

Inflation Board (AIB) was established to ensure compliance by the largest and most powerful economic groups. The price and income controls were meant to complement the monetary and fiscal policies, not substitute for them.

It was planned that the various elements of the anti-inflation program should work together in this manner: monetary and fiscal policies were designed to achieve a sustained economic recovery consistent with price increase targets of 8% in the first program year, 6% in the second year, and 4% in the third; controls on wages, salaries and professional fees should hold the growth in unit costs to a level consistent with the annual price target; controls on prices and profits should ensure that reduced rates of cost increase were fully reflected in reduced rates of price increase; prices should increase by less than the increase in compensation, so that workers could gain, on average, at least a 2% increase in real income. This "winding down" process should continue, as reduced rates of cost increase continued to be passed along in lower rates of price increase.

The economic recovery began about mid-1975 following a relatively mild recession. Real gross national expenditure declined during the last half of 1974 and the first half of 1975. During the second half of 1975 real growth was almost 4% at an annual rate, and during the first half of 1976 the rate of real growth was 5.6%. Throughout this recovery, employment continued to rise at an annual rate of more than 2%, a rate just sufficient to absorb the increase in the labour force. The rate of unemployment remained at about 7%.

21.7.2 Cost and wage developments

Because of the combined effect of the slowdown in the rate of wage increase and the recovery in the rate of productivity increase, unit labour costs during the first half of 1976 were held to about 10.5% above their level a year earlier. For the first half of 1975 the rate of increase had been 17.5%.

During each of the first three quarters of 1975 — prior to the initiation of the controls program — first year wage settlements contained increases of more than 20%. During the first and second quarters of 1976, first year wage settlements declined to 16.4% and 13.4% respectively. Later actual increases are somewhat lower because these Labour Canada statistics do not reflect the effect of AIB review of wage settlements above the guidelines. AIB compensation data, reported in Chapter 8, also show a trend toward deceleration in wage increases.

21.7.3 Price developments

In the third quarter of 1976 prices were not rising as fast as they had been and the rate of increase remained below that for wages and salaries. It was expected that the year-over-year increase in the consumer price index (CPI) would be about 6.5% by October 1976, compared with 10.6% in October 1975. This sharp decline in the rate of increase came in part from favourable developments in the price of imports and food prices at the farm gate, and in part from the impact of the controls program.

Certain elements of the CPI are not subject to direct control. Although they are monitored by governments, and are affected by overall economic policy, the prices of food at the farm gate, energy at source, imports, government services and taxes are not controlled by the AIB. The food at farm gate and import components of the CPI increased somewhat less than the total index from August 1975 to August 1976. CPI components which are subject to the direct influence of the control program increased by about 8% over that year, down from about 11% during the previous year.

The target was to reduce the year-over-year rate of increase in the CPI to no more than 6% by October 1977. Barring unforeseen crop failures or world-wide curtailment of supply of other basic commodities, it was the view of the board that the target was attainable.