

do to

RESTRAINING INFLATION

By R. C. Scrivener, Chairman, Bell Canada

The Canadian Club of Toronto

Royal York Hotel, Toronto

October 7, 1974

RESTRAINING INFLATION

Canada has come through a very trying period of substantial prosperity. We have had an opportunity to experience and suffer the effects of several years of minority government. We sense that we have just witnessed the end of the euphoria associated with the concepts of continued unlimited growth, and above all are now frightened by the effects and implications of double digit inflation.

The atmosphere in Canada has undoubtedly changed. Students are studying. The working population is worried about keeping up with inflation and reflects this in the bargaining process. Personal tax rates cut deeply into the take home pay of the large middle income group who are the backbone of the work force. Some of us are uneasy about the possibility of a world wide economic collapse that will drag Canada down with it. We instinctively know that acrimonious relations between our governments are not good for the country. We definitely want to preserve the wonderful Canadian environment. We are worried about protecting what we have and are unsure about achieving our hopes and aspirations.

Finally, we no longer have much confidence that massive government spending programs offer real solutions, and in fact suspect that they are unproductive and wasteful of our available resources. Is it possible that they are the basic cause of to-day's inflation? Is it possible we were attacking the wrong problems with these programs?

The new government in Ottawa is faced with these conditions and must make its assessments and initiate its programs. Irrespective of our individual political leanings, we are indeed fortunate that we do have a majority government which can look ahead four years in its planning. There is now no need for expediency justified by political survival.

It must be apparent to any serious observer that no government has unlimited scope to tax, spend and incur deficits. In this regard governments are no different than individuals. Excessive borrowing and living beyond one's income have inevitable consequences. The economies of some major European countries are so weakened that they now face bankruptcy.

We in Canada and in fact most countries have proceeded during the past two decades on the assumption of more or less continuous onward and upward growth. The realization that serious basic shortages can develop on an international scale and that runaway inflation is not only possible but is practically here, will have a sobering effect on government policies.

It does take time to make major policy shifts because the need for change and the reasons for it must become very publicly apparent before the changes are acceptable.

We are at the stage now in Canada where we must shift the public psychology from play now, pay later, to pay now if we want to play later.

The public here and in other major countries does not yet realize how serious the international financial situation has become. Enough Canadians

are not yet aware that inability to resolve these and other world financial problems could cause the collapse of our own economy.

The attack on inflation and on government deficits has to be world wide and long term. The United States has recently indicated that it is preparing to take corrective measures in respect of its deficits and to start attacking the causes of inflation. Let us hope that this is for real and will continue as long as required.

The Canadian government has two basic problems to deal with. First, its policies must strengthen Canada's ability to withstand the impacts on it that could arise from the economic and financial difficulties of our major foreign markets. Secondly, the policies should be directed at the root causes of inflation in Canada.

The government and the public will have to recognize that we are in for a long hard and continuing battle if we seriously intend to minimize inflation in Canada and its destructive impact on all Canadians. The alternative of ultimate financial collapse as a result of mounting inflation is less attractive.

The programs have to include a great deal of information and education for Canadians. While I am convinced that Canadians will understand and accept that constraints are the necessary price for controlling inflation, the approach by the governments must be forthright and credible.

I think we believe or at least sense that more and more does not guarantee a satisfying life style and that bigger is not necessarily better.

Canada is a small country in terms of population but has a highly capable, modern and well educated working force. It is very fortunately endowed with unspoiled open spaces and many natural resources. It has no ambitions for world dominance, nor has it visions of greatness as measured by size. We are not as hypnotized by other peoples affluence as we once were. Canadians who travel come home realizing how fortunate we are.

Canada has become a country where the people can and want to put more emphasis on quality rather than on quantity.

This present view of Canada and Canadians is consistent with our history and our character. It is consistent with our evolving independence.

Over the centuries Canada has grown due to the industry of its people and infusions of the capital and technology of others. First it was from the French, then the British, and finally the Americans. All have made their contributions and opened their markets to us. As a result we have reached the point where we can almost stand independent of any one nation but certainly cannot disassociate ourselves from world influences.

Our next half century will tell the story of Canada exerting this sense of independence yet facing and working with a very troubled world and seeking the social, economic and cultural interchanges that are best for Canada and the other nations. Hopefully, while having our internal family quarrels we will not lose sight of national needs and objectives.

