In attempting to reconcile the goals of high employment and reasonable price stability, many countries have adopted what are known as "incomes policies" or "wage-price guidelines" The ways in which these policies and other measures were developed and used in the United States, Britain, France, Sweden and the Netherlands were studied at length by the Council. In general, the Council found that these policies—which in many cases relate permissible price increases to recent levels of productivity—had some educational value but were seldom enforceable without the use or threatened use of government sanctions against parties who violate the guidelines. The effect of such policies was extremely difficult to measure. The Council's study indicated that once an economy is operating at high levels of demand and employment, wage and price increases tend to break through whatever guidelines have been established. Wage-price explosions have often followed periods of comparative stability attributed to incomes policies.

The Council concluded that this type of policy is not well suited to Canadian circumstances. An incomes policy would have the best chance of success in a unitary state, with strong central powers, a tradition of government intervention in the detailed functioning of the economy, and few constitutional impediments to government use of direct controls if necessary; private economic power would be relatively concentrated, and both union and management organizations would be strong and centralized. Obviously, Canada is far indeed from being such an environment. The threat of resort to direct wage and price controls as sanctions would be a hollow threat in Canada; the Federal Government has not now the power to institute such controls in major areas of the economy and in practice has been able to get such constitutional power only in wartime. In addition, regional differences hardly favour such a policy in Canada. Another factor weighing against such a policy is Canada's increasing economic interdependence. Price-increasing developments in international markets—where prices for a wide range of Canadian products are determined—might be bringing about rapid rises in profits and incomes in a number of primary exporting industries, and little could be done about it except to explain to the public why the situation must be tolerated.

The main thrust of the Council's recommendations, therefore, was along the lines of improving the use of basic monetary and fiscal policies, better planning of government expenditures and programs, lessening market rigidities, strengthening competitiveness, promoting greater mobility of resources, including manpower, removing inequities and enlarging public understanding of all these matters. Said the Council: "We feel that for all their troubles and imperfections—for all the static and turbulence which they periodically generate—the essentials of the institutions of free collective bargaining and of flexible and relatively decentralized determination of wages and prices should be preserved. In the long run, they seem likely to be more compatible with good all-round performance by the Canadian economy than any visible alternative."

The Council found that, in the past, Canada's use of fiscal and monetary policies has often been too closely geared to minor, short-term economic fluctuations. They could be used more effectively to stabilize larger economic fluctuations over longer periods—to moderate prolonged pressure against resources, or reduced persistent economic slack. Within this setting, the Council added, further conditions are vital—favourable international conditions, a correct setting of the exchange rate, and adequate complementary policies to improve the supply side of the Canadian economy. The Council found that up to now there has been a relative neglect in Canada of policies to increase supply, both in general and in areas of particular pressures.

One of the main problem areas detected by the Council was that of construction spending. In the postwar period, such spending has shown a special and unique potential for aggravating or even inducing economic instabilities, with consequent repercussions on general costs and prices. Over the past 15 years demand for construction in Canada has swung widely—residential building from a 25-p.c. increase in one year to a 17-p.c. decline two years later, non-residential construction from plus 40 p.c. to minus 9 p.c. over two years, and government construction outlays from plus 32 p.c. to minus 7 p.c. from one year to