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COST-OF-LIVING QUIZ

*Some Common Questions on the Cost-of-Living Index
Answered by the Dominion Bureau of Statistics*

Q. How can you say that the cost of living has only gone up 18.3 per cent during the war? Just look at the way the prices of these foods have risen:—

	Per Cent Rise
Round steak	58
Blade roast	71
Stewing beef	79
Lard	72
Corn syrup	51
Oranges	45
Cheese	70
Butter	42

A. Those figures are quite correct, but remember that the foods they refer to represent only a part of the cost of living. All foods put together represent less than 35 per cent of the cost-of-living index, and while some foods have risen very substantially, others have remained pretty steady, or even have declined.

Q. Such as

A. Bread and milk are examples. And they are important foods. Just take a practical case. From August 1939 to August 1943, a Dominion average of retail bacon prices rose 46.8 per cent. Lard rose during the same period 72.2 per cent, bread rose 10.3 per cent; and milk fell 5.5 per cent. Now if you average these price changes you get an increase of 30.9 per cent. But that doesn't give you a true picture at all, because the ordinary family spends a great deal more money per week on milk and bread than it does on bacon and lard.

This table shows how much these price changes meant in the family budget.

Item	Amount in Weekly Budget	Average Price August		Budget Cost August		Percentage Change
		1939	1943	1939	1943	
		c.	c.	c.	c.	
Bacon	7 pounds	31.4	46.1	22.0	32.3	+46.8
Lard	2 "	10.8	18.6	2.2	3.7	+72.2
Bread	12.1 "	5.8	6.4	70.2	77.4	+10.3
Milk	10.5 quarts	10.9	10.3	114.5	103.1	- 5.5
Total				208.9	221.5	+ 6.0

The increase in the weekly cost of these 4 items was 6.0 per cent, a very different kettle of fish from the straight average of the four percentage changes—30.9 per cent.

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Q. How much does the cost-of-living index reckon that food has risen since the beginning of the war?

A. 34.1 per cent, as at August 2, 1943.

Q. And even at that you still maintain that the total cost-of-living has only gone up by 18.3 per cent?

A. Yes. After all, some groups of items have gone up very little. Here is another table showing the 6 main groups in the index, the proportion that each represents in the total cost-of-living index, and the amount that each group has risen since the beginning of the war.

Budget Group	Percentage in Total Index	Wartime Percentage Price Increase August, 1943
Foods	34.6	34.1
Fuel and Light	5.7	14.5
Rent	17.8	7.4
Clothing	12.1	20.5
Home Furnishings and Services	8.9	16.8
Miscellaneous Items	20.9	6.8
	100.0	

You see rent and miscellaneous items including health costs, recreation, transportation and life insurance have gone up very little, but they form a large proportion of the family budget.

Q. Do you mean to say rents have gone up only 7.4 per cent—many friends of mine have had to pay "boom town" rents when they moved to take a war job.

A. The trouble here is that the index is concerned with all rents being paid, but the homeseekers are thinking only of rents asked for vacant homes. Your friends will be the first to recognize that the proportion of vacant places is small. They would surely recognize also that a measurement of rents, in order to form part of a cost-of-living index, must represent all rents. Due to rent control, the great majority of tenant leases have been unchanged since 1941.

Q. Does the Dominion Bureau of Statistics give enough importance to food? How does the Bureau decide what weight to give to food, what to rent, and so on?

A. The Bureau decided how much weight to give to each group in the index—and for that matter, to each individual item in the index—on the basis of experience. In 1937 and 1938 the Bureau made a study of the living expenses of nearly 1,500 Canadian families. These families were specially picked as typical wage-earning families; each consisted of a husband and wife and one child or more. The average number of people in the family was 4.6, and the average income was \$1,453 a year. Officials from the Bureau obtained from these families a careful record of their expenditures during the twelve months from October 1937 to

September 1938. It was on the basis of these records that the Bureau knew how much importance to give to the various kinds of food, clothing, recreation, and all the other things that come into the family budget.

Q. But that budget was figured out in 1937 and 1938. A lot of water has flowed under the bridge since then. There are many goods that one can't buy, and purchase of other goods is limited by rationing. What have you done about that?

A. The Dominion Bureau of Statistics has taken such changes into account. For example, when silk stockings went off the market they were replaced in the index by rayon stockings. Automobile tires and tubes, steel frying pans, and bananas have been removed since they are no longer available in quantity. The weighting given to tea, sugar and motor operating costs has been reduced on account of rationing. Some changes in buying habits are so small as to have a negligible effect on the index. There is no point in making adjustments in such cases.