Fortunately we have a good neighbour to the south. The United States has undoubtedly been one of the most generous countries in the history of the world, and I believe it will continue to be unselfish despite its own internal strains and stresses.

Canada can only benefit by getting along well in an understanding manner with its neighbour. When times are difficult it is so very important to have friends.

Canada, independent in the world is a stimulating idea. However, neither emotional nationalism nor anti-ism are the basis for sound international relations least of all with our friends and markets to the south.

Before we can consider ourselves to be mature enough for real independence we must find less acrimonious approaches to resolving internal differences. Independence carries with it responsibilities. There will be no place for warring fiefdoms in our nation. Public name calling is not the basis for national unity.

We should expect our provincial and federal leaders to display a real sense of national unity so that issues can be constructively resolved, and so that we will in fact achieve independent status in the eyes of others.

What then are some of the national policies that should evolve from these assessments of our great potential. On a short term basis the most pressing needs are economic because inflation must be dealt with now.

Inflation isn't new but has been made worse and worse whenever deficit financing became fashionable, respectable and overdone. Too many countries of the world have over-borrowed their ability to pay. Wars declared and undeclared have been major contributors to national deficits and subsequent rounds of severe inflation. Lack of internal restraint is another root cause. For a while inflation conceals the fact that we are living beyond our means. As inflation accelerates, the danger of a complete collapse of the economy becomes greater and greater.

The instability caused by to-day's inflation and the threats it presents to individuals and institutions are frightening all Canadians. Each of us in our own way, naturally reacts to protect ourself and our interests as we see them. The psychology of this fear is destructive. It breeds a chain reaction.

To quote from a recent article in the Wall Street Journal:

"A bewildering combination of frightening economic developments is tumbling out; soaring prices and eroding wages; topless interest rates and a bottomless stock market; a mortgage money crunch and a home building crash; a menacing explosion of world oil prices and a flood of surplus Arab oil wealth threatening international money markets; swelling business inventories and shrinking crop production."

The reactions of labour for example is understandable and not surprising. They want to retain and in fact improve their living standards. Little wonder that they increase their demands as they search for greater security. Strikes, slowdowns and other interruptions inconvenience the public

and are costly. Too often it seems as if "the public be damned" is union policy. This impression can do no good for unions or the workers.

What we are looking for is relative equity, but as an ingredient of the decision that all Canadians must restrain themselves and accept restrictions if inflation is to be brought under control.

It doesn't help to say that it is easier for the Japanese or Germans or someone else to restrain or dampen their economies than it is for us. We have in fact created the atmosphere in which great expectations are the order of the day. You just can't offer Christmas every day and then refuse to deal with the consequences.

Many important signs point to the very real possibility of an international financial crisis and a definite turn down in the Canadian economy in 1975.

We are poorly prepared for this possibility as we have built so many of the causes of inflation into our government programs, our wage structures, our taxation and our business and living habits. We have been years building inflation into our lives and expectations. Now we find that inflation is controlling us. The genie is out of the bottle.

This situation calls to mind the old proverb "He who rides tiger had better have plan to dismount".

If as I believe, the Canadian public is vaguely aware of the risks and is definitely uneasy about inflation, then Canadians will be receptive to

warnings and policies directed at to-morrow rather than based on the past. There will however be a strong reluctance to give up the "visions of sugar plums" generated over the past years. It will perhaps be necessary to have disasters before enough of us are really convinced. I hope not.

If the warnings are clear enough and the policies definite there is a good chance that we can avoid the worst at the cost of some restrictions on our spending to-day what we hope to earn to-morrow.

Let's be realistic. Governments, that is civil servants and politicians, do not operate in a vacuum. They govern by consent but they do have the responsibility for informing, persuading and telling Canadians that the price of controlling inflation is government, consumer, labour and business restraint.

How can they do this if they show no constraint in government spending? If they do restrain growth in government spending, will you the voters and taxpayers back the government up?

It is not good enough for the public to complain about taxes and then ask for more costly programs and services. Current tax rates affect every working Canadian and reduce their take home pay significantly.

The great majority of hard working Canadians are concerned about the level of taxation and how well their tax dollars are spent. They are a little more than tired of paying more taxes if governments do or appear to be giving taxpayers money away to those who don't and won't contribute their efforts to the work to be done in Canada.

