normally small, and increasing the output of higher price lines with the larger profit margin, a Board Order required that manufacturers should continue to produce the same proportion of low price goods as was produced in the basic period.

SUPPLY PROBLEMS AND POLICIES

To divide the activities of the Prices Board between "prices" and "supply" is to make a distinction of method rather than of purpose. All the price decisions of the Board affected supply.

However, even though prices and supply were interrelated a separate treatment of supply is valid and useful because there were certain problems of supply which could not be solved by price adjustments but which required direct action. These activities fell into three main categories: (a) making arrangements to obtain necessary imports when the commodities were controlled by International Boards, commonly known as "Combined Boards", or by a foreign governmental agency, and to transport these goods to Canada; (b) seeing that the goods available in Canada, whether imported or domestically produced, were used to the best advantage; and (c) endeavouring to ensure that essential amounts of necessary goods were produced.

Getting the Goods from Abroad

A large proportion of the exportable supplies of essential materials were allocated by Combined Boards sitting in Washington. Among the most important of these Boards were the Combined Production and Resources Board, the Combined Raw Materials Board and the Combined Food Board. Raw materials and civilian goods produced in the United States were allocated by the Requirements Committee of the United States War Production Board.

Canada was a member of the Combined Production and Resources Board and the Combined Food Board; she was not a member of the Combined Raw Materials Board but information concerning her available supplies and her requirements were submitted to this Board usually through the medium of the Joint Materials Co-ordinating Committee (a joint Canada-United States committee). Canada's case was laid before the Requirements Committee of the War Production Board and its various divi-

sional requirements committees by the Canadian division of the United States War Production Board, with which the Washington office of the Wartime Prices and Trade Board maintained close and continuous contact.

The negotiations entailed in getting Canada's required allotments of scarce materials through the medium of these various Boards were necessarily complex. But even when allocations had been arranged, further negotiations had to be undertaken for purchase and, when the goods were controlled by some foreign governmental agency, bulk purchasing was necessary irrespective of whether or not a trading loss had to be taken. Finally arrangements had to be made for shipping space to bring the goods to Canada, involving a further series of technical negotiations.

Obtaining the Best Utilization of Materials

We turn now to the allocation of goods in Canada as between war and civilian requirements. This entailed a close liaison between the Board, which looked after civilian materials, and the Department of Munitions and Supply, which was primarily concerned with control of war supplies.

In the field of clothing and footwear, a National Textile and Leather Requirements Committee was formed in 1943, on which there were representatives from the three branches of the armed services, the Department of Munitions and Supply and the Wartime Prices and Trade Board, the representative of the Board being the Chairman of the Committee. This Committee reported directly to the War Committee of the Cabinet; its principal function was allocation of available supplies of textile and leather between the armed services, the civilian population and the Mutual Aid program.

In foods, the responsibility for domestic distribution, including allocations to the armed forces, rested with the Wartime Prices and Trade Board. An interdepartmental committee known as the Food Requirements Committee considered all major questions of policy connected with food production and supply in Canada and the supply of Canadian foodstuffs to other nations.

Another facet of materials allocation was the protection of domestic supply by export controls. These controls were administered by the Export Permit Branch of the Department of Trade and Commerce. Where exports were regulated by international agreement or by an allocation made by one of the Combined Boards, programs were worked out by the Prices Board in co-operation with other government departments concerned and with representatives of both the receiving countries and other supplying countries.

The allocation of materials in short supply among various manufacturers in Canada was handled by the Board. The method adopted varied widely from industry to industry, in some cases being by informal arrangement, and in others, by a formal permit. In the case of newsprint, for example, the administrator set a quota for each user and gave him a permit for the appropriate amount.

The allocation of labour was in the hands of the Department of Labour and its affiliated bodies. The Prices Board was concerned to see that, as far as was possible, the necessary quantities and types of labour were available for essential civilian production. The Board was, therefore, represented on the interdepartmental Labour Priorities Committee, which continuously surveyed and revised priorities.

Another policy had to do with the control of new businesses, which was exercised through the Board's licensing powers. During the period of acute shortages it was the Board's general policy (to which there were few exceptions) to allow no new concerns to start up business in any lines involving scarce materials and, complementary to this, to allow no existing firm to change or expand its business in any way that would involve the use of scarce materials.

Obtaining Essential Production of Necessary Goods

In a number of cases the production of necessary civilian goods appeared to be falling below the minimum essential level. In some cases, such as metal-using goods, this was due to a shortage of materials and appropriate labour, but in certain other cases (clothing being a prominent example) a most important factor was the increased demand resulting from rising incomes. There is little doubt that before the war many people in the lower income groups, both children and adults, were poorly clothed. As unemployment disappeared and incomes rose, the demand for clothing increased rapidly. The sharp wartime increase in the birth rate added to the demand for infants and young children's clothing and accessories.

In cases such as this, the Board, having been given the responsibility to see that minimum essential needs were satisfied, took action designed to increase production of the necessary articles. It did this by a technique known as "programming production", sometimes using for this purpose "production directives". The precise method of programming varied in different types of goods, but in clothing and footwear, which was by far the widest field in which programming took place, the system was as outlined in the following paragraph.

A production quota was given to each manufacturer, the size of the quota depending upon the requirements and the current facilities of that particular firm. The manufacturer was, in the first instance, expected to use any raw material inventories that he might have. If part of his plant was occupied in making goods not under a directive, he was expected to make any necessary transfers of labour from the production of those goods to the production of the "directed" goods. When these measures had been exhausted, the Board granted priorities to any manufacturer requiring raw materials in order to fill his quota. If there was a shortage of labour the Board presented the case to the Interdepartmental Committee on Labour Priorities. This Committee might take one of the following steps: request National Selective Service to assign higher labour priority ratings; recommend deferment for key workers; or sponsor drives for more labour of the type required. If the manufacturer was impeded by lack

of the requisite machinery the Board sponsored his priority application. Firms which were under production directives were required to give periodic reports to the Board.

In 1943 all types of knitted cotton and woollen underwear, infants' and children's fall and winter garments, and children's shoes, were under directives. In 1944 men's and children's socks and stockings, women's full length hosiery, men's worsted suiting fabrics, men's and boys' heavy woollen work garments, boys' light weight woollen clothing and overcoats and infants' and children's knitted outerwear were added to the list. In 1945 directives were further extended to cover men's suits, overcoats, top-coats, separate trousers, caps and work shirts, and women's coats, suits, dresses, shirts and work slacks.

In a number of other cases, notably primary textiles and various metal household goods, the programming was less and no directives were issued. In the case of farm machinery a percentage quota for each class of machine based on 1940-1941 production and imports was applied equally to all manufacturers and importers.

The Board's attitude towards luxury items can be summarized as follows: in the first place, as the 1944 Report expresses it, the Board considered that its responsibility was "limited to assuring sufficient supplies to provide for the essential needs of the civilian population, it does not extend to seeing that people get exactly what they want or all they want". Consequently, beyond what action was necessary to obtain essential supplies, to maintain the price ceiling and to secure equitable distribution, the Board did not consider that it had any mandate to interfere with the normal functioning of the economy. Secondly, there was no guarantee that the prohibition of luxury items, many of which were produced in small and specialized plants, would result in any noticeable increase in the production of necessary items. Therefore, aside from the simplification and conservation program already introduced, the Board confined itself to the positive action of ensuring, by these production programs, that essential quantities of necessary goods would be obtained.

DISTRIBUTION PROBLEMS AND POLICIES

Equitable Distribution to Retailers

There was some danger that the normal flow of distribution might be interrupted when a commodity was in short supply. Areas close to the centre of supply might get better treatment than those further away; some dealers might favour certain types of retailers, say the large chain stores, at the expense of others, and so on. As a means of preventing this the Board adopted what was known as the "Policy of Equitable Distribution", which in brief required that, when suppliers, that is, manufacturers and wholesalers could no longer supply the full requirements of retailers, they were to allocate their available supply among their customers according to the proportions supplied to each in the year 1941. Arrangements were made for adjustment of a quota when the amount taken in 1941 had

been abnormally low, or in the case of a community where there was an extraordinary increase in the civilian population. In order to allow for possible increases in the quotas of certain retailers, suppliers were requested to hold back a proportion of their goods to form a "kitty" out of which additional allocations could be made.

In certain cases, notably that of canned vegetables, the general policy had to be supplemented by special measures. Due to raw material shortages on the one hand and increased demand on the other, canned vegetables were in short supply during 1943. A system of coupon rationing would not have solved the problem, because the consumption of canned vegetables varied widely from group to group and locality to locality, depending in part on the availability and price of fresh vegetables. The system of equitable distribution tended to allocate the supplies to those areas which normally used the large quantities, but it was felt desirable to supplement this system by direct allocations to certain priority users, for example hospitals, lumber camps, and large institutions.

Consumer Rationing

Consumer rationing can be undertaken in two main forms, by coupon and by permit, and each form has a number of variations. Coupon rationing is at its best when the commodity is used widely and in roughly the same amount by most people, and when the production of the commodity is in the hands of a few firms. Sugar is a good example. It came under ration in July, 1942.

Tea, on the other hand, is a different proposition. A large number of Canadians drink substantial amounts of tea but an approximately equal number drink little or none at all. If the ration were fixed on the basis of the average per capita consumption the amount would come well below the reasonable minimum requirements of the regular tea drinker, but if it were planned to give the tea drinker a reasonable minimum, then many people would have had excess coupons. Some of these coupons might well find their way into the hands of tea drinkers and the net result would be no reduction in the consumption of tea, possibly even an increase. In the case of tea, however, it was possible to overcome this difficulty by rationing it together with coffee¹ so that each coupon gave the holder the choice of buying a specific amount of either tea or coffee.

In rationing butter² and meat³ it was recognized that little could be done to curtail the consumption of the primary producer. Consequently no limits were put on what he could use of his own production. He was, however, required to collect coupons for any products that he sold and to turn them in to the local ration board. Farmers who supplied their own meat were required to turn in up to one-half of their coupons. To assist in the control of meat rationing all slaughtering was made subject to licensing, except that farmers might slaughter for their own use or for sale to other farmers without a license.

