

petitive advantage still remained in 1966, although it has been eroded somewhat by developments since 1964. Surveying increases in basic wage rates over 1966, the Council found that they had been more rapid than at any time in the past decade. Higher costs therefore would continue to work their way through the Canadian economic system for some time. Thus, regardless of underlying economic conditions, it appeared to be inevitable that further significant increases in many lagging prices and costs would continue in Canada in the near-term future.

Productivity.—If anything, the rate of increase in Canadian productivity has tended to slow down in recent years. In setting its 1963-70 goals, the Council drew on historical experience that indicated that the economy would achieve an especially rapid rise in non-farm productivity as the gap between actual and potential output was closed. The rise that actually occurred in the 1963-66 period did not measure up fully to the Council's expectations. Nevertheless, the rise in non-farm productivity since 1963 was well above the performance of the late 1950s and also well above the long historical trend. The need in Canada for even greater increases has been emphasized repeatedly by the Council. Gains in productivity are the real basis of increases in the standard of living.

Investment.—An extraordinarily large rise in new investment took place in Canada in 1963-66. While total economic output over that period rose by about one third in value and one fifth in volume, total investment spending rose nearly two thirds in value and over two fifths in volume. This expansion took place over a very broad front of new machinery and equipment, business non-residential construction, and government social capital spending. But, despite this, the growth in Canada's productive capacity seems to have been less than the growth in the volume of output. In addition, by 1966, demand pressures on productive resources and capacity created particularly severe strains in the construction industry, especially in certain regions and localities, and this led to worsening bottlenecks and to escalating wage and cost pressures.

Prosperity and Price Stability

The Canadian experience in the prolonged expansion that began in 1961 serves well to illustrate one of the major, recurrent difficulties faced by modern industrial nations in the postwar period—namely that of achieving reasonable price stability in periods of high growth and rapid gains in employment. In general, the leading nations have demonstrated far better performance in this respect over the past 15 years than in the inter-war period. Much of this improvement can be attributed to a better public understanding of the broad forces at work within modern economies, and to better use of the policies capable of influencing these forces. In particular, there has been a growing appreciation of the importance of total supply and demand within economies and of the role of the "big levers" of fiscal and monetary policy in affecting these aggregates. It is realized that severe inflation is brought about fundamentally by excessive pressure of total demand for goods and services on the available supply, while heavy unemployment is the result of large relative deficiency in demand. It is known that the principal remedy for both of these extreme conditions is the operation of fiscal and monetary policy to restrain or stimulate the growth of total demand as the case may be, and bring it back into a proper relationship with the growth of potential output.

In 1965, the Government of Canada requested the Economic Council to launch a broad examination into prices, costs, incomes and productivity, and their relationship to sustained economic growth. Specifically, the Council was requested to (1) study factors affecting price determination and the interrelation between movements in prices and costs and levels of productivity and income; (2) to report on the relationship to sustained economic growth and to the achievement of high levels of employment and trade and rising standards of living; and (3) to review the policies and experiences of other countries in this field and their relevance for Canada. A substantial part of the Council's *Third Annual Review* was devoted to its report on these matters.