Canadians are in a mood to support performance rather than more promises. They are in the mood to say to governments, "Enough, just take your hand out of my pocketbook". Governments can regain credibility by listening to these thoughts of the great majority of decent hard working Canadians.

You would, I'm sure, agree that the farmer should receive a fair price for his products but you were shocked as consumers to hear that millions of eggs had to be or were destroyed by government marketing agencies. Who is on first?

Stories of rip-offs in unemployment and welfare payments upset you and your fellow citizens.

All in all Canadians are more than ever in the mood for a plan of action to start checking inflation that does in fact involve everyone.

Higher taxes are not the solution as they just act to drive up prices and wages. Less government spending and lower taxes are at least the starting points.

To be credible governments must take the initiative in showing restraint if they are to persuade Canadians to consume less and save more.

Why save more? The simple reason is that Canada requires vast amounts of new capital to support an independent posture, or in other words to be able to pay for the services, jobs, products it can and should produce for sale at home and abroad. These aren't fancy needs, but basic ones like good transportation, including streets and highways; a clean environment; sanitation

and waste disposal; water; light; heat; and communications. Mines, factories and farms have to be brought into production. Housing, stores and offices have to be built.

To do this increasingly with our own savings requires first that we agree to less consumption and more saving. This requires that saving be made attractive, whether the saving is money in a bank; government or industrial securities; stocks and bonds; life insurance or whatever form it takes. After all saving is just a deferral of spending. Much more of the Canadian savings have to be attracted to the private sector because that's where productivity is achieved. There must be incentives to improve productivity that really motivate and reward.

Initially the incentive to save has to come from interest rates and dividends and from lower taxes on the return on savings. Subsequently, as inflation declines and confidence is regained, these savings earn their own rewards.

A slowing of government spending and tax incentives to savings would be the key to starting to slow down inflation. Sales tax increases, taxes on installment buying and affluent spending would slow consumption for example.

What is wrong with making saving as attractive as spending?

I hold no brief for any specific proposal, but if any serious effort is going to be made in the next four years to reverse the inflationary trends in Canada and to simultaneously build the basis for a strong and independent nation, then we can't avoid the fundamentals. We must spend less, save more and reduce non productive use of our funds, people and resources. Private sector productivity improvement must be a key objective of policy.

Canadians must accept restraint in their own spending habits and with it a slower rate of growth in our creature comforts, if they want less inflation.

Canadians must insist that their governments show restraint in their demands on the national income and that they retreat from the current high level of taking about 40 cents out of every dollar of the gross national product.

Canadians must agree to save more through being motivated to do so, and by their commitment to a healthy independent Canada.

Canadians must make it clear that they expect lower, not higher income tax rates, but will accept, temporarily, higher taxes on consumption; that they will save if saving is shown to be safe and rewarding.

Canadians must have conviction that the system is equitable so that they will agree to do their share and not turn the blame for inflation on others.

This is not too much for Canadians to pay to start attacking inflation; to build a strong economic base for independence; and to ensure as a result a better future for themselves and their successors.

We know that constantly leap frogging each other in an inflationary catch up is not the answer.

When preparing these remarks I was told by some that I was an old fashioned dreamer yet by others I was strongly encouraged to say these things.

Would you believe that the older generation said I was a dreamer, and the younger people told me to speak out. Well that is exactly what happened. My experience tells me that you can achieve most of what you want to achieve if you have conviction and determination. Let's be encouraged by the optimism of youth.

I have the faith and confidence in Canadians to believe firmly that they only await some leadership to take on the challenge of responsibility and self control.

I can think of no group in a better position to give that leadership than the newly elected Federal Cabinet.

The first session of the new Parliament has just started. The Throne speech was a most sober document with its recognition that inflation is our number one problem and must be halted. The need for increased private investment and industrial productivity, combined with real restraint by Government, labour and business, were identified as being of the highest priority. So far so good. We await the budget to judge fiscal policy. I hope for your sake and mine that it does not further fuel inflation by increasing taxes and government expenditures.

I urge others to take up this theme of restraint and equity to fight inflation. Let's hear from the universities, the unions, from business leaders, politicians of all parties and levels of government. Let's build up a ground swell that can't be denied. Let's not blow it this time.