¹Imposed in August, 1942.

²Imposed in December, 1942.

³Imposed in May, 1943; suspended, March, 1944; reimposed, September, 1945.

A variation of coupon rationing was adopted for meat. Certain cuts of meat obviously contain more bone, fat, gristle, etc., than others. To give each person an approximately equal share of edible meat the cuts were classified into four groups, the coupon value for each class being fixed according to the proportion of edible meat. Thus, since the basic ration was two pounds of meat at the average carcass weight, coupons entitled the purchaser to three pounds per week of the cuts with a high bone content but only one pound per week of cuts containing no bone at all. Cuts containing more than 50 per cent of bone were exempted from the ration, as also were edible offals on account of their perishable nature.

Yet another type of coupon rationing was introduced in September, 1943, for "preserves", covering canned fruit, jams, jellies, marmalades, molasses, honey, maple syrup, and other sweeteners. As the Board Report for 1943 pointed out, all of these items were in short supply, at least regionally or temporarily. None of them was sufficiently widely used nor in sufficient supply to warrant a separate ration. Because they were all interchangeable for each other as desserts or sweeteners, a system of group rationing was introduced which gave the purchaser the choice of any of these items for his coupon. The quantity of each item obtained per coupon was varied from time to time according to the available supply. One-half pound of sugar, independent of the normal sugar rations, was allowed as an alternative so that those who wished to make jam or marmalade could do so.

In rationing by coupon a number of special circumstances had to be met. Arrangements were made to provide rationed goods for so-called "quota users", hotels, hospitals and other institutions, boarding houses, etc., and also to industrial users of sugar and butter. Restrictions were placed on individual consumption of rationed goods in restaurants. In the case of sugar, provision was made for extra quantities for certain types of invalids on a medical certificate. But the Board decided against differential rationing on an occupational basis.

Permit rationing was used as a method for goods which were essential to certain groups in the community or which were purchased infrequently. At various times during the price ceiling permit rationing was applied to farm machinery, electric stoves, typewriters and office machinery, telephone services, protective rubber clothing, railroad watches and small arms ammunition.

A hybrid system was introduced for evaporated milk. A shortage in this commodity developed in 1943. The main elements in the problem were firstly, that in certain areas there was a deficiency of fluid milk, and secondly that, even in those areas where the fluid milk supplies were adequate, certain classes of people, infants and invalids, required evaporated milk for special reasons. The large proportion of evaporated milk supplies was, therefore, shipped to the fluid milk deficiency areas. In other areas, evaporated milk could be obtained only on presentation of what was known as a "ration document". While this document contained coupons, each of

which was good for a certain amount of evaporated milk, it was in essence a form of permit rationing rather than coupon rationing, for the coupons were given only to those with special needs.

RENTALS

The adoption of the over-all price ceiling in the fall of 1941 involved the extension of rental control from residential accommodation in a limited number of designated areas to all properties throughout Canada other than farm land. In essence, rents were frozen at the level at which they were on October 11, 1941, except for housing accommodation in those localities where rental control already existed, in which case the previously established basic rates were retained. Eviction control, to provide security of tenure for the well-behaved tenant, was an essential complement of rental control. Otherwise the power to evict would have been a potent instrument in the hands of a landlord wishing to obtain an unlawfully high rent from existing or new tenants.

Rental and eviction controls raised a wide variety of problems, many of them of a somewhat different character from those of price control. They had their origin in the main in four circumstances. First, there was a wide variation in the position of individual landlords; for example, one bought his property at a far lower price than another and thus could show a profit at a lower level of rents. Second, rentals between similar houses in the same or similar localities sometimes varied substantially. Third, eviction control interfered with contractual arrangements and legal rights to a greater degree than price control. Fourth, evictions during a period of shelter shortage not unnaturally created a highly charged emotional atmosphere. The following is a brief summary of the various measures taken to meet these problems.

Housing Accommodation

Changes in Maximum Rentals

Under the first rental order, applications from a landlord or tenant for a change in the maximum rental were heard by Rental Committees, each of which consisted of a County or District Court Judge (excepting in Quebec where judges or magistrates were specially appointed in collaboration with the provincial authorities). Appeals from the decisions of these Committees were heard by an Administrator of Rental Appeals. In October, 1943, however, the Rental Committees were replaced by Rental Appraisers, who were specialists in the real estate field and who could devote their whole time to the administration of the rental ceilings. At the same time the machinery for appeals was decentralized, the single Administrator being replaced by a number of district Courts of Rental Appeal, consisting of a judge, judicial officer or barrister.

The five main grounds on which an increase in rent might be granted, according to the original order, were: substantial increase in taxes on the property; added services not previously given by the landlord; substantial

structural alterations; increased wear and tear; a lower fixed rent than generally prevailing because of concessions of exceptional nature, for example, where the landlord had rented to a relative at a special rate during the basic period. The tenant might be granted a reduction in rental if there was no maximum rental as of October 11, 1941, and the rental set by the landlord was higher than the rental generally prevailing on that date for similar accommodation in the neighbourhood; if there had been a lessening of the accommodation or service; if there was a decrease in the landlord's taxes or rates.

In 1943, certain changes were made. "Wear and tear" and "maximum rental lower than the prevailing rate" were no longer regarded as valid reasons for seeking an increase in rent but under certain conditions an increase might be granted if the tenant was sub-letting more than two rooms and was not doing so when the maximum rental had been last fixed. So as to ensure that rentals would vary in accordance with the service provided, an order prohibited the lessening of heating, lighting or water service supplied by the landlord without the consent of the tenant unless a permit was obtained from the Rentals Appraiser or unless the reduction of service was due to a government order or fuel not being available. Whenever the service was reduced the tenant could apply for a reduction in the maximum rent. At the same time, the provision granting a decrease in rental if the landlord's taxes or rates had decreased was removed from the regulations.

In 1944, steps were taken to prevent the evasion of the Maximum Rental Regulations in regard to new tenants by certain practices such as the payment of "key money", the payment of rent for a considerable advance period, or the compulsory lease or purchase by the tenant of furniture at an exorbitant rate. The order prohibited any landlord from requiring a tenant to pay more than one month's rent in advance or any commission, bonus or reward. If furniture were rented or sold as a condition of obtaining a lease the rent or price had to be fixed by a Rentals Appraiser.

So that nothing would be done to discourage whatever degree of new residential construction was possible during the war, the rental of buildings constructed or converted since January 1, 1944, was fixed in relation to the cost of construction rather than to the basic date level.

Eviction Control

At the outset, the right of a landlord to evict a well-behaved tenant at the termination of his lease was abrogated, but certain specific grounds on which the tenant could still be evicted were listed in the original order. The most important of these were the intention to convert the house for other uses or sub-divide the living space; expected occupation by the landlord or by some member of his family or by an employee, and sale for vacant possession. Throughout the history of eviction control security of tenure has been granted only to the well-behaved tenant; one who was "obnoxious", failed to pay his rent, or broke any other material provision of his lease could always be dispossessed.

In April, 1942, a provision was included in the regulations that a landlord must give a minimum of three months' notice for any termination of lease. Any landlord seeking possession of a tenanted dwelling which he himself had purchased on or after December 10, 1942, had to give 12 months' notice.

In October, 1943, the provisions were further altered. The conditions under which a well-behaved tenant could be required to vacate were reduced to two: if the landlord desired the accommodation as a residence for himself or members of his family for at least one year; if the landlord desired to sub-divide the residence so as to accommodate more persons. The length of the notice was fixed at six months irrespective of the date of purchase of the property if the landlord desired the accommodation for himself or his family; it remained at three months if he wished to sub-divide the accommodation. Furthermore, in the case of a monthly or weekly lease the tenant could not be required to vacate between September 30 and April 30, and in the case of half-yearly or longer leases the notice to vacate had to coincide with the termination of the lease in accordance with the requirements of provincial laws.

In January, 1944, the power to evict a tenant was still further restricted in regard to "multiple family dwellings" (flats, apartments, etc.). There were clear indications that in certain places a landlord was seeking to evade the rental regulations by moving out of an apartment that he occupied and notifying the tenant of another apartment owned by the landlord to vacate on the grounds that he, (the landlord) wished to occupy it. In this way the apartment previously occupied by the landlord became vacant and could be re-let at a higher rental. The new regulations therefore stated that the landlord of a "multiple family dwelling" could dispossess a tenant only if he required the accommodation for himself and not for a member of his family and only if he did not already reside in another unit in the same building or in another "multiple family building" owned by him in the same municipality.

By the summer of 1945, the shelter shortage had become more acute. While some housing construction had taken place, the demand had increased much more rapidly due to the high marriage and birth rate, the return and demobilization of members of the forces, and the natural desire of many people, who during the war had given shelter in their own homes to strangers, to require their houses for themselves. To obtain accommodation in these difficult circumstances many people had purchased houses with a view to dispossessing the tenants and occupying the accommodation themselves. The number of notices to vacate, therefore, began to assume large proportions. The Report of the Wartime Prices and Trade Board for 1945, states that notices to vacate maturing in the three summer months of that year amounted to about 3,500 in Toronto, 1,100 in Vancouver and 700 in Winnipeg.

In view of this situation, the government instructed the Prices Board to place a complete "freeze" on the leases of all housing accom-

modation. All outstanding notices to vacate were cancelled, but provision was made in such cases for a landlord to apply to a Court of Rental Appeal for permission to dispossess the tenant, and the decision was given on the relative needs of the landlord and the tenant. The only exception to this "freeze" was in favour of veterans, who could evict a tenant, if the veteran had let his home when he joined the services; had before the war occupied accommodation owned by an immediate member of his family and who now wished to regain that accommodation; or had an immediate relative owning a "multiple family dwelling", who was willing to allow him to occupy one unit of it. The government recognized that this total "freeze" would cause hardship to many landlords, who would be unable to regain possession of their houses even for their own use, but this was regarded as the least of the various evils.