Q. When you take things out of the index budget does this reduce the total budget cost?

A. No. The amount of money that used to be spent on these articles is distributed among other items in the index.

Remember this, too. The index aims to record a fixed standard of living. Since the beginning of the war many families have increased their family income and as a result they have bought better clothes, more expensive food, etc., than they used to do. The index does not record higher living expenses due to better living.

Q. Well, that describes how the index was constructed, and what steps are taken to keep its construction up to date. But what do you do about collecting prices each month?

A. The Bureau gets regular reports on the prices of all goods and services going into the index from a wide assortment of towns and cities throughout the Dominion.

Q. But do you expect a storekeeper to report to the Government his true price, if that price happens to be a little high?

A. Yes, we believe that storekeepers do give us their true prices. After all, why should they not do so? If the reports were being made to the Wartime Prices and Trade Board, whose duty it is to enforce the price ceiling, it might be a different matter, but the reports go to the Dominion Bureau of Statistics, an entirely separate organization. Furthermore the Dominion Statistics Act, the legislation under which the Bureau functions, requires that individual returns be treated as confidential. The Bureau is purely a fact-finding agency of the Government, whose sole purpose is to record facts as it finds them.

From time to time merchants ask the advice of the Bureau concerning price problems when making their monthly reports. They would scarcely do this if they were reporting false information. There was one occasion when seed potato prices, which are much higher than the legal maximum price for table potatoes, were quoted by merchants from an area in Western Canada in their food price returns. These prices were used in calculating the price of potatoes for the cost-of-living index, because potatoes were being sold to consumers at the levels quoted, illegal though they were.

Q. That may be right, but is it still wise to rely entirely on reports from storekeepers?

A. We don't. The Bureau has its own representatives in most of the principal regional centres. These representatives obtain the prices that we need each month by personal visits to stores. Furthermore, they visit other cities so as to make a check on prices throughout the region.

Q. Does the Bureau take any notice of deterioration of quality? You get much less value for your money nowadays in all manner of goods.

A. For many years the Bureau has asked firms reporting prices of clothing and home furnishings to make at the same time estimates of any changes of quality in these goods. When the Bureau receives a report of a reduction in quality, this reduction is treated just as if it were a price increase of the same amount. The Bureau, furthermore, instructs its field representatives to be on the watch for quality deterioration when obtaining price reports.

It must be remembered that there are two types of quality deterioration: that which shortens the life of an article, and that which affects its appearance without shortening its life or spoiling its serviceability. If a man finds that a suit now only stands three-quarters of the wear that a similar suit used to stand, the cost of his clothes over a period of years has risen, although the price remains the same. It is obviously reasonable to include deterioration of that type in the cost-of-living index. Suppose, on the other hand, the man finds that the suit he now buys is less attractive than it used to be, the material rougher and easier to wrinkle but it still lasts every bit as long as it used to. He could not then claim that this quality deterioration had affected his cost of living.

Q. Isn't that rather unfair? Many people—particularly women—would gladly pay more money for a better looking article. They feel that deterioration in appearance definitely affects the cost of living.

A. Look what that argument means. The cost-of-living index determines the cost-of-living bonus. Therefore, if you expect the appearance of an article to be reflected in the cost-of-living index, you are asking that our women—and men, too, for that matter—be paid a bonus to look beautiful!

Q. I think all Canadians would cheerfully make any sacrifice so long as they know it is necessary. Is most of the deterioration in appearance or limitation in choice really necessary?

A. Yes it is. In many cases it may be the result of orders by the Wartime Prices and Trade Board, and in other cases it is forced on manufacturers by the need of substituting other raw materials for those originally used. It is a case of having less than enough of the quality or choice that we were used to, or of having enough of a slightly less attractive quality or smaller choice.

Q. Here is another point. Many cheap lines of goods are now off the market and we have to take more expensive brands, whether we like it or not. This often happens in canned goods, and other foods. It adds to our living costs.

A. In cases like that the Bureau puts the price of a more expensive line of foods into the index. Stores are instructed not to report the price of any article which is not in stock, but instead to send in the price of the next more expensive article that is in stock.

Q. I have read a list of items that you included in your index, and that list leaves out a lot of things. Yet I thought that you said that the index is based on actual experience.

A. Yes, the index is based on experience, but it isn't practical to get direct price quotations for every item in the family budget. In that case, we get price reports on what we regard as typical items, but we "weight" those prices high enough to cover all the items that ought to be in the group.

Q. That sounds a bit funny. Will you explain it further?

A. Certainly. Take the case of foods. Many foods have wide seasonal price changes, and as a result the consumption of them varies. People eat a lot of them when the price is low and eat less when the price is high. Shifts in consumption from season to season and year to year, as production varies, are so great that it is extremely difficult to give these foods a correct degree of importance in the budget. Then there is the problem of getting comparable prices. Many of the fresh vegetables in particular are not always sold upon a weight basis, so that price changes may actually reflect quantity differences as well. To include these items might well result in the index becoming less rather than more accurate.