Securing Maximum Accommodation

In October, 1942, the Prices Board took two important steps to secure maximum accommodation from the available housing. An order was issued permitting householders in certain designated congested areas to share accommodation, that is, take in roomers or boarders or to sub-let, notwithstanding any provisions in their leases or by-laws, deeds, etc. to the contrary. At the same time, voluntary local campaigns to encourage householders to let their spare rooms were undertaken by the Consumer Branch of the Prices Board. In a number of cities Housing Registries were set up, at which householders were invited to register their available rooms and prospective tenants to apply for accommodation.

Late in 1944 the government extended its activities in close collaboration with voluntary bodies and local authorities in trying to ease the housing shortage. In 1942, the Department of Munitions and Supply had introduced a form of control over housing in Halifax and had subsequently extended it to all Atlantic ports. In December, 1944, the government gave the Wartime Prices and Trade Board the broad power to "co-ordinate all activities relating to the transfer of population into such (congested) areas and to the control and use of available shelter therein".

Certain areas were designated as "congested areas"; Emergency Shelter Administrators were appointed, and thereafter permits were required by all persons before they could move into family accommodation in such areas. These permits were generally freely given to anyone already residing in the area but were closely restricted for people wishing to move into it. It was the practise of the Board never to designate any place as a "restricted area" unless specifically requested to do so by the municipal authorities. The areas named were Ottawa, Vancouver, New Westminster, Victoria, Toronto, Hull, Hamilton and Winnipeg, in addition, of course, to the Atlantic ports already under control.

About the same time, a registration was undertaken of summer cottages and vacant dwellings in many areas. Owners of vacant accommodation were interviewed and many were persuaded to make them avail-

able for occupation by families in need of homes. In a few cases, where the owner refused to do so, the powers of the Administrator to compel him were invoked.

By the fall of 1945 it became necessary to abandon the permit system in congested areas, because the return of the ex-service men was proceeding in such volume and producing so many requests for permits that the system became unworkable. The other functions of the Emergency Shelter Administration, however, were extended and the organization was expanded to cover the whole country. At the end of 1945 the responsibility for the Emergency Shelter Administration was transferred from the Wartime Prices and Trade Board to the newly established Central Mortgage and Housing Corporation.

Shared Accommodation

Shared accommodation was defined as accommodation where the tenant lived in the same dwelling unit as the landlord and shared with him the entrance door and any other facility. Specific regulations relating to it were enacted in October, 1943. The accommodation might be let on a "per person" basis if bedding, linen, etc., were provided by the landlord. In this case the maximum rates were those in effect on July 1, 1943, but otherwise the ceiling was administered on the same basis as for housing accommodation.

Eviction control was extended to shared accommodation during 1944, and well-behaved tenants could be evicted only if the landlord desired the accommodation as an extension of his personal residence or as a residence in his immediate family. Six months' notice had to be given and tenants could not be required to vacate between September 30 and April 30. It was decided, however, not to extend eviction control to cover boarders who were entitled to take their meals with the landlord and his family and consequently live in much closer association with the household. The complete "freeze" of housing accommodation in the summer of 1945 did not apply to shared accommodation.

Rooming Accommodation

Rooming and boarding accommodation was not always covered under "shared accommodation" because on occasions the landlord did not live in the rooming house. This type of accommodation was very difficult to control because in congested areas, where there had been a large influx of population for war purposes the newcomer had to find some shelter and price became a secondary consideration. It was brought under specific and detailed control in September, 1942, in respect to designated congested areas. Local examiners were appointed with powers to fix maximum rents, and a card had to be displayed in each room showing the maximum rent.

Commercial Accommodation

Commercial accommodation was brought under rental and eviction control at the inception of the price ceiling on December 1, 1941. The basic

date was October 11, 1941; the grounds for applying for an increase in rent were similar to those originally introduced for housing accommodation, and notice to vacate could only be given for certain specific reasons and for a minimum of three months.

In the fall of 1943, the supply of commercial accommodation was considered to be sufficiently good that eviction control was no longer necessary. It was therefore withdrawn, but such an abnormal number of commercial tenants were then required to vacate their premises, to enter into long-term leases on onerous terms, or to purchase the property to avoid eviction that the Board restored control as of January 2, 1945.

Hotel Accommodation

The basic date for the maximum rates for hotel accommodation was also October 11, 1941. In the spring of 1945, certain somewhat tentative limitations were imposed on the accommodation of conventions by hotels as a means of curtailing travel. These restrictions on conventions were intensified in the summer of that year because of the increase in travel arising largely from the return of service personnel. The holding of organized meetings was prohibited in cases where more than fifty persons would need to use rail, bus, or air transportation for any part of their journey to the place of the meeting. In addition, hotels in Halifax, Montreal, Ottawa, Toronto, Hamilton and Vancouver, were prohibited from using more than 10 per cent of their accommodation on any one night for persons attending organized meetings.

OBTAINING PUBLIC COMPLIANCE

The urgent necessity of obtaining public compliance with the Board's regulations was obvious from the first, for any general breach of the price and rationing controls and the development of extensive black markets would have made enforcement impossible and the most carefully constructed set of regulations worthless.

Three aspects of the Board's work, therefore, had particular reference to obtaining public compliance. The first of these covered programs of information and education, planned to show the necessity for the regulations both in broad principle and in smaller detail. The second was the organization of the Board, for if the ceiling was to work effectively it was essential that problems be dealt with promptly. The third was the work of enforcing the Board's regulations, in the words of the Board's report, aimed at punishing "the small number of unscrupulous law-breakers" and checking the "careless and foolish".

Information and Education

In its endeavour to enlist public support both for the principle of the over-all price ceiling and for the individual measures necessary to carry it out, the Board considered that it had two main responsibilities: first, to conduct a campaign of popular economic education as to the dangers of inflation in a wartime economy; and second, to publicize its orders, for

it was clear that observance of these orders could not be expected unless their detailed provisions, their general purpose and their necessity were widely understood.

In carrying out these functions of education and information the Board used every agency of publicity at its command. We give below a short summary of some of the methods employed.

- (a) Press releases and frequent contacts with all sections of the press, including the provision of feature material.
- (b) Speeches and radio broadcasts by the Prime Minister and other Ministers, when the occasion warranted, and by the Chairman and other officers of the Board.
- (c) Newspaper advertisements, both of an educational and informative nature.
- (d) Radio time, including programs financed by the Board and also a service to radio editors and commentators giving current information about the Board's activities and problems.
- (e) Films both for theatrical distribution and for use on the rural and industrial film circuits.
- (f) Trade bulletins, containing information of special interest to particular trades.
- (g) Pamphlets.
- (h) Direct appeals to certain groups, such as women, farmers, labour, schools, management, etc.

Particular reference should be made to the co-operation of the women of Canada; very close contact was maintained with the women's organizations by a Consumer Branch which, like all the other informational activities of the Board, acted as a two-way means of communication, passing out to the women information concerning the part that they could play in maintaining price control and passing back to the Board the reactions and complaints of the women of Canada to the Board's regulations.

Because of the need for variety and to attract the attention of all sections of the community, techniques were adopted which at that time were radical departures from the orthodox methods of government publicity. For a number of years the Board sponsored a "soap opera" as a background for comments on the Board and its activities by a personage known as the "Household Counsellor". It employed a new cartoon technique in films and it illustrated its educational advertisements with humorous drawings.

To give an idea of the cost of these activities, between April 1, 1945 and March 31, 1946, the Board spent approximately \$946,000 on printing and stationery and \$1,170,000 on advertising.

Administrative Organization of the Board

The ultimate responsibility for all official actions of the Board lay collectively with the members of the actual Wartime Prices and Trade Board itself, all of whom were senior civil servants. The Wartime Prices

and Trade Board had the status of a government department and was represented by the Chairman or his appointee on all interdepartmental committees which concerned its activities. Close contact between the Prices Board and the Wartime Industries Control Board was assured by the provision that the Chairman of each Board should be ex-officio a member of the other Board.

In general, the organization consisted of three main sectors: Head Office, the Regional Offices, and the Administrations. Head Office was divided into a number of divisions, the most important of which were Prices, Supply, Distribution, Industrial, and Research, and the Information and Consumer Branches. The first three divisions were responsible for co-ordinating action in respect to problems of price, supply, and distribution, and for recommending any changes in administrative policy to the Chairman and to the Board. The Industrial Division dealt with labour requirements for consumers goods industries. The Research Division undertook all economic and statistical research necessary for the formulation and carrying out of the Board's policies and interpreted this research in relation to the Board's problems and policies. The Information Branch and the Consumer Branch engaged in the educational and informational activities described above.

The Administrations were, in the main, in charge of administering the Board's regulations in respect to a particular industry, trade, or service, although two Administrations—Ration and Enforcement—had more general functions. Certain Controllers of the Wartime Industries Control Board were appointed Administrators of the Wartime Prices and Trade Board, when the commodities they controlled had civilian as well as military importance. A number of Administrations which concerned related industries of different parts of the same industry were grouped together into Co-ordinations. At the end of 1945 there were 66 Administrations, 53 of which were grouped into four Co-ordinations. Throughout the period of the over-all price ceiling the Board had fourteen Regional Offices, with supervision over 120 Local or Sub-local Offices. The contacts of the Board throughout Canada were augmented by the Local Ration Boards and a variety of advisory committees. About 560 local ration boards were set up in cities and towns throughout Canada, with the mayor or reeve usually acting as chairman. The advisory committees fell into two main groups; industry and trade Advisory Committees attached to various Administrations and representing either producers or distributors; and the Women's Regional Advisory Committees located throughout the country and participating in the work of the Consumer Branch. Furthermore, associated with the Consumer Branch there were some 16,000 liaison officers from various women's organizations, about 1,600 labour liaison officers representing local trade union organizations and about 500 women representing rural associations

To assist in carrying out the work of the Board and to act as its fiscal agents, four subsidiary companies were created: Commodity Prices Stabili-

zation Corporation Limited, Wartime Food Corporation Limited, Canadian Wool Board Limited and Wartime Salvage Limited. These companies were wholly owned by the Crown and were directly responsible to the Minister of Finance and the Wartime Prices and Trade Board.

The transition from the selective price controls of 1939-1941 to the over-all ceiling involved a substantial and most rapid increase in staff. In August, 1941, the total staff of the Board was about 150 and by March 31, 1945 it had reached 5,251, the bulk of that increase taking place between October, 1941, and March, 1942. At the end of 1945 the staff numbered 5,678, of whom 3,697 were attached to the Regional or Local Offices. As the Board Reports pointed out, many of the senior officials at Head Office and nearly all the administrators were loaned to the Board by private companies or organizations. Most of the administrators came from the industry which it was their duty in the Board to regulate.

Enforcement Policy

The Board took a lenient attitude towards offences during the first seven months of the ceiling. From December 1941 to the end of June 1942, 147 prosecutions were undertaken, and of these 100 were for rental violations, because a more serious view was taken of these violations in districts where rental control had been in force for some time. By the summer of 1942, a more positive enforcement policy was adopted. From July, 1942 to March, 1943, 1,679 prosecutions were undertaken, of which 547 related to prices, 730 to rentals and 253 to hoarding and rationing offences.

From the start it was recognized, to quote the first Report of the Prices Board, that

“there were, broadly speaking, two available methods of enforcing the price ceiling: the Board could employ an army of inspectors to watch continuously price changes throughout the country or it could rely primarily on co-operation from the trade and reports of evasion from consumers, using inspectors to follow up these reports and from time to time to investigate special situations.”

The Board decided to adopt the second of these methods, “for it economizes manpower and is more democratic”. A special appeal was made to the women of Canada to accept a major part of the responsibility of policing the price ceiling.

During the latter years of the ceiling certain organized groups engaged in black market operations and ration coupon frauds. There seems to have been little evidence of organized bootlegging by consumers, but it became apparent to the Board that “sources existed from which industrial users and quota users of sugar and butter could obtain these commodities without ration documents or increase their quotas by illicit acquisition of ration documents”. In the case of butter, the large number of producers created difficulties of control. With sugar, a careful check could be kept on the source of supply, but there were instances of coupons and other ration documents being forged and later, when the Board had made forging

more difficult, there were several instances of burglary of ration books and documents. Serious black market activities also developed in the textile field.

PART III: DECONTROL: 1945-1948
POLICY AND LEGISLATION

The first statement on decontrol policy was made by the Chairman of the Prices Board, in September, 1944. The turn of events at that time suggested that the war in Europe might terminate before the end of the year. It was therefore felt desirable that business men, and the public at large should know the line that would be followed within the general stabilization policy laid down by the government during the transitional period from war to peace. This statement was followed by others, in particular one by the Prime Minister on January 31, 1946. From these statements it appears that decontrol policy was based on the following points:

- (a) The price ceiling was designed to alleviate the danger of wartime inflation, and would be removed as soon as that danger had passed, thus permitting Canada to return to a free price economy.
- (b) The danger of inflation would not end with the cessation of hostilities, nor for some time thereafter, because the supply of civilian goods would take time to catch up with the demand and there would still be an abnormal strain on Canada's productive capacity to assist in the rehabilitation of war-torn countries.
- (c) Price controls on the basic period principle would be maintained until the danger of a drastic war-created inflation had passed. More flexibility in the controls, however, would be appropriate to encourage the reconversion of industry to civilian production. It was recognized that certain basic costs had increased and were still increasing, for example, labour and imports, and that a post-war price level higher than the basic period level was inescapable.
- (d) Steps would be taken to remove all subsidies paid by the Board; limited subsidies were invaluable during wartime in preventing certain rising costs from starting an inflationary spiral, but they nevertheless had the effect of disguising real cost-price relationships and consequently had no place in a move towards re-establishing a free price system.
- (e) The timing of various decontrol measures was most important, both in relation to the general economic position of the country and to the position of the particular commodity in question. In many basic agricultural products, for example, seasonal factors had to be taken into account.
- (f) Restrictions on the starting of new businesses and controls on production would be relaxed as quickly as possible consistent with the supply situations.

To implement this policy it was decided to introduce legislation rather than to rely on Orders-in-Council under the War Measures Act. Hence

the National Emergency Transitional Powers Act was passed towards the end of 1945, giving the Dominion government the authority for approximately twelve months to continue price, production, distribution and rental controls, and also certain other controls not connected with the Wartime Prices and Trade Board. At the next session of Parliament the Continuation of Transitional Measures Act gave the Board somewhat more restricted powers to continue price, supply, distribution and rentals controls. Under this Act, the government could neither increase nor amend the powers of the Board by Order-in-Council. The expiry date of the Act was extended in 1948, and now stands at March 31, 1949, unless in the meantime it is further extended.

DECONTROL MEASURES

New Business and Production Controls

What can perhaps be called the first tentative move towards decontrol took place as early as May, 1944, when the restrictions on the commencement of expansion of business enterprises were relaxed. The administration of restrictions on new businesses, moreover, had become much more difficult, particularly in view of the increasing number of ex-service men and ex-service women who were trying to rehabilitate themselves.

Revocation of certain supply controls took place in October, 1944, in respect to a number of regulations restricting the types of goods which might be manufactured from metals. The removal of these restrictions did not automatically increase the supply of civilian goods using metal, because both the materials and the necessary labour were under direct allocation control. In fact the military set-backs at the end of 1944, created a renewed shortage of metals. Further restrictive supply controls were removed early in 1945, and by V-E Day very few of them remained.

Price and Subsidy Decontrol, 1945-1946

During 1945 the Prices Board adopted a greater degree of flexibility in its attitude towards requests for price increases and in the pricing of new goods coming on the market. Essentiality of the article was no longer a necessary requirement for obtaining a price increase. The criterion of "financial need" was also relaxed. The Board was willing to consider not only the present financial position of the industry but also its prospective financial position during the post-war reconstruction period.

This new policy involved difficult problems. Many firms had been able during the war to continue to produce certain civilian items at the ceiling price because of the reduction in over-all costs created by war contracts. When these war orders were cancelled, the total output of the companies dropped and the unit cost of producing civilian goods consequently rose substantially. It was difficult to determine how quickly and to what extent they would be able to increase their output of civilian goods, and again reduce their unit overhead costs. Consideration had also to be given to the

effect of the reduction and elimination of certain war taxes, and the additional incentive given to business by the reduction in the excess profits tax.¹

When necessary the Board granted a price adjustment to a particular company in an industry, where the industry as a whole could not demonstrate that it required financial relief, but where the particular company could do so. Also, in special circumstances, it granted a price increase for a particular item which was being produced at a loss, even if the company's operations as a whole showed a profit. In certain cases it even granted an "incentive" price increase, that is, one that could not be justified by increased costs, for the purpose of encouraging the output of needed goods; building materials were a case in point. A further consideration in making price adjustments for certain goods, a large proportion of which are exported to the United States, for example, base metals, wood pulp, newsprint, etc., was the price then prevailing in the United States.

Modifications were introduced in the pricing of import goods from certain countries, such as the United Kingdom and France, which were striving to re-establish their exports and which had suffered substantial increased costs during the war. The general policy was to allow goods from these countries to be sold in Canada at the import price plus a limited mark-up, thus permitting greater importations.

The adoption of a more flexible policy on price increases was a step towards decontrol, for it brought the prices of the articles into a more realistic relationship to production costs and thus nearer to the point where the ceiling could be removed without a substantial increase. No actual decontrol of prices, however, took place until February 1, 1946, when the ceiling was suspended on a fairly long list of items. Few of these items were of great importance in daily living costs. At the same time wage controls were eased, and were finally removed near the end of the year.

In announcing this price decontrol measure the Prime Minister said that the ceiling was only suspended and not removed from these items. "Should widespread and unreasonable increases follow," he said, "should unprincipled speculators attempt, for selfish ends, to abuse this latitude, the whole policy will be reconsidered. Where necessary, in such cases ceilings will be reimposed". A year later the Board did reimpose price controls on goods which had previously been suspended from the ceiling.

Between February and July, 1946, further lists were issued enlarging the number of items on which the ceiling was suspended. In May, virtually all capital equipment used in industry and distribution was released from control. Early in July, a more positive method of decontrol was adopted by issuing a list of these goods still under control and automatically removing from the ceiling all others. While the number of items that had by then been released from the ceiling was large, price control still applied to almost all goods of every day importance, and to most of the principal

¹See Chapter 6, Fiscal and Monetary Policy.

items contributing to the production costs of industry, farmers and fishermen.

Another development in pricing policy, in early July, was the extension to practically all imports of the principle by which they could be priced at the laid-down cost plus a limited mark-up. This facilitated increased imports from the United States though these imports had, of course, to meet competition from domestically produced goods whose prices were more strictly controlled.

By the summer of 1946, certain economic events had occurred both in this country and abroad, which seriously interfered with reconversion and decontrol. The collapse of price control in the United States at the end of June, and the sharp increases which followed, seriously raised the cost of imports. Industrial disputes both in the United States and Canada, caused an acute steel shortage which gravely interfered with reconversion in the durable consumer goods industries and in other fields. Because of these developments the government declared its firm intention to hold Canadian prices,¹ postponed any further decontrol moves until January, 1947, and restored the Canadian dollar to parity with the United States dollar as a means of offsetting the rising cost of imports from the United States.

Some steps were also taken during 1945 and 1946 to reduce or remove subsidies. The commodities affected included petroleum, various textile fabrics, jams and jellies, canned goods, fertilizers and fluid milk. During the second half of the year, there was some reversal of this trend. Higher import prices necessitated higher subsidies for such important items as cotton, vegetable oils and coal. Because of the acute shortage of steel, special subsidies were paid to sustain output and conserve Canadian supply.

Price and Subsidy Decontrol, 1947

At the end of 1946, and early in 1947, a plan was drawn up which aimed at the decontrol of most goods and services by the fall of 1947, and the end of all controls with the probable exception of rentals, sugar, oils and fats, by March 31, 1948. It would appear that this plan was in part based on the expectation that the inflationary upsurge in the United States might reach its peak by the summer of 1947, and that during the autumn prices would be declining. This expectation was not realized for a number of reasons. Rehabilitation on the continent of Europe and in the United Kingdom was seriously set back by the poor harvest and dislocation of transport and industry caused by the severe winter of 1946-1947. The demand for food and other forms of assistance from these countries was therefore much larger than had been anticipated. The urgency of granting help was intensified by the marked deterioration in the European political situation.

The government also recognized that only the courts could determine the constitutionality of Dominion government controls over prices, supply,

¹Minister of Finance, House of Commons Debates, July 5, 1946.

distribution and rentals during the post-war.¹ It was therefore considered preferable to embark on gradual and orderly decontrol rather than to run the risk of the controls being suddenly cut off by judicial decision while in full operation.

Furthermore, the Prices Board was finding it increasingly difficult to retain a sufficient number of skilled and experienced people to administer the controls. Almost all of the senior officials who were on loan to the Board from private industry were recalled by their companies by the end of 1945 or early 1946. The difficulties of maintaining controls in the face of staff losses was first mentioned by the Prices Board in its Annual Report for 1944, and became progressively more serious. Reference was made to this matter by Mr. K. W. Taylor, Chairman of the Wartime Prices and Trade Board, in his testimony before us.

Another problem was the difficulty of obtaining public compliance with the regulations when the patriotic urge of wartime was no longer present. As the war receded further and further into the past, there was a noticeable decrease in public co-operation which was reflected in the growing number of infractions of the regulations. In part this was attributed to some confusion as to which goods remained under control. Evidence was presented that business was also less co-operative than during the war. As Mr. Taylor put it, in his testimony, the Prices Board was faced with very little active hostility to price control, but there was a feeling of irritation on the part of those who were still under control and who felt that they were being "picked on".² He stated that during the war the Board had received a very high degree of positive co-operation, which decreased as time went on.

Another problem in obtaining public compliance during the decontrol period was the fact that the Board could no longer engage in any educational activities. We quote from Mr. Taylor's testimony before us:

"Mr Dyde: Coming now to a more final aspect of my line of questioning I should like to ask if the termination of hostilities has affected the attitude of the Prices Board toward conducting information programs on a broad scale on the problems of inflation and price control?"

Mr. Taylor: As the Commissioners will doubtless know, during the war the Wartime Prices and Trade Board conducted a pretty elaborate and extensive form of information service, public education and so on. It was a fairly costly operation. I do not recall the exact cost, but I think it ran in some years to as high as \$1,000,000 or more, for advertising, radio time, and a great variety of other activities. It became apparent shortly after the cessation of hostilities that there were very grave difficulties about a government department carrying on that sort of information service. The line

¹See Appraisal, Constitutional Issue, page 90.

²Evidence, Royal Commission on Prices, pp. 1968-9.

between information and propaganda is a very thin one and is drawn at different points by different people.

I recall that this whole question was raised, and quite sharply, in the House of Commons by persons in all sections of the House. Shortly after the cessation of hostilities it was laid down to us as a matter of government policy that we should withdraw from a very large part of this general public relations, propaganda or information service. Different people use their own terms to describe it. From that time on we as a Board have done very little in the way of public information except on a purely factual basis.

When items were decontrolled we would publish an advertisement showing the list of things decontrolled and the list of things remaining under control. When changes were made in the orders—we still issue a publication called "Food Bulletin", which goes to all the food trade, including all retail grocers in Canada—that information was passed along, but this has been strictly a factual summary of the existing orders.

Mr. Dyde: During the period of control would you say that the information program was a vital factor in obtaining public compliance with the regulations?

Mr. Taylor: I would say it was really indispensable. I do not see how you could otherwise get that measure of almost unanimous support for the general idea, and in particular, public compliance with what is inevitably and inescapably a complicated system. I do not see how that could be obtained without taking a great deal of time and trouble and going to a great deal of expense in keeping the people fully informed, not only as to the process and nature of the ceilings, regulations and mark-ups but also as to the reasons back of them.

Mr. Dyde: Then the lack of such an information program in peacetime or at the present time would seriously affect public compliance in any scheme of price control that might have to be imposed in these days?

Mr. Taylor: I do not think you could undertake anything but the very simplest form of regulation of this sort without spending a great deal of time and effort explaining why it is necessary or desirable and just how it operates. That would have to be carried through if you are going to get whole-hearted public compliance right through to the smallest sections of the trade and eventually right through to the individual consumer and housewife."

Finally, emphasis was placed on the tendency of the Courts to give light fines. As Mr. W. F. Spence, Enforcement Administrator of the Wartime Prices and Trade Board stated in his testimony before the Commission,¹ a small penalty was more harmful to the controls than a failure to prosecute,

¹Evidence, Royal Commission on Prices, p. 1976.

because it was merely an invitation, both to the person upon whom it was imposed and those who might be contemplating similar action, to transgress.

Figures for prosecutions on price infractions do not throw much light on the difficulty of obtaining public compliance in recent years, because naturally they declined as the number of controls in force diminished. Figures for rental prosecutions, however, give a better comparison because these regulations are still in force. It is, therefore, interesting to find that in the 12 months of 1946, 470 prosecutions were completed in respect to rentals offences while in the first 10 months of 1948, 908 such prosecutions were completed.

Following the policy outlined at the beginning of this section, that is, planning to decontrol almost all goods and services during 1947, five main decontrol moves took place during the year. In the January move, the list of items still controlled was substantially reduced, one of the more important deletions from the point of view of current living expenses being fresh fruits and vegetables with the exception of apples. A further long list of items was decontrolled on April 2, 1947, including wool and wool products, footwear, fuels, motor vehicles, certain durable goods, and plumbing and sanitary supplies. On June 9, ceilings were removed from a further list, dairy products being the most important items of direct interest to the consumer. Copper, lead, zinc and hardwood lumber were also decontrolled at this time and some additional items at the beginning of July.

A major decontrol move took place on September 15, 1947, when price ceilings were lifted on the majority of goods and services still remaining under control, including flour and bread, cotton, jute and sisal fibres and yarns, all remaining articles of clothing, household furnishings, hides, skins and leather, softwood lumber and farm machinery and equipment. Labour disputes in the packing industry caused the decontrol of meats to be postponed until October 22, on which date feed grains were also decontrolled. By the end of October 1947, the principal items remaining under control were sugar, molasses, dried raisins, currants and prunes, wheat, the principal oil bearing materials, (flaxseed, sunflower seed and rapeseed), the more important oils and fats except corn oil and olive oil, soaps, lard and shortening, primary iron and steel products, tin, and alloys containing more than 95 per cent tin. Manufacturing processes performed on a custom or commission basis in connection with goods still under price control, and custom or commission packing charges on such goods, were left under control. Dried fruits were released from control on December 31, 1947, and oils and fats, soaps, shortening and lard, on August 1, 1948.

In all cases, subsidies were removed before the subsidized item was decontrolled. In some instances the removal of the subsidy took place in two or three steps, an appropriate price increase being permitted at each step until final decontrol was reached. In removing price control on goods that had been subsidized, the Board tried to limit the extent to which subsidies on goods still held in stock would contribute to inventory profits

resulting from higher prices following decontrol. This was done in one of two ways. In some cases the decontrol was staggered, that is, there was a time lag between the reduction of the subsidy and the consequent price increases at another stage. Mr. Taylor quoted the textiles field as an example. When the subsidies on raw cotton were reduced the Board did not allow price increases at the fabric stage until some time later, and increases in the prices of final garments were not permitted until later still. In other cases, generally when the bulk of the goods were still in the hands of that section of the trade which had received the subsidy, the Board took direct steps to recover the subsidy content of the goods in stock.¹

When goods were removed from the price ceiling the regulations still required that they should not be sold at a price higher than was "reasonable and just". The Board has undertaken certain prosecutions pursuant to this clause, but with limited success. Mr. W. F. Spence, Enforcement Administrator of the Wartime Prices and Trade Board, discussed this point in his testimony before us.² He said that in 1948 the Board had issued seven leaves to prosecute on charges with respect to foods and seven with respect to construction products, chiefly nails. One food and four nail cases resulted in conviction (with an appeal pending on one of the nail cases); three food and one nail case in acquittal; two food cases were withdrawn. In general, Mr. Spence and Mr. Taylor left us with the impression that prosecution on the basis that a price is "higher than is reasonable and just" has not been entirely successful.

Removal of Distribution, Rationing, Licensing and Export Controls

In general, distribution and related controls were removed *pari passu* with price controls. The first step in easing the policy of equitable distribution was in the fall of 1945, when certain goods were exempted and in respect to a long list of other goods the policy was made applicable to only 80 per cent of the distributor's supplies, freedom of distribution being allowed to him for the remaining 20 per cent. In January 1947, a considerable number of additional goods were exempted, and all other goods were placed in the category where the policy applied only to 80 per cent. As goods were removed from the price ceiling they were automatically removed from the equitable distribution policy, but when ceilings were reimposed on canned fruits, vegetables and canned citrus juices in the fall of 1947 equitable distribution requirements were also reimposed.

Direct controls on distribution were relaxed and removed during 1946 and 1947. In 1946 the priority system for the distribution of canned goods was terminated in most cases, and canned fruits were released from rationing. The rationing of meat was terminated in March, 1947, though meatless days were continued for some months longer. Butter rationing and the priority system for the distribution of evaporated milk ended in

¹Evidence, Royal Commission on Prices, p. 1970.

²Ibid., p. 1975.

June. The rationing of sugar was progressively relaxed during 1947 both by an increase in the amount of the sugar allowance and by the removal of various preserves from the list of rationed items. It was finally terminated in November, 1947.

Licenses for new businesses were in general granted quite freely from 1944 onwards, as has been mentioned earlier. In April, 1947, the licensing regulations were substantially relaxed, and from then on licenses were required only by those dealing in goods and services still subject to price control, by businesses using sugar quotas and by all coke and coal dealers. In November, 1947, all licensing regulations were withdrawn with the exception of those affecting fuel dealers.