The Bureau of Statistics, therefore, picks out those food items on which a representative price can be obtained from month to month. The index now includes 47 food items which represent about 75 per cent of the total cost of foods in the budget on which the index is based. Those foods on which a price is not obtained are considered to have risen by the same amount as all foods.

Q. You don't think that the restricted number of foods in the index makes it less reliable?

A. No. The Bureau recently ran a test on this. An experimental food index was computed on the basis of only 15 items: round steak, blade roast, rolled rib roast, pork loins, bacon, milk, butter, eggs, flour, sugar, potatoes, corn syrup, marmalade, oranges and lard. This index with one-third of the items in the official index, shows a wartime rise to August 1943 of 33.9 per cent, which is within 0.2 per cent of the increase for foods shown in the official index.

Q. Is food the only group where you find difficulty in getting representative prices?

A. No, that problem occurs in a greater or lesser degree in practically every group. Another difficult one is clothing, which also includes many items seasonal in character. A lady's hat may sell in season at \$4.95 and be cleared later at \$2.98 or less. The same is true of dresses, coats, and many other items. To include prices for these things in the index would cause erratic movements which would not follow the basic changes in clothing prices. Therefore, the Bureau has selected a comparatively small list of 31 clothing items that are of fairly standard construction and have no pronounced seasonal price movements. These items represent in proper proportion all the important materials used in making clothing, i.e., cotton, wool, rayon, rubber and leather. The Bureau assumes that the change in cost of these items gives a correct record of the rise or fall in all clothing prices.

Q. Does the cost-of-living index include income taxes? You cannot deny that for most of us these days they are a big part of our living expenses.

A. No. The index does not include income taxes. If you consider the matter carefully you will see that it would be quite unreasonable to include them. The Hon. J. L. Ilsley (then Acting Minister of Finance) stated in the first Canadian War Budget Speech (Sept. 12, 1939) "We shall be guided by the belief that all our citizens will be ready to bear some share of the cost of the war, but we shall insist on the principle of equality of sacrifice on the basis of ability to pay."

If income taxes were included in the index, this principle stated by the Minister would be washed out, for since the cost-of-living bonus is determined by the cost-of-living index the bonus would be increased by approximately the amount of the increase in the income tax. Thus people getting the bonus would pay little or no income tax. For the same general reason, the increases in the cigarette and tobacco taxes since June 1942 have been excluded from the index by Order in Council.

Q. But still, you will have to admit won't you, that income taxes have increased living expenses?

A. If you argue that income taxes affect the cost of living, then you would have to agree that the cost of living of high income families has risen much more than for families with low

incomes. It would also mean that the cost of living of a single man had risen more sharply than for a large family with the same income. That's plain nonsense, and it would be very unfair to large families with low incomes.

Q. You will remember that the cost-of-living index fell from 117·9 on December 1, 1942 to 116·2 on January 1, 1943, and that this decline was almost entirely due to the subsidies paid on tea, coffee, butter, milk and oranges. Many people felt that this was unfair.

A. No, it was perfectly fair. The cost-of-living index fell because the actual cost of living fell, and the actual cost of living fell because those important food items were reduced in price.

Q. That's quite true, but many people still felt that they were gypped. The subsidies to reduce the food prices have to be paid by taxation or by borrowing, and this taxation or borrowing reduces the income of the consumer just as effectively as do higher prices. Wasn't the whole transaction the case of money into one pocket out of the other?

A. No, for a very large number of people the increased taxes that they have to pay or loans that they have to make to cover the subsidies will be very much less than the benefit that they derive from the subsidies. To quote Mr. Ilsley again—"As to the cost of subsidies, this is borne, not in proportion to benefits received but like any other war cost, in accordance with ability to pay. The family man who benefits most from stabilized living costs pays his share of subsidy costs not directly in proportion to the benefits received, but on the contrary according to his taxes which vary inversely in proportion to the number of his dependents. Rich and poor benefit in proportion to what they consume; they pay in accordance with their income. In other words, the payment of subsidies distributes the burden of rising costs according to ability to pay."

Q. Just one more point. Do you think that a nationwide index is the best type of index for determining the cost-of-living bonus? Wouldn't it be better to use a number of regional indexes?

A. The regional cost-of-living indexes would be open to just the same criticisms as is the Dominion index. There are likely to be as many and as wide differences in living costs within a region as there are between regions. If you once started adopting a system of regional indexes you would be compelled by public opinion to adopt a very large number of them, for each little group would feel that the cost of living in its neighbourhood was abnormally high. The wisdom of Solomon wouldn't be equal to the task of determining the boundaries of these areas so that everyone would be satisfied.

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