Export controls were withdrawn on a number of items during 1946 and 1947, and by the end of the latter year applied mainly to certain agricultural and lumber products. Export restrictions on livestock and meats were removed in September, 1948.

Rental and Eviction Decontrol

Decontrol of rentals and eviction followed somewhat different courses in regard to commercial accommodation on the one hand and housing accommodation on the other. The former, as has been intimated, was in relatively better supply than the latter; furthermore, with the ceiling removed on the prices of all but a few goods and services there was considered to be little justification for continued rental control on commercial buildings. Housing accommodation, however, continued to be in short supply in spite of the substantial volume of new construction, and the government came to the conclusion that a general decontrol of either rents or eviction would cause much social distress.

Commercial accommodation was completely decontrolled by March, 1948. In contrast, in January, 1949, most tenants of housing accommodation still enjoy security of tenure at rents which, though somewhat increased, are still under ceiling. Nevertheless, the government took an important step towards the eventual decontrol of housing accommodation when in November, 1948, it decided that property then vacant or as it later became vacant would be free of rental and eviction control. This means that, as tenants for one reason or another vacate their present accommodation, a continually growing number of housing units will be decontrolled. It also means that a tenant can only continue to enjoy the protection of rental and eviction control by living in the dwelling that he now occupies; if he moves to another dwelling, that dwelling, by virtue of the very fact that it is available for him to move into it, is automatically decontrolled. Let us examine this decontrol program in detail.

Housing Accommodation

The first provision for a general increase in rentals was introduced in April, 1947. A landlord was permitted to charge a 10 per cent increase on renewal of the lease if he offered the tenant a two year lease which was

binding for the full term on the landlord but which could be terminated by the tenant at any time upon 30 days' notice. If the tenant did not accept this offer, his existing lease would terminate and he could be evicted as provided for under provincial law. The accommodation would remain under rent control for the new tenant but at 10 per cent increased rate. This 10 per cent rental increase did not apply to housing accommodation newly built or converted after January 1, 1944, since the maximum rentals on such buildings were fixed on a basis to yield a fair return on prevailing costs of land, labour and materials. Special provisions allowed a further 10 per cent increase if the tenant was subletting three or more rooms under more than one sub-lease and if no increase had already been granted on those grounds. The basis for granting an increase on the grounds that the current rent was lower than prevailing rate, which had been re-introduced earlier for apartments, was broadened.

In March, 1947, steps were taken to give some relief to landlords who were suffering hardship under the total "freeze" of leases. The first to receive consideration were those who had purchased houses between March 31, 1944, and July 25, 1945, the date on which the "freeze" became effective. Landlords who had purchased houses prior to March 31, 1944, had been in a positive to give six months' notice which became effective before the "freeze", and those who purchased houses after July 24, 1945, did so in full knowledge of the "freeze". Purchasers between these two dates, however, had acted in the belief that they could dispossess the tenant on six months' notice if they themselves wished to occupy the premises; they had then been prevented from so doing by the order.

In March, 1947, provision was made to permit landlords of housing accommodation purchased between these dates to apply for permission to recover such accommodation. The application was to be made before a Court of Rental Appeal, which in making its decision was instructed to take into account the relative needs of the landlord and the tenant for the accommodation. In August, 1947, this principle was extended to permit any landlord who had become the owner of his accommodation before January 1, 1947, to apply for recovery of his premises for his own use, and Commissioners were appointed at numerous centres throughout Canada to hear these applications.

In October, 1948, there was a further relaxation. All landlords who had owned their premises prior to November, 1947, if they needed the accommodation as a home for themselves were permitted to dispossess their tenants according to provincial law, but with a minimum of six months' notice. At the time, all other landlords were permitted to apply to the Commissioners for the right to dispossess their tenants on the grounds that their needs were greater.

In June, 1947, rental and eviction control was lifted on all new houses, apartments and other self-contained buildings completed on or after June 1, 1947, to encourage the construction of new housing for rental. In

October 1948, a landlord was permitted to charge a 10 per cent increase in rent at the termination of the current lease if the maximum rental did not already reflect a 10 per cent increase under the 1947 Order. In addition, any landlord who provided heating might increase the rent by five per cent. Under the same Order, all housing accommodation untenanted at November 1, 1948, or becoming untenanted thereafter was freed of rental and eviction control.

Commercial Accommodation

The first steps towards the decontrol of commercial rentals were taken at the end of 1945. Provision was made that if the landlord and tenant were both willing to enter into a five year lease, the rent could be fixed at any level agreeable to both parties. At the same time, a list was established of a number of situations which might be the basis for an application on the part of the landlord to dispossess the tenant, such applications being heard by the regional Deputy Administrators. Some of these situations were: when the landlord would make better use of the land; when another occupant would provide substantially more employment of a permanent character; where suitable alternative accommodation was available for the tenant; where the landlord was a hospital or charitable institution requiring the accommodation for its own purposes; or if the landlord or his son wished to re-establish a business which was interrupted by wartime conditions.

In March, 1947, landlords of commercial accommodation were permitted a 25 per cent rent increase if they were willing to give a two year extension of the lease, the extension being binding on the landlord for the full term but terminable by the tenant on 30 days' notice. If the tenant was not willing to accept the two year lease he could be dispossessed under provincial law, and the property then became free of rent and eviction control. At the same time, all commercial accommodation which was untenanted on March 1, or later became untenanted, was released from rental and eviction controls, as also was property in respect of which the landlord and the tenant agreed on a three year lease.

In June 1947, rental and eviction controls were lifted on certain types of commercial accommodation, including gasoline service stations let by the refineries or distributors, automobile parking or sales lots, meeting halls and motion picture theatres. It was then announced that complete decontrol of all commercial accommodation would become effective on March 8, 1948.

Shared Accommodation, Boarding and Rooming Houses

Regular boarding houses, that is those serving two meals a day, were released from rental and eviction control in October, 1947. In January 1949, rooming houses and other shared accommodation are still under control.

Hotels

Restrictions on the accommodation of conventions by hotels were terminated in November, 1945. Resort hotels and boarding houses were decontrolled in March, 1947, and all other hotels a month later.

Re-imposition of Certain Controls, 1947-1948

In November, 1947, the plans of decontrol were again modified. General inflationary forces in Canada continued to be strong, both from the internal pressures of high purchasing power and the external pressures of high import and export prices. The introduction of import restrictions to conserve United States dollars created new problems. Certain sections of the trade took advantage of this intensified shortage of supply to push prices up beyond the point considered by the government to be justified by increased costs. The government had repeatedly emphasized, when removing ceilings, that it retained the power to replace them if unjustified price increases should occur. Consequently in November, 1947, the Prices Board re-imposed ceilings on the more important canned fruits and vegetables, as well as on carrots, and instituted mark-up control on canned citrus fruit juices and on imported citrus fruits, grapes and cabbages. All of these commodities had been affected by the import restrictions.

In 1948 price ceilings were re-imposed on three commodities where the increase could not be attributed to the prohibition of import. In January, 1948, the ceiling was re-imposed on butter. In February, 1948, the price of certain fertilizers and fertilizer materials was rolled back. In the summer of 1948 when the contract price of wheat was raised from \$1.55 to \$2.00, a subsidy was paid to cover the increase with a view to stabilizing bread and flour prices. Bread prices did rise in some areas however, and in August, 1948, a ceiling was re-imposed on both bread and flour. In the autumn of 1948, when import restrictions were removed or relaxed on certain fresh fruits and vegetables, these items, when imported, were automatically placed under mark-up control.

The effect of these re-impositions of ceilings was to give Canada during the latter part of 1947 and in 1948 a measure of selective price control.

PART IV: APPRAISAL

GENERAL

Looking back at the war period, we are impressed by the remarkable stability of consumers' prices. There can be little doubt that this degree of stability would not have been achieved without the timely introduction of the over-all price ceiling late in 1941 and what we believe to have been the efficient, determined and imaginative way in which it was administered. But we do not believe that the price ceiling by itself could have held prices from rising. A price ceiling is like a lid on a boiling pot. It can be held down only if the pressures within the pot do not become excessive.

Therefore, although for reasons which we give elsewhere, it would have been impractical to use fiscal and monetary measures with sufficient rigour to prevent prices from rising under the conditions that existed in Canada in wartime, they were an indispensable part of the stabilization program. High rates of individual taxation helped to keep consumer spending down to manageable proportions. Taxes on corporations, particularly the excess profits tax, took much of the profit out of war. They helped to reduce the pressures from labour for a larger share in the gains and from Canadians generally for relief in individual income tax.

Although wages were never held under a rigid ceiling, a substantial degree of wage and salary control was maintained and seems to have been indispensable.¹ It is significant in this connection that except on rare occasions, wage increases were not recognized during the period of the over-all ceiling as justification for the payment of subsidies or for price increases. Export controls, import subsidies, and foreign exchange control too, were indispensable. Without them a sufficient supply of essential goods could not have been kept in Canada, and rising prices for imports would soon have made the domestic ceiling unworkable. Even so, if it had not been for the timely control of prices in the United States early in 1942, we think it would have been exceedingly difficult, if not impossible, to have held the line in Canada. It should not be overlooked too, that although the over-all ceiling was maintained more or less intact at the retail level for some four years, there was, in fact, a considerable increase during that time in returns to Canadian producers, made possible by the payment of domestic subsidies on a large and rising scale.

Over and above all else, we are convinced that the lid was kept on largely because the people of Canada were determined to keep it on. Persuaded by a skilful and extensive publicity campaign, they held themselves and each other in check. The retention of the price ceiling became an integral part of the war effort, or as one witness put it "the public support of price controls was a patriotic duty".²

There may be some argument as to whether or not an over-all price ceiling was the right policy or whether it would not have been better to have permitted somewhat greater flexibility. It is possible that a less rigid policy might have made post-war adjustments less difficult. But this is arguing after the fact. In 1941, we were engaged in an all-out war effort and it was prudent public policy to anticipate the worst, and to prepare for it. Nonetheless, the very success of the over-all price ceiling did add to the post-war difficulties of restoring the free market system.

We considered whether or not, in view of the rapid rise in prices following decontrol, the wartime price ceiling should have been continued longer. Because of the representations and evidence of groups speaking for a significant proportion of our people requesting a re-imposition of controls and their belief that there should not have been decontrol at all, it consti-

¹See Chapter 7, Prices and Wages.

²Evidence, Royal Commission on Prices, p. 1974.

tuted a most pressing matter for our examination, and was one of the most difficult questions for us to answer.

We are aware, of course, that the validity of federal price controls in peace time is in question and that however desirous the Federal government may or may not have been to continue them its authority to do so is open to challenge in the courts. This question is considered at length in the last part of this section. Apart from this, however, it seems to us that the vital issue was whether it would have been in the general interest to attempt to hold to a price line that could only have been held by a degree of government intervention without parallel either in war or peace.

To have held prices at the 1941 level, would not have meant merely a continuation of the kind of intervention that had been necessary to hold the price ceiling in wartime. For, while the ceiling held prices down below the levels which would have prevailed under open market conditions in wartime, it must be remembered that Canadian prices in fact never diverged very far from United States prices which were also under control and there was a reasonably close relationship between internal costs and prices. At the end of the war, however, both import and export prices and internal costs began to move upwards and away from the Canadian wartime ceiling level. We have the testimony of Mr. K. W. Taylor that:

“ . . . even if the price ceiling policy had been continued in full effect there would almost certainly have been a very considerable rise in prices. To have held the old ceilings in the face of increases in both domestic and import costs would have involved enormous increases in total subsidy payments and at the same time could not have avoided hampering and restrictive effects on production.”¹

To put it bluntly, the continuation of the wartime price ceiling into the post-war period would have fixed on the country a structure and level of prices quite remote from reality which could only have been maintained by the most detailed and elaborate kind of government planning and direction. At one time there might have been reason to hope that as war-created shortages disappeared, demand and supply would come into balance at price levels not far above or even at, or below, ceiling prices. But events turned out otherwise.

We find ourselves in agreement with the decision not to continue and augment the wartime controls. We are satisfied that the preservation of 1941 prices far into the post-war period under totally different domestic and world conditions would have been not only impractical, but economically highly undesirable.

Could another ceiling have been established and held at a somewhat higher level? We have considered this possibility and it seems to us that there would have been one well-nigh insuperable obstacle. That obstacle would have been the establishment of a new over-all ceiling in the immediate post-war period before prices had settled down to an equilibrium level.

¹Evidence, Special Committee on Prices, p. 60.

The 1941 price ceiling adopted a relationship in the pricing system which had been established in the market. In a period of inflation the process of adjustment of prices and costs is rough and its continuity is marked by uneven pushes and pulls. The actual setting of every price in the economy is the more difficult in a period of inflationary unbalance because in price setting it is first necessary to determine an economic balance of every factor by artificial means rather than by the normal process of adjustment of supply and demand.

To have re-imposed the ceilings after the war would have involved the re-fixing of prices at every step of production and distribution at a level so unrelated to the realities of the economy that their use in the post-war period would have been wholly impracticable and undesirable. Moreover, in a peace-time economy there could be no discrimination in price setting between essential goods and luxury goods, or essential services and luxury services. Also every wage and every salary would have to be set and controlled. Perhaps these measures could have been adopted to the satisfaction of both consumers and producers, but we very much doubt it. In any case, unless the new ceiling had been fixed at levels reasonably close to levels which would have been established on the open market, the degree of government intervention might not have been much less than if the original ceiling had been retained.

We considered also the serious administrative difficulties in operating over-all price controls in peacetime. Briefly these are:

- (a) An over-all price ceiling produces a large number of extremely complex problems. If the system is to function, these problems must be solved quickly, fairly, and efficiently. This implies a fairly large and extremely competent staff of experienced officials. During war-time such a staff was obtained largely by borrowing senior officials from industry and trade, because personnel with the necessary experience could not be obtained elsewhere. In peace-time conditions private companies could not be expected to continue lending their top officials to the government and the government could not attract these men to its service permanently unless it could offer permanent employment and could pay salaries on a scale much higher than those now being paid. Without a competent staff, inefficiencies of administration are inevitable.
- (b) Continued acceptance of controls by the trade and by the general public could not be expected without an extensive educational campaign explaining both the need for the controls and the details of the regulations. As Mr. Taylor said in his testimony before us, such a campaign is "really indispensable" in obtaining public compliance. It does, however, cost a lot of money; and in peacetime might well be identified with political propaganda.
- (c) Experience since the war has shown in many instances, an unwillingness on the part of the courts to impose on those who break the regulations a penalty sufficiently large to deter would-be offenders.

Whether or not the actual process of decontrol followed was in every respect the best under the circumstances is a matter of judgment. In our opinion it was wise to move gradually rather than to remove all controls at once, both to lessen the shock of adjustment and with the hope that demand and supply might come into better balance before the process was complete. There undoubtedly was a point, however, beyond which the retention of particular controls over prices on the 1941 base while other prices were free would have produced serious inequities and distortions.

Two controls related to, although above the 1941 ceiling, are still in effect,¹ namely, those on house rents and sugar, and a few have been re-imposed in the post-war period of which the ceilings on bread, flour and butter and marketing controls on certain imported fruits and vegetables, are the most important. A consumers' subsidy is also being paid on flour. This led us to make inquiries as to the practicability of some form of selective price control rather than over-all price control during the post-war period. We asked Mr. Taylor for his comments and reproduce below a few excerpts from the evidence:

"Mr. Taylor: When you get beyond these industries or types of industries which are either public utilities or somewhat analogous to public utilities, the problem of selective price control becomes extremely difficult and complicated. There is the whole question of costs. Costs vary a great deal between different producers and the different sections of the country. Particularly when you get into non-standardized commodities there is the question of quality, grading and definition, and the question of markets.

Mr. Dyde: . . . There are, however, at the present time such selective controls. How are these various difficulties handled in such selective controls? For instance take the case of rising costs.

Mr. Taylor: The problem is less difficult if it is generally assumed that you are either on the way in or on the way out. In other words, if it is regarded by the industries concerned as a temporary situation. We have these selective controls now, and the difficulties are very real, and there is a certain degree of unrest in the controlled industries. They feel that they have been discriminated against; but the very fact that they had to assume that this is a temporary situation means that the problems are not insoluble. We do somehow work our way through them.

There are costs which are rising, the uncontrolled costs, and there is bound to come a point, if these costs continue to rise, when we either have to revise our views on the particular price ceiling in question or extend the controls into these cost elements.

Mr. Dyde: Do you find from your recent experience that there is any considerable degree of complaint from these controlled industries on these items, for instance, such as being discriminated against or squeezed on mounting costs?

¹Autumn, 1948.

Mr. Taylor: Oh yes. I have had meetings in the last few months with the baking industry, where they have been very vocal on the point of discrimination on the one hand and the uncontrolled costs in certain parts of the operations on the other. They feel that they have, so to speak, been picked on, and they do not like it. They are not actively hostile but they certainly have a sense of grievance that they have been selected for these particular controls."

As we see it, selective price control may be justified under exceptional circumstances for a temporary period. It may, for example, be justified by a temporary restriction of imports for exchange conservation purposes which, if allowed to affect prices, might result simply in a fortuitous profit to domestic producers and, if some imports are permitted to importers. Selective price control, combined with subsidies, may also be justified as a means of slowing down the wage-price spiral, on the assumption that the rise in the cost of living is temporary and will soon be replaced by a decline. In specific cases of acute shortages of important commodities direct controls may be necessary to ensure that the scarce supplies are directed to where they will best serve the national interest.

Except under such circumstances it is doubtful, however, if selective price control has much to commend it in ordinary time. It is bound to be discriminatory. It is extremely difficult and complicated to administer. Most important of all, and particularly if subsidies are paid on the controlled goods, selective controls are more likely to augment the inflationary gap between demand and supply than to reduce it. If a general attack on inflation is to be made, the weapons should, in the main, also be general, directed to bringing the flow of money available for expenditure into equilibrium with the supply of goods and services available for purchases.

CONSTITUTIONAL AUTHORITY OF THE PARLIAMENT OF CANADA
TO ESTABLISH AND MAINTAIN PRICE CONTROLS

The courts have recognized the constitutional authority of the Parliament of Canada to enact laws for price control during time of war and the transition period from war to peace. We are here concerned with the question "Has the Canadian Parliament authority to continue price control measures indefinitely or to enact new laws of this kind in peace-time conditions?" We believed it would be useful to make a statement of the various views and opinions held as to the extent of the authority of Parliament in this matter and to set them out in order to examine this problem.

In order to clarify the discussion it should be noted that legislation affecting prices may operate to produce different effects, and may be for different purposes and of different scope. Our consideration will be confined to legislation of one type; that controlling prices by means of a general over-all ceiling, similar to that imposed during the recent war for the purpose of minimizing inflationary conditions in the economy.

The practical operation of such legislation renders it necessary to control all matters that affect the consumers' price, such controls to operate at the importer's, manufacturer's, wholesaler's and retailer's level. For example, to maintain control over the price of men's shirts would require, among other things, steps to ensure the importation of raw cotton or fabric at related prices, control over manufacturing costs and selling prices, and regulation of wholesaler's and retailer's mark-ups. In general, a price control program must regulate terms of the contracts into which businessmen enter for the acquisition or disposition of property and the control or use to which they may put the property while it belongs to them. The contracts may relate to transactions begun and completed wholly inside one province, or to interprovincial or to international transactions. The problem is, has Parliament the authority, under the Canadian constitution, to make laws to govern all these activities in peace time?

We have been informed that the crux of the matter lies in the division of legislative powers between the Parliament of Canada and the legislatures of the provinces which is set out in sections 91 and 92 of the British North America Act. The Canadian Parliament by section 91 has exclusive authority to enact measures concerning certain specific subjects together with a general power "to make laws for the peace, order, and good government of Canada, in relation to all matters not coming within the classes of subjects by this Act assigned to the legislatures of the Provinces." The provincial legislatures, by section 92 are exclusively empowered to legislate for specified matters, the most important of which is "Property and Civil Rights in the Province".

The matters mentioned in these sections are matters for the purpose of dealing with what laws may be made. They are in the nature of legislative targets. For example, the assignment of the heading "Property and Civil Rights in the Province" to the provinces does not mean that all laws that in fact deal with property and civil rights are legislation on property and civil rights to be enacted by the province. To be so, they must be laws for the purpose of dealing with property and civil rights in the province as such. Regard must, therefore, be had for the essential purpose of a law in order to classify it within sections 91 or 92 and not merely to the form of what it deals with incidentally in providing for the main purpose.

Under what power, then, can the Parliament of Canada enact price control legislation in peace time?

First, let us consider the specific subjects assigned to Parliament. These may be grouped into three categories for the purposes of this discussion:

1. Criminal law.
2. Regulation of Trade and Commerce.
3. All other matters.

Criminal laws are designed to prevent certain acts or activities. The elimination of such acts or activities is the whole purpose of the legislation. It is apparent that the extensive regulation required in price control cannot be founded on criminal law since offences created to deal with infractions of the regulations are not ends in themselves but only incidental to the regulation which is the true object of the legislation.

Decisions of the Privy Council have established that the subject "The Regulation of Trade and Commerce" is to be interpreted as meaning trade and commerce from a national point of view. For example legislation regarding import, export, or interprovincial transactions may be based on this power. However, it does not include authority to regulate a particular trade or industry in matters carried on within a province. Where a law is for the purpose of regulating the activities of a particular trade or industry in a province it has been considered to be for the purpose of dealing with the use of property or the exercise of civil rights in the province. The Privy Council has stated that "The Regulation of Trade and Commerce" perhaps includes general regulations of trade affecting the whole Dominion but no decision with respect to legislation of the kind under consideration here has, as yet, been based on this view.

As this latter question is akin to that arising under the general power of Parliament, it is not further considered here, and much of the discussion below in relation to the general power is applicable to the subject "The Regulation of Trade and Commerce".

The remaining specific matters under parliamentary authority could be used for purely financial legislation, complementing price control, but it would not appear that they could be used for legislation controlling transactions relating to ordinary commercial commodities within a province.

From the foregoing it is clear, subject to what is said later concerning "Trade and Commerce", that laws for price control do not as a whole fall into any of the specific purposes mentioned in the British North America Act for which Parliament may legislate. Parts of such a program might be enacted, such as the financial measures complementary to price control, but no authority exists in these subjects for legislation controlling the use of property or of contracts relating to matters wholly within a province for this purpose.

Finally, we must consider the general power of Parliament "to make laws for the peace, order and good government of Canada in relation to all matters not coming within the classes of subjects by this Act assigned to the legislatures of the provinces" together with the exclusive authority of the provincial legislatures to make laws under the subject "Property and Civil Rights". It is here that obscurity exists. Price control laws might be deemed to be made under either of these authorities. It is not clear which is the case and the courts would have to rule on this question. We have been informed that arguments can be advanced on both sides of this matter and it would be helpful to consider previous decisions of the

Privy Council which have related to the general power of Parliament and the provincial authority to make laws relating to property and civil rights.

The Privy Council has stated that Parliament has authority to enact laws affecting property and civil rights if this is merely the incidental form of the legislation and the true purpose is to deal with some other problem which is inherently national. Subsequent to this decision, first made clear in 1896,¹ further judgments of the Privy Council gave rise to the "emergency theory", which emphasized that in order for laws enacted by Parliament under the general power to be valid, they must be as a result of some exceptional circumstances affecting the welfare of Canada as a whole. During and shortly after World War I, this emphasis was expressed by referring to a time of emergency, such as war and the transition from war to peace, during which the national life may require, for its preservation, the employment of very exceptional means which may well over-ride "property and civil rights in a province". This emphasis led to the belief that the authority of Parliament to make laws "for the peace, order, and good government of Canada", was confined to times of national emergency and in the period of transition from emergency to normal conditions.

In 1946, however, a decision of the Privy Council indicated that the "emergency theory" was too restrictive and that a time of emergency was only one instance that gives rise to the authority of Parliament under the general powers, while there may be others. On this occasion, the Privy Council stated:

"the true test must be found in the real subject matter of the legislation; if it is such that it goes beyond local or provincial concern of interests and must from its inherent nature be the concern of the Dominion as a whole, then it will fall within the competence of the Dominion Parliament as a matter affecting the peace, order, and good government of Canada".

The general power of Parliament is, therefore, to make laws for the purpose of dealing with intrinsically national matters.

On the other hand, the authority of the legislatures of the provinces is to make laws for the purpose of dealing with "Property and Civil Rights in the Province", as such.

Into which of these categories do laws for the purpose of establishing price control to maintain a general over-all price ceiling or to maintain control of prices of key commodities with the object of minimizing inflationary conditions in the economy, as a whole, fall?

Arguments can be advanced for the validity of legislation enacted by Parliament for the control of prices as part of a post-war anti-inflationary program. These arguments can be advanced on two possible lines.

In the first place it can be said that the exceptional conditions which during the war gave price control an inherently national character continue to exist in post-war conditions. The disruption of world trade, foreign ex-

¹Attorney-General for Ontario v. Canada Temperance Federation, 1946 A.C. 205-208.

change difficulties, and the procurement policies deemed necessary to render aid to exhausted countries bring about the same conditions in Canada as a whole that existed during the war. This argument may be put two ways, either that the exceptional circumstances during the war have continued into the post-war or that post-war conditions give rise to the same exceptional circumstances.

In the second place, it can be argued that in any event price control legislation as part of an anti-inflationary program relates to a matter of predominantly national concern. It is said "inflation" is a condition that, from its very nature, relates to the national economy as a whole. Further, it is argued that inflation is a subject that is similar to the matters that are specifically mentioned in section 91 as being applicable to Federal jurisdiction such as banking, currency, trade and commerce, and so forth. Again, the stresses on the economy producing inflationary conditions affect the economy as a whole and price control legislation is essentially one program to meet these stresses. It is said that legislation having for its effect and purpose the regulation of the Canadian economy as a whole and not related to particular persons or trades is legislation for the peace, order and good government of Canada and not a mere regulation of property and civil rights in the provinces. It is said that such legislation is outside any of the powers of the provinces in section 92 since no province is empowered to legislate with a view to regulating the Canadian economic system as a whole.

Finally, it is said that laws of the type now under consideration have not yet been before the courts in time of peace and that such decisions as have been rendered on laws providing for price control have involved legislation of a different character. It is said that they are not applicable.

The foregoing arguments can be advanced to justify legislation by Parliament either under the general power in section 91 or under its power in relation to "The Regulation of Trade and Commerce". As mentioned previously, the latter apparently includes power to enact legislation for a general regulation of Trade and Commerce although not for a particular trade or industry. It is argued that legislation applying generally to all trade and commerce or even to key commodities because of the general effect on the trade and commerce of the country as a whole, is justified under this head.

For these reasons, it is argued that legislation designed to produce stability in the Canadian economic system, as a whole, even though it provides for the control of transactions affecting property or civil rights wholly within a province is not directed or aimed at "property and civil rights in a province". It merely affects, in a subsidiary and purely incidental way, property or civil rights, while aiming to regulate a matter which is intrinsically national in character.

On the other hand, we are informed that the following arguments can be advanced against the competence of Parliament in this matter. Laws

for price control deal with local trade and transactions wholly within a province. It is said that the purpose is to this extent to regulate this trade and these transactions, that is to say to regulate the use of the property and the exercise of the civil rights in the province. It is said that there is nothing inherently national in this part of price control legislation in ordinary times and that there are no exceptional circumstances arising out of post-war conditions that justify the continuation of price control by Parliament beyond the reasonable period that was necessary for transition from wartime conditions to non-wartime conditions. It is held that the normal relations of the legislative authorities of Parliament and the provincial legislatures have been restored.

Moreover, there are a considerable number of decisions of the Privy Council, indicating that before a matter can be deemed to be predominantly national the matter must quite clearly have this characteristic.

In several cases for instance legislation by Parliament providing for the regulation of the insurance business in Canada as a whole was held beyond the powers of Parliament. In those cases it was argued that insurance was a business that was inherently national in character but the Privy Council said that Parliament did not hold this authority to undertake the regulation of insurance contracts wholly within a province. Parliament, it was decided, could not regulate a trade or business in a province.

A similar view was taken of arguments advanced to support a general regulation of the grain trade by legislation enacted by Parliament. It was held that the grain trade was not so predominantly national as to justify Parliament legislating with regard to every aspect of it. It was further held that Parliament could not enact laws for the regulation of industrial disputes and strikes in all employments in Canada. In that case it was held that local disputes wholly within a province were matters of property and civil rights and Parliament, under the general power, was not authorized to legislate for the regulation of trade disputes of a local character together with those of national concern under the power of section 91. Parliament was held, also, not to have authority to enact a general Unemployment Insurance Act in 1935, even though this statute was enacted during a period of great unemployment throughout the whole of Canada. This problem was solved only by an amendment to the British North America Act.

In all of these cases it was indicated that the problems were not of such a national character as to authorize Parliament to deal with property or civil rights in the province in providing for them. The necessity of either exceptional circumstances, or of over-riding national characteristics, or both, was continually emphasized.

From our general discussion of the legislative powers of Parliament, it is clear that laws to be enacted under the general power "to make laws for the peace, order, and good government of Canada", or under the

specific power "The Regulation of Trade and Commerce" which will not conflict with the power of the provincial legislatures to legislate for the subject "Property and civil rights within a province", must be of an inherently national character. This national characteristic may or may not be the result of exceptional circumstances which affect Canada as a whole. It is not at all clear, from our consideration of price control laws, whether such legislation meets the criteria mentioned above. Forceful arguments can be made on both sides and we conclude that the situation is very obscure. In the final analysis, a definitive answer to this question can be given only by the courts. This obscurity of jurisdiction is one of the most important problems a program of price control in peacetime